GOVERNANCE AND AUDIT COMMITTEE

Thursday, 21st January, 2021

10.00 am

Online

AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 21st January, 2021, at 10.00 am		Ask for:	**Andrew Tait**
Online		Telephone:	**03000 416749**

Membership (12)

Conservative (8)	Mr D L Brazier (Chairman), Mr R A Marsh (Vice-Chairman), Mrs R Binks, Mr N J D Chard, Mr G Cooke, Mrs S V Hohler, Mr M J Horwood and Mr H Rayner
Liberal Democrat (1):	Mr R H Bird
Labour (1)	Mr D Farrell
Independents (Green Party) (1):	Mr M E Whybrow
Independent Member of the Governance and Audit Committee (1)	Dr D A Horne

In response to COVID-19, the Government has legislated to permit remote attendance by Elected Members at formal meetings. This is conditional on other Elected Members and the public being able to hear those participating in the meeting. This meeting of the Committee will be streamed live and can be watched via the Media link on the Webpage for this meeting.

UNRESTRICTED ITEMS

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

1. Introduction
2. Substitutes
3. Declarations of Interest in items on the agenda for this meeting
4. Dates of future meetings of the Committee

Friday, 23 April 2021
Tuesday, 20 July 2021
Thursday, 7 October 2021
Thursday, 20 January 2022
Friday, 22 April 2022

5. Minutes - 8 October 2020 (Pages 1 - 8)

6. Committee Work and Member Development Programme (Pages 9 - 14)

7. Review of the Risk Management Strategy, Policy and Programme (Pages 15 - 32)

8. Corporate Risk Register (Pages 33 - 102)

9. Treasury Management Six Month Review 2020/21 (Pages 103 - 118)

10. Report on on use of covert investigative techniques surveillance, covert human intelligence sources and telecommunications data requests carried out by KCC between 1 April 2019 and 31 March 2020 (Pages 119 - 138)

11. The Future Role of the Governance and Audit Committee (Pages 139 - 186)

12. Schools Audit Annual Report (Pages 187 - 192)

13. Internal Audit Progress Report (Pages 193 - 240)

14. Counter Fraud Update (Pages 241 - 250)

15. External Audit 2019/20 Final Audit Letter (Pages 251 - 270)

16. External Audit Findings Report 2019/20 (Pages 271 - 304)

17. External Audit Update (Pages 305 - 324)

18. Effectiveness of External Audit and Internal Audit Liaison (Pages 325 - 328)

19. Other items which the Chairman decides are urgent

20. Motion to exclude the public

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

EXEMPT ITEMS

(During these items the meeting is likely Not to be open to the public)

21. Internal Audit Progress Report (Pages 329 - 332)

    (a) Winter Pressures Commissioning
    (b) Urgent CHAPS Payment
    (c) Highways Team Services Commissioning Project

22. Review of KCC Company Ownership Governance (Pages 333 - 336)

Benjamin Watts
General Counsel
03000 416814

Wednesday, 13 January 2021

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

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KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Online on Thursday, 8 October 2020.

PRESENT: Mr D L Brazier (Chairman), Mr R A Marsh (Vice-Chairman), Mrs R Binks, Mr R H Bird, Mr N J D Chard, Mr G Cooke, Mr D Farrell, Mrs S V Hohler, Dr D Horne, Mr M J Horwood and Mr H Rayner

ALSO PRESENT: Mr P J Oakford

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr B Watts (General Counsel), Mr J Idle (Head of Internal Audit), Ms P Blackburn-Clarke (Quality Assurance Manager), Mrs C Head (Head of Finance Operations), Miss E Feakins (Chief Accountant), Mr L Manser (Insurance Manager), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Ms J Samson (Capital Finance Manafer), Mr J Flannery (Principal Auditor), Mrs R Spore (Director of Infrastructure), Mr D Smith (Director of Economic Development), Mr M Hyland (Project Co-ordinator – Kings Hill) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

28. Minutes - 21 July 2020
(Item 4)

RESOLVED that the Minutes of the meeting held on 21 July 2020 are correctly recorded and that they be signed by the Chairman.

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

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

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

30. KCC Insurance Overview
(Item 6)

(1) The Insurance Manager provided a summary of insurance activity for the 2019/20 financial year and other points of interest.

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

31. Treasury Management Update
(Item 7)

(1) The Treasury and Investments Manager gave a summary of Treasury Management activity and developments for the quarter to the end of July 2020.

(2) The Treasury and Investments Manager agreed to send a note to the Committee Members giving reasons for the significant drop in market value of the Schroder Income Maximiser Fund.

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

32. KCC Annual Customer Feedback Report 2019/20
(Item 8)

(1) The Delivery Manager – Engagement and Consultation provided a summary of the compliments, comments and complaints recorded by the Council. Her report included statistics relating to customer feedback received by the Council and a sample of complaints considered by the Ombudsman.

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

33. Annual Governance Statement
(Item 9)

(1) The General provided a copy of the Annual Governance Statement and an update on governance generally within the Council. Appendix 2, consisting of the report presented to County Council on 10 September 2020 and relating to a breach of statutory duties by Kent County Council, had previously been published and circulated to Members as a supplement to the main report.

(2) The General Counsel agreed to amend the passage in the Annual Governance Statement which referred to unlocking housing growth in order to clarify that this related purely to those factors that KCC was able to control. The Statement would also clarify that references to “decision makers” encompassed everyone who had that responsibility.

(3) The General Counsel agreed that future AGS preambles would place greater stress on the meaning of KCC being a “Member-led Authority.”

(4) The General Counsel gave an assurance that meetings of the Kent Engagement Utilities Sub Cttee would resume.

(5) RESOLVED that:-

- (a) subject to (2) above, approval be given to the Annual Governance Statement; and

- (b) a report from the General Counsel (in his role as Monitoring Officer) and the Head of Internal Audit on the Annual Governance

Statement process be presented to the January 2021 meeting of the Committee.

34. Audit Committee Effectiveness and Annual Review of the Terms of Reference of the Committee - Verbal Update
(Item 10)

(1) The General Counsel and Head of Internal Audit reported that a detailed report on Audit Committee Effectiveness and the Annual Review of the Committee's Terms of Reference would be presented to the Committee at its meeting in January 2021.

(2) RESOLVED that the report be noted.

35. Internal Audit Progress Report
(Item 11)

(1) The Head of Internal Audit introduced the report which gave detailed summaries of completed audit reports for the period between July and September 2020. This included the strain upon the Internal Audit service posed by the lack of staff resources.

(2) Mr P J Oakford, Deputy Leader and the Director of Infrastructure gave an explanation and assurances in respect of the ICT Asset Control audit which were accepted by the Committee.

(3) The Head of Internal Audit stated that whilst he accepted the pressures during the early lockdown period, it was his professional duty to examine matters of control and bring them to the Committee's attention.

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

36. Counter Fraud Progress Report
(Item 12)

(1) The Counter Fraud Manager introduced the report on Counter Fraud activity undertaken for Quarter 1 of 2020/21, including reported fraud and irregularities.

(2) The Head of Internal Audit agreed to follow up concerns raised during discussion of this item over the strain on KCC resources caused by the number of people living permanently in holiday accommodation.

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

37. Internal Audit External Quality Assessment Process
(Item 13)

(1) The Head of Internal Audit gave an overview of the requirements set out in the Public Sector Internal Audit Standards in relation to an External Quality

Assessment (EQA) of the Council's Internal Audit Service together with the planned approach to ensure that an EQA was procured and completed by 31 March 2021.

(2) RESOLVED to:-

(a) endorse the approach set out in the report for the External Audit Quality Assessment of the Council's Internal Audit function; and

(b) approve the nominated sponsor for the exercise.

38. External Audit Findings for Kent County Council
(Item 14)

(1) Mr Paul Dossett of Grant Thornton UL LLP introduced the External Auditor's Annual Findings for KCC in 2019/20.

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

39. External Audit Findings Report for Kent Pension Fund
(Item 15)

(1) Mr R H Bird informed the Committee that he held shares in the Woodford Investment Trust. He would treat this as though he had a Disclosable Pecuniary Interest. He left the meeting for this item without participating in any part of its consideration.

(2) Mr Paul Dossett from Grant Thornton UK LLP introduced the report which set out the External Auditor's Annual Findings for the Kent Pension Fund in 2019/20.

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

40. Letters of representation for External Audits
(Item 16)

(1) Mr Paul Dossett from Grant Thornton LLP introduced the letters of representation for KCC, its subsidiary undertakings and the Kent Pension Fund in 2019/20.

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

41. External Audit Progress Report and Sector Update
(Item 17)

(1) Mr Paul Dossett from Grant Thornton UK LLP provided updates and information for the current year from the External Auditor.

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

42. Local Government Audit and Financial Reporting - The Redmond Review
(Item 18)

(1) The Chairman informed the Committee that a more detailed report prepared by Grant Thornton UK LLP and Internal Audit would be presented to the January 2021 meeting of the Committee.

(2) Mr H Rayner asked the Committee to note his question which was whether the intention to raise audit fees in order to accommodate the extra training recommended in the Redmond Report and required by the Financial Reporting Council would be accompanied by transparency in respect of the training proposed.

(3) RESOLVED that the report be noted together with the intention to provide a more detailed report in January 2021 and Mr Rayner's question.

43. Statement of Accounts
(Item 19)

(1) The Chief Accountant introduced the report which asked the Committee to consider and note the draft Statement of Accounts for 2019-20.

(2) The Chief Accountant agreed to discuss adding the word "directly" or "materially" to the Foreign Exchange Risk statement in Note 40 with the Treasury and Investments Team and to amend the Statement if and as appropriate.

(3) RESOLVED that:-

(a) subject to (2) above, approval be given to the Statement of Accounts for 2019/20;

(b) approval be given to the Letters of Representation; and

(c) the recommendations made in the Annual Findings Report be noted.

44. Statutory Accounts for those companies in which KCC has an interest
(Item 20)

(1) The Chief Accountant presented the latest available Statutory Accounts for those companies in which KCC has an interest.

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

45. Regional Growth Fund, Discovery Park Technology Investment Fund and Kent Life Science Fund
(Item 21)

(1) The Director of Economic Development provided an update and summary of the Regional Growth Fund (RGF) equity investments made by KCC since the RGF programmes were launched in April 2012.

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

EXEMPT ITEMS

(Open access to Minutes)

The Committee resolved under Section 100A of the Local Government Act 1972 that the public be excluded for the following business on the grounds that it *involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.*

46. Regional Growth Fund, Discovery Park Technology Investment Fund
(Item 24)

(1) The Director of Economic Development introduced the report which included three appendices provided by NCL under conditions of commercial confidentiality giving detailed, commercially sensitive information on the status and valuations of the RGF equity investments made by KCC since the RGF programmes were launched in April 2012. The first of these was the *Indicative Valuation of KCC Equity Investments* which provided details of all the shareholdings in 11 companies. The second was the *Discovery Park Technology Investment Fund* Valuation which provided details of all shareholdings and valuation in 6 companies. The third was the *Kent Life Science* Valuation which provided details and valuation in 6 companies.

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

47. Performance of KCC wholly owned companies
(Item 25)

(1) The Chief Accountant presented a report on the performance of KCC wholly owned companies for 2018/19 and 2019/20. These were Kent County Trading Ltd, Cantium Business Solutions Ltd, Invicta Law Ltd, EDSECO Ltd T/A The Education People, and GEN^2 Property Ltd.

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

48. East Kent Opportunities LLP
(Item 26)

(1) The Chief Accountant and the Head of Development and Investments presented a report on East Kent Opportunities including an update on recent activity.

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

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By: David Brazier, Chairman of Governance and Audit Committee

Jonathan Idle, Head of Internal Audit

To: Governance and Audit Committee – 21st January 2021

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. CIPFA best practice guidance on the function and operation of audit committees in Local Government 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 comment on the programme and 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 April 2021. The content of the programme is matched to the Committee's 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 year.

4. Reviews of the effectiveness of the Governance and Audit Committee and the Committee's Terms of Reference are the subject of a separate paper to this Committee.

Member Development Programme

5. It is good practice for the Committee to embrace a Member development programme including 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.

6. Prior to the previous Committee in October 2020, two half day workshops in respect of the Statement of Accounts were led by the Finance Department.

7. Separately on this Agenda, Members have before them a substantive paper dealing with the role and effectiveness of the Governance and Audit Committee. Some of the areas for development are mentioned elsewhere in papers to this Committee. Following Member discussion and agreement on those other papers, there will be discussions between the Chair of the Committee and officers to review the Development Programme for the remainder of 2020-21 and for the forthcoming municipal year. The amended programme will be presented to the April Committee for consideration and approval.

Recommendations

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

Jonathan Idle
Head of Internal Audit (03000 417840)

Committee Work Programme **Appendix 1**

Category Item	Owner	Jul-20	Oct-20	Jan-21	Apr-21
Secretariat					
Minutes of last meeting	Andrew Tait	✓	✓	✓	✓
Work Programme	Jonathan Idle	✓	✓	✓	✓
Member Development Programme	Jonathan Idle	✓	✓	✓	✓
Risk Management and Internal Control					
Corporate Risk Register	Mark Scrivener	✓		✓	
Review of the Risk Management Strategy, Policy and Programme	Mark Scrivener			✓	
Report on Insurance and Risk Activity	Lee Manser		✓		
Treasury Management quarterly report/six monthly review	Alison Mings		✓	✓	✓
Treasury Management Annual Review	Alison Mings	✓			
Ombudsman Complaints	Pascale Blackburn-Clarke			✓	
Annual Complaints & Customer Feedback Report	Pascale Blackburn-Clarke		✓		
Annual report on 'surveillance' activities carried out by KCC	Mark Rolfe			✓	
Corporate Governance					
Annual review of Terms of Reference of G & A	Jonathan Idle Ben Watts			✓	
Annual review of the Council's Code of Corporate Governance	Benjamin Watts			✓	
LATCo Policies and Governance Structures (when required)	LATCO Board or originating Directorate			✓	
Review of Anti-Money Laundering Policy	Zena Cooke				✓
Review of Bribery Policy	Ben Watts				✓
Audit Committee Effectiveness	GAC Chair		✓	✓	

Category Item	Owner	Jul-20	Oct-20	Jan-21	Apr-21
Internal Audit and Counter Fraud					
Internal Audit Progress Report	Jonathan Idle		✓	✓	✓
Schools Audit Annual Report	David Adams			✓	
Internal Audit and Counter Fraud Annual Report	Jonathan Idle	✓			
Internal Audit Strategy and Annual Plan	Jonathan Idle				✓
Internal Audit External Quality Assessment	Jonathan Idle		✓		✓
Counter Fraud Annual Report	James Flannery	✓			
Counter Fraud Progress Report	James Flannery		✓	✓	✓
Review of the Anti-Fraud and Corruption Strategy (part of plan report)	James Flannery				✓
External Audit (provided by Grant Thornton)					
External Audit Update	Paul Dossett	✓	✓	✓	✓
External Audit Findings Report/Value for Money and Annual Audit Letter	Paul Dossett	✓	✓		
Pension Fund Audit Findings Report	Paul Dossett	✓			
External Audit Certification of Claims and Returns Report	Paul Dossett				✓
Effectiveness of Internal and External Audit Liaison	Paul Dossett			✓	
External Audit Plan	Paul Dossett				✓
External Audit Pension Fund Plan	Paul Dossett				✓
External Audit Fee letter and / or procurement arrangements	Paul Dossett				✓
External Audit Fraud, Law & Regulations & Going Concern Considerations	Zena Cooke				✓

Financial Reporting					
Statement of Accounts & Annual Governance Statement	Zena Cooke / Cath Head	✓	✓		
Revised Accounting Policies	Cath Head				✓
Review of Financial Regulations	Emma Feakins				✓
Performance of KCC Wholly Owned Companies	Emma Feakins		✓		
Review of Companies which KCC has an Interest					
Review of statutory accounts	Emma Feakins		✓		
Other Reports					
East Kent Opportunities LLP	Nigel Smith / Emma Feakins		✓		
Regional Growth, Discovery Park Technology Investment Fund	David Smith		✓		

By:	Roger Gough, Leader of the Council David Cockburn, Corporate Director for Strategic & Corporate Services and Head of Paid Service
To:	Governance and Audit Committee – 21st January 2021
Subject:	**Review of KCC's Risk Management Policy & Strategy**
Classification:	Unrestricted

Summary:

The Governance and Audit Committee is responsible for the annual review of the Council's Risk Management Policy & Strategy.

The Governance and Audit Committee is asked to approve the Risk Management Policy & Strategy.

FOR DECISON

1. Introduction and background

1.1 As part of the Governance & Audit Committee's terms of reference, KCC's Risk Management Policy & Strategy is reviewed annually to ensure that it remains up to date and relevant.

1.2 The document covers a rolling 3-year period to reflect the medium-term nature of the strategy. This has not affected the requirement for the Policy & Strategy to be reviewed and approved annually.

1.3 KCC's Risk Management Policy & Strategy has been independently judged as sound in previous risk management audits and there has been minimal change to the Policy & Strategy for the past five years. However, it is important that the document continues to align with the external and internal context to remain fit for purpose, and given the evolving risk environment, the Policy & Strategy has undergone a more significant 'refresh' this year.

1.4 The document draws on best practice from several sources, in particular the UK implementation of the international standard for risk management, *ISO 31000:2018 Risk management - Guidelines*; the HM Treasury and Government Finance Function's *"Orange Book: Management of risk – Principles and Concepts"* revised in July 2019; and examples of policies and strategies from other organisations. This is in addition to input from KCC's Governance & Audit Committee at a Risk workshop in October 2020.

1.5 The overall structure of the previous Policy & Strategy has been retained, although the main changes to this year's version can be summarised below:

- A more specific Statement of Commitment has been introduced at the beginning of the document to set a clear “tone from the top.”
- The context, risk management objectives and priorities have been updated to ensure continued relevance.
- The risk management principles and framework have been remodelled.
- More detail has been inserted on expectations for risk management processes, covering identification, analysis and evaluation.
- The risk reporting section emphasises a move away from risk assessment being determined by traditional institutional administrative cycles to one based on how fast risks are emerging and the level of their materiality.
- There is more detail on monitoring and reporting arrangements and expectations.

1.6 The document is attached in appendix 1.

2. Supporting Procedures, Communication and Review

2.1 The Risk Management Policy & Strategy is supported by a Risk Management Toolkit containing more detailed advice and guidance for managers in a number of areas, including a breakdown of risk management processes and other parts of the framework. The Toolkit is being reviewed and updated in the coming months to reinforce key messages within the Policy and Strategy and ensure continued relevance, alongside regular communications to promote awareness.

2.2 Progress against the risk management work programme, derived from the objectives and priorities set out in the Policy & Strategy, will be reported to this Committee each time it reviews and considers it for approval. The work programme for 2021/22 is being finalised as part of 2021/22 business planning process.

3. Recommendation

3.1 That members of the Governance and Audit Committee, on behalf of the County Council, APPROVE the Risk Management Policy & Strategy for the coming year.

Report Author:
Mark Scrivener
Corporate Risk Manager
Mark.scrivener@kent.gov.uk

Relevant Director:

David Whittle, Director of Strategy, Policy, Relationships and Corporate Assurance
david.whittle@kent.gov.uk

APPENDIX 1 – KCC Risk Management Policy and Strategy 2021-24

1. Statement of Commitment

1.1 The Cabinet and the Corporate Management Team are committed to effective risk management and see it as a key part of KCC's responsibility to deliver effective public services to the communities within Kent.

1.2 There is a shared commitment to embedding risk management throughout the organisation, promoting a positive risk culture and making it a part of everyday service delivery and decision-making, ensuring that sufficient resources are allocated. This includes fostering an environment that embraces openness, supports integrity, objectivity, accountability and transparency in the identification, assessment and management of risks, welcoming constructive challenge and promoting collaboration, consultation and cooperation. We must invite scrutiny and embrace expertise to support decision-making, invest in the necessary capabilities and seek to continually learn from experience.

1.3 By implementing sound management of our risks and the threats and opportunities that flow from them we will be in a stronger position to deliver our organisational objectives, provide improved services to the community, achieve better value for money and demonstrate compliance with the Local Audit and Accounts Regulations. Risk management will therefore be at the heart of our good management practice and corporate governance arrangements.

1.4 Risk management enhances strategic planning and prioritisation, assists in achieving objectives and strengthens the ability to be agile to respond to the challenges faced. To meet our objectives, improve service delivery and achieve value for money for the residents of Kent, risk management must be an essential and integral part of planning and decision-making.

2. Purpose and Scope of the Policy and Strategy

2.1 The aim of this Risk Management Policy and Strategy is to support the delivery of organisational aims and objectives through effective management of risks across the Council's functions and activities, applying appropriate risk management processes, analysis and organisational learning.

2.2 It explains our approach and outlines the principles of risk management, as well as clarifying risk management roles and responsibilities across the council. This document is aligned with the Council's key organisational strategies and plans and is part of our risk management framework.

2.3 This policy applies to all of KCC's core functions. Where KCC enters into partnerships the principles of risk management established by this policy and supporting guidance should be considered as best practice and applied where possible. It is also expected that our significant contractors have risk management arrangements at a similar level, which should be established and monitored through commissioning processes and contract management arrangements.

2.4 This document draws on several sources. This includes the Cabinet Office publication *Management of Risk: Guidance for Practitioners*; the most recent HM Treasury publication *"The Orange Book: Management of Risk – Principles and Concepts";* and is informed by the UK implementation of the international standard for risk management BS *ISO 31000: 2018.*

2.5 There are different but aligned risk management processes that are applied at different levels within the organisation. Risk specialists are embedded across the organisation in areas such as Health and Safety; Treasury Management; Emergency Resilience and Business Continuity; Insurance; Information Security and Governance; Counter-Fraud etc. These specialist risk areas each have their own policies, procedures and processes that are built into the governance arrangements of the council so that work is coordinated within the council's overall risk management framework.

2.6 The Policy and Strategy is supported by a Risk Management Toolkit that guides, supports and assists staff in achieving successful risk management.

3. Risk Definitions

3.1 Risk is defined as, "The effect of uncertainty on objectives. It can be positive, negative or both and can address, create or result in opportunities and threats."

3.2 Risk management is defined as: "Co-ordinated activities to direct and control an organisation with regard to risk."
(BS ISO 31000:2018 Risk Management Guidelines)

4. Risk Management Strategy

4.1 The operating environment for local government has become increasingly challenging over the past decade, in terms of growing and complex service demand, additional statutory requirements and increasing resident expectations, all set against a backdrop of local government funding restraint. This continuing trend requires greater collaboration, system-wide planning and a strong understanding of risk across public services.

4.2 In addition, the coronavirus pandemic and its major social and economic impacts is fundamentally changing the risk environment, with it likely to be even more volatile, complex and ambiguous for a number of years. The risks arising in this environment will often have no simple, definitive solutions and will require whole-system-thinking, aligned incentives, positive relationships and collaboration, alongside relevant technical knowledge, to support multi-disciplinary approaches to their effective management.

4.3 The operating environment will also require the Council to continually review its risk appetite, not only to ensure the right balance is struck between risk, innovation and opportunity, but to consider how much control can be exerted over risks, many of which cannot be directly mitigated by the Council alone.

4.4 In the context of continual and fast-paced change, our elected Members will need to make challenging policy and budgetary decisions, while maintaining a longer-term view, so officers will need to provide the right balance of evidence, insight, advice and understanding of risk and opportunity.

5. Risk Management Objectives

5.1 In support of the Council's governance and internal control arrangements and achievement of KCC's objectives, the Council is committed to:

- Managing risk in accordance with good practice and sound governance principles.
- Embedding effective risk management into the design, values and culture of the council.
- Integrating the identification and management of risk into policy and operational decisions.
- Proactively anticipating and responding to changing social, economic, political, environmental, legislative and technological requirements that may impact on delivery of our objectives.
- Eliminating or reducing negative impacts, disruption and loss from current and emerging events.
- Harnessing risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes
- Managing risks in line with risk appetite.
- Promoting openness and transparency in risk management processes.
- Raising awareness of the need for risk management by all those connected with the Council's delivery of services.

5.2 KCC will achieve these aims by:

- Integrating risk management practices into the Council's decision making, business planning, performance and management activities, particularly focusing on robust analysis, scrutiny and evaluation of mitigating controls and further actions.

- Utilising available business technology to aid visibility and analysis of key risk information across the organisation, including connectivity between risks.
- Providing a varied risk management training and development offer for both officers and elected Members, as part of KCC's broader Leadership and Management Strategy.
- Embedding risk management arrangements within major change activities across the council and developing an integrated approach to their assurance.
- Reviewing the Council's risk appetite to ensure it remains aligned with strategic objectives, while promoting a wide understanding of how it translates into tolerance levels within service or programme settings.
- Intelligence sharing and collaboration between risk management and assurance disciplines across all Council activities, consolidating ongoing learning, experience and knowledge. This includes ensuring understanding of how each of the "three lines of assurance" contributes to the overall level of assurance required and how these can be best integrated and mutually supportive.
- Operating sound and transparent risk management arrangements with our partners and providers, underpinned by a culture that supports collaboration and the development of trust, ensuring clarity of risk and control ownership and striking a proportionate balance of oversight of partner / provider risks without being over-constrictive.
- Communicating relevant risk messages to the organisation in a timely manner, listening and responding to feedback received.
- Subjecting KCC's risk management arrangements to regular review to determine their continued adequacy and effectiveness.

6. Risk Management Principles and Framework

6.1 As an integral part of our management systems, and through the normal flow of information, our risk management framework harnesses the activities that identify and systematically anticipate and prepare successful responses.

6.2 The framework is designed to support a comprehensive view of the risk profile, aggregated where appropriate, in support of governance and decision-making requirements. It supports the consistent and robust identification and management of risks within desired levels across the organisation, supporting openness, challenge and innovation in the achievement of objectives.

6.3 There are five key principles of risk management that provide the basis on which KCC will manage risk:

A. Governance and Leadership – risk management shall be an essential part of governance and leadership, and fundamental to how the organisation is directed, managed and controlled at all levels.

B. Integration – risk management shall be an integral part of all organisational activities to support decision-making in achieving objectives.

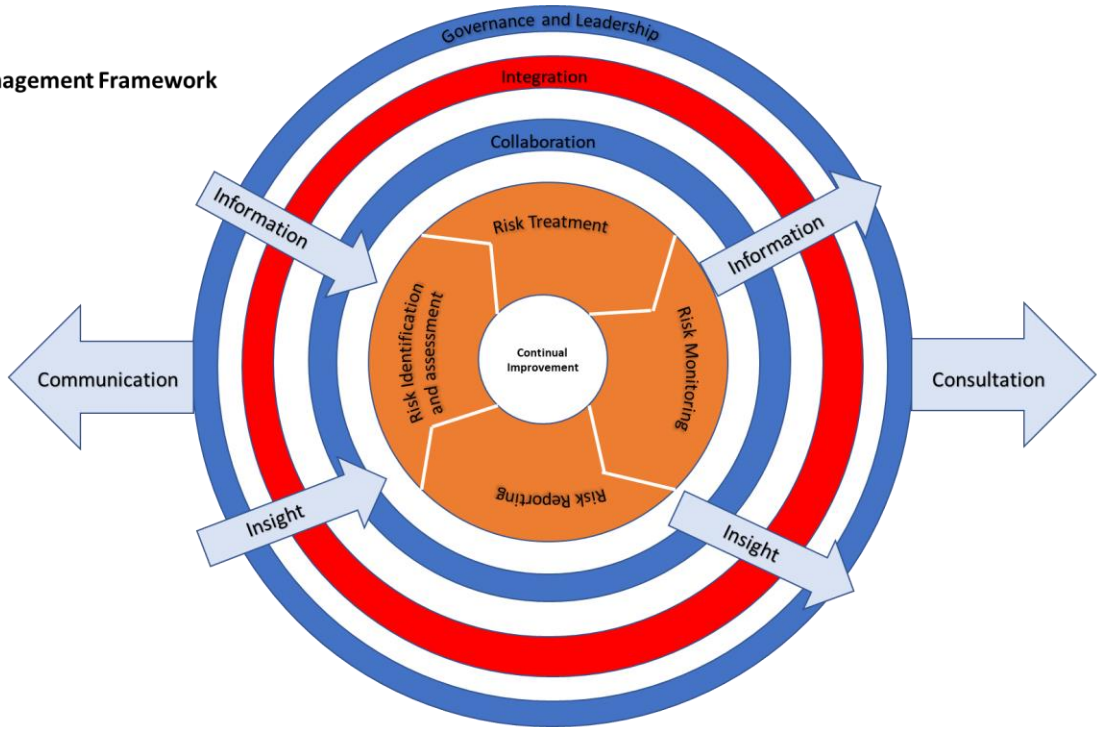
<u>C. Collaboration and Best Information</u> – risk management shall be collaborative and informed by the best available information.

<u>D. Structured Processes</u> – risk management processes are recognised as iterative in practice, rather than sequential, and shall be structured to include:

- **Risk Identification and Assessment** – to determine and prioritise how the risks should be managed.
- **Risk Treatment** – the selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level.
- **Risk Monitoring** – the design and operation of integrated, insightful and informative risk monitoring.
- **Risk Reporting** – timely, accurate and useful risk reporting to enhance the quality of decision-making and to support management and oversight bodies in meeting their responsibilities.

<u>E. Continual Improvement</u> – risk management shall be continually improved through learning and experience.

Risk Management Framework



7. Risk Management Processes

Risk Identification and Assessment

7.1 The aim of risk identification is to recognise and articulate the risks that may help or prevent KCC to achieve its objectives. It is particularly relevant to consider new or emerging risks alongside business planning and strategy formulation processes.

7.2 There are several risk perspectives:

Corporate **-** Those risks, which if they occurred, would have a major impact on the organisation or delivery of its priorities. Corporate risks also include cross-cutting risks that impact across directorates.

Change related (Programme / Project) – where we are exposed to risks that could affect our ability to successfully complete the desired transformational outcomes or deliver predefined outputs that enable us to deliver outcomes and realise benefits.

Operational / Service / Contract – where we are exposed to risks that could affect our control and ability to successfully and continually deliver or commission services to our service users / residents.

7.3 The following factors, and the relationship between these factors, should be considered when identifying risks:

- Changes in the external and internal context
- Causes and events
- Consequences and their impact on objectives
- Threats and opportunities
- Vulnerabilities and capabilities
- Uncertainties and assumptions within options, strategies, plans or initiatives
- Indicators of emerging risks
- Limitations of knowledge and reliability of information
- Time-related factors
- Any potential biases and beliefs of those involved.

7.4 Risks should be identified whether or not their sources are under KCC's direct control, as they have the potential to impact on achievement of objectives, causing great damage or creating significant opportunity.

Risk Analysis

7.5 The aim of risk analysis is to build understanding of the nature of risk and its characteristics including, wherever possible, the level of risk. It involves consideration of uncertainties, risk sources, consequences, likelihood, events, scenarios, controls and their effectiveness. Analysis techniques can be qualitative, quantitative or a combination of these, depending on the circumstances and intended use.

7.6 Risk Analysis considers factors such as:

- the likelihood of events and consequences occurring
- the type and scale of consequences
- complexity, connectivity and volatility
- time-related factors
- the effectiveness of existing controls
- sensitivity and confidence levels

7.7 KCC uses a common set of risk criteria to foster consistent interpretation and application in defining the level of risk, based on the assessment of the likelihood of the risk occurring and the consequences should the event happen. Below is KCC's 5x5 Risk Matrix used to determine risk ratings (outlined below), where the likelihood score is multiplied by the impact score in order to achieve an overall rating of between 1 and 25:

Likelihood	Very likely	5	5 Low	10 Medium	15 Medium	20 High	25 High
	Likely	4	4 Low	8 Medium	12 Medium	16 High	20 High
	Possible	3	3 Low	6 Low	9 Medium	12 Medium	15 Medium
	Unlikely	2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Very Unlikely	1	1 Low	2 Low	3 Low	4 Low	5 Low
RISK RATING MATRIX			1	2	3	4	5
			Minor	Moderate	Significant	Serious	Major
			Impact				

7.8 Providing sufficient information is known, during assessment each risk is to be assigned a ‘current’ and ‘target’ risk rating. The ‘current’ risk rating refers to the current level of risk, taking into account any mitigating controls already in place and their effectiveness. The ‘target’ rating represents what is deemed to be a realistic level of risk to be achieved once any additional actions have been put in place. Depending on our risk appetite and the level of direct control we have over the risk, the aim may be to contain the risk at the current level.

7.9 For risks that are judged to have reached their ‘target’ residual level, the Risk Owner and appropriate management team may wish to manage the risk at a lower level, unless management wishes to continue to monitor effectiveness of controls as part of the regular and structured risk management process. Alternatively, the risk can be withdrawn if it is no longer judged as relevant or significant.

7.10 Risk assessments and heat maps used for more conventional risks should be complemented by structured, creative discussions across services that bring different and collaborative risk perspectives on a topic. This will help us to better identify emerging risks and understand potential risk trajectories as well as ‘knock-on’ effects.

Risk Evaluation

7.11 Once analysed, risks will be evaluated to compare the results against the nature and extent of risks that the organisation is willing to take or accept to determine where and what additional action is required.

Risk Appetite, Tolerance and Escalation

7.12 Kent County Council recognises that risk is inherent in delivering and commissioning services and does not seek to avoid all risk, but instead aims to have an ‘open’ approach to risk, appropriately balancing risk against reward, with risks managed in a proportionate manner.

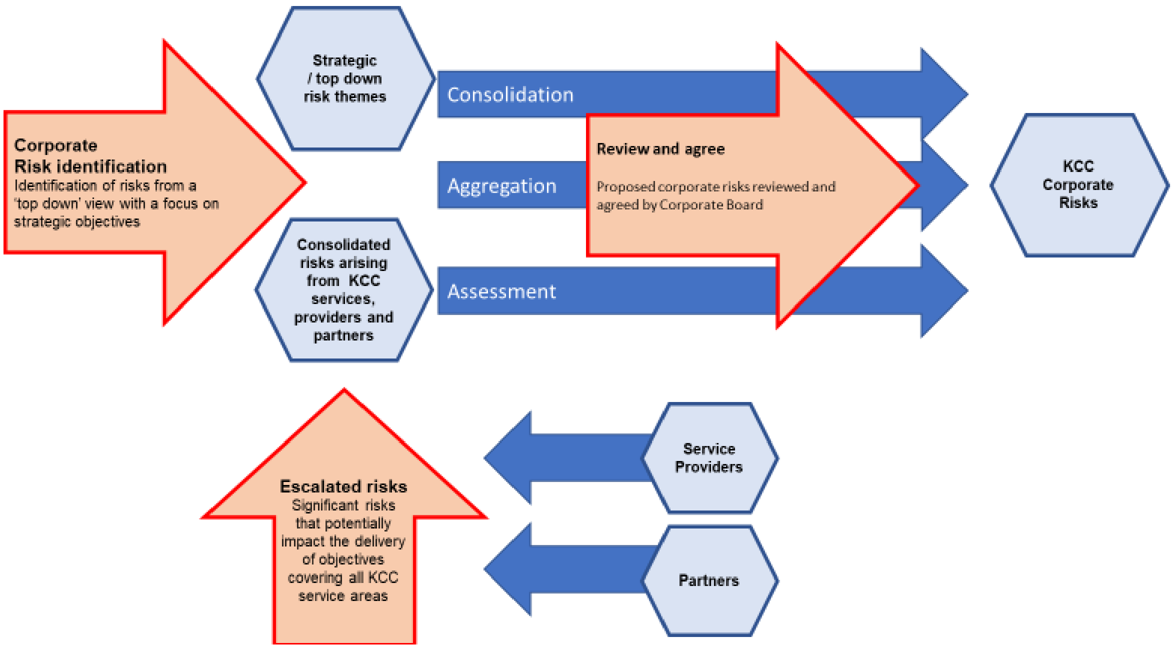
7.13 This will require an approach that allows flexibility and support for well-informed and considered risk taking, promoting transparency and effective risk management, while maintaining accountability. While risks defined as ‘high’ are to be managed down to a tolerable level wherever possible, it is important that risks across the Authority are not over-controlled.

7.14 It is not realistic for the County Council, with its diverse range of services and duties, to have just one definitive application of risk appetite across the entire organisation. Instead, risk appetite should be set with reference to the strategy for service delivery in each particular area. However, examples of risks that would be seen as intolerable are those that are likely to:

- Negatively affect the safety of our service users, residents or employees.
- Severely damage the Authority's reputation.
- Lead to breaches of laws and regulations.
- Endanger the future operations of the County Council (i.e. by exceeding the risk capacity of the organisation – the amount of risk that the Authority can bear).

7.15 In addition, to aid managers in understanding what risks are acceptable, our appetite for risk is implicitly defined within our standard for determining risk levels (see section 7.7 above). Risks rated as "High" will be deemed to have exceeded tolerance levels and will be subject to escalation to the next management level for review and action. The target rating for a risk is expected to be 'medium' or lower. In the event that this is not deemed realistic in the short to medium term, this shall be discussed as part of the escalation process, and this position regularly reviewed with the ultimate aim of bringing the level of risk to a tolerable level.

Risk Escalation, Consolidation and Aggregation



7.16 Depending on the nature of the risk and availability of objective risk measures, tolerances will be agreed for Key Risk Indicators. Breaching those tolerances will mean increasing or decreasing the risk rating accordingly.

Risk Treatment

7.17 Potential benefits derived in relation to the achievement of objectives are to be balanced against the costs, efforts or disadvantages of implementation.

7.18 Justification for the design of risk treatments and the operation of internal control is broader than solely financial considerations and should consider all of the organisation's obligations, commitments and stakeholder views.

Risk Monitoring

7.19 The frequency of risk assessment, analysis and review should be a function of how fast risks are emerging and the level of their materiality rather than determined by traditional institutional administrative cycles.

7.20 However, as a minimum, risks should be reviewed every 3 months, with risks rated as 'High' subject to more detailed and frequent monitoring. It is expected that in addition to the timely reviewing of individual risks by risk owners, key risks are subject to structured collective discussion by management teams, focusing on changes to the existing risk profile, trends and any emerging risks.

7.21 The Corporate Risk Manager may initiate a review of a corporate risk if it is felt that either external or internal changes are likely to impact on the level of risk exposure for the council.

7.22 Ongoing monitoring should support understanding of whether and how the risk profile is changing and the extent to which internal controls are operating as intended to provide reasonable assurance over the management of risks to an acceptable level in the achievement of organisational objectives.

Risk Reporting

7.23 Senior Officers and elected Members must receive unbiased information about the organisation's principal risks and how management is responding to those risks.

7.24 Reporting will take into account differing stakeholders and their specific information needs and requirements; cost, frequency and timeliness of reporting; method of reporting; and relevance of information to organisational objectives and decision-making.

7.25 As a public service body, it is imperative that we demonstrate transparency and accountability for managing the risks that impact on our staff, service users and residents. Therefore, our corporate risks shall be reported regularly in public forums.

7.26 The Corporate Risk Register is to be presented to Cabinet annually after its more formal annual refresh, in addition to any occasion where there has been a significant change to the Council's overall risk profile.

7.27 The Corporate Risk Register is also to be reported to the Governance & Audit Committee six-monthly for assurance purposes, alongside a summary of directorate risks.

7.28 Corporate Risks are subject to "deep dive" reviews by Corporate Board and the Governance & Audit Committee, with those responsible for the management of risks present, at an appropriate frequency, depending on the nature of the risk.

7.29 Progress against objectives set out in this Policy and Strategy will be reported to the Governance & Audit Committee annually.

8. Cultural Factors

8.1 Human behaviour and culture significantly influence all aspects of risk management at each level and stage. Several vital elements of an effective culture for risk are embedded within our organisational values and cultural attributes that we strive for as an organisation. In particular:

- KCC Values
    - We are brave. We do the right thing, we accept and offer challenge
    - We are curious to innovate and improve
    - We are strong together by sharing knowledge
- KCC Cultural Attributes
    - Flexible/agile – willing to take (calculated) risks
    - Empowering – our people take accountability for their decisions and actions
    - Curious – constantly learning and evolving

9. Review of this Policy

9.1 It is the responsibility of the Governance and Audit Committee to: *'On behalf of the Council ensure that risk management and internal control systems are in place that are adequate for purpose and are effectively and efficiently operated.'* Internal Audit will support their role in assuring its effectiveness and adequacy.

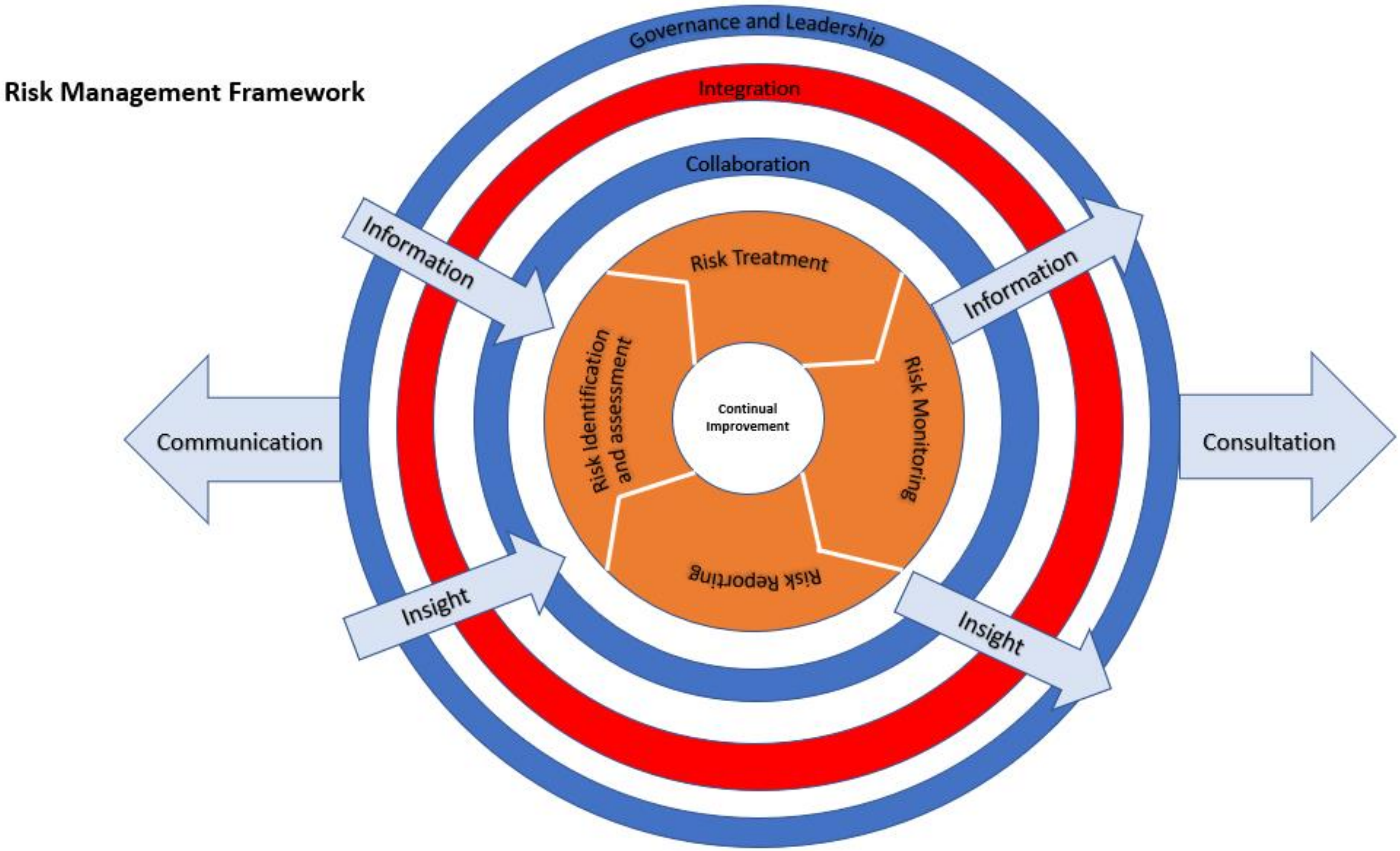
9.2 Information from Internal Audit and from other sources will be used to inform recommended changes to the policy and framework at least annually. Any changes will be presented to the Governance and Audit Committee for approval before publication.

10. Roles and Responsibilities

Group or Individual	Responsibilities
Elected Members of the County Council	Seek to explore, understand and scrutinise risks in the process of formulating policy and decision making.
Governance & Audit Committee	On behalf of the County Council, ensure that risk management and internal control systems are in place that are adequate for purpose and are effectively and efficiently operated. Includes approval of KCC's Risk Management Policy & Strategy.
Cabinet	Responsibility for the operation of the risk management framework, including the establishment of the Council's risk appetite.
Cabinet Members	Responsibility for the effective management of risk within respective portfolio areas and ensuring that risks are considered in all decisions they make.
Cabinet Portfolio Holder for Corporate Risk	Ensure effective risk management arrangements are put in place.
Cabinet Committees	To provide pre-decision scrutiny to ensure that due consideration is given to associated risks.
Corporate Director Finance (Section 151 Officer)	Active involvement in all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered.
Head of Paid Service	Responsibility for the overall monitoring of strategic risks across the council, including the endorsement of priorities and management action. Responsible for ensuring sufficiency of risk management resources.
Corporate Management Team (CMT)	Adopt the Risk Management Policy and Strategy, ensuring the Council manages risks effectively. Actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register. Promote and demonstrate the behaviours and values that support well-informed and considered risk decision-making. Promote the integration of risk management principles into the

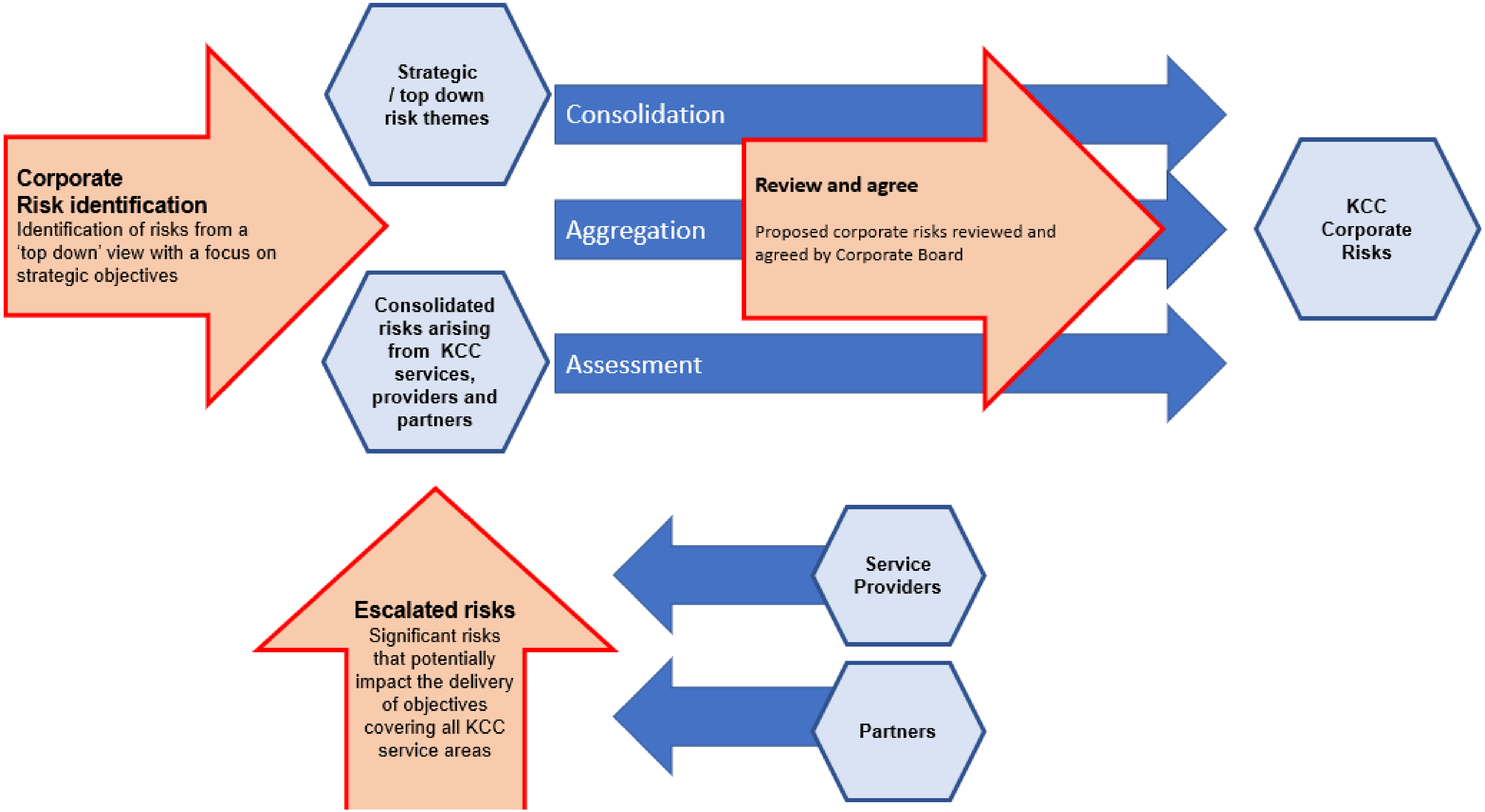
	culture of the Council and its partners.
Directorate Management Teams (DMTs)	Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Corporate Management Team as appropriate.
Divisional Management Teams (DivMTs)	Responsibility for the effective management of risk within the division, including risk escalation and reporting to the Directorate Management Team as appropriate.
Corporate Risk Manager	Promote a positive risk management culture within KCC, developing and implementing the risk management framework and strategic approach and continuing to develop and embed an effective infrastructure for managing and reporting risk. Facilitate maintenance of an up to date Corporate Risk Register and provide reports on corporate risk to Governance & Audit Committee, Cabinet Members and the Corporate Management Team. Facilitate the risk management process within the Council and advise on developments on risk management. Assist key individuals with implementing and embedding risk within key Council areas and provide guidance, training and support as required.
Corporate Risk Team	Act as corporate advisors of risk at a strategic level. Day-to-day responsibility for developing and co-ordinating risk management across the Council, providing advice, support and training and contributing to the ongoing reporting and analysis of risks. Develop oversight, transparency and coordination of major change activity across the Council, including reinforcing KCC's risk management framework throughout major change activity. Continually improve and update corporate risk management procedures based on current best practice and lessons learned.
Internal Audit	Assess the effectiveness of the risk management framework and the control environment in mitigating risk.
Directors and Managers	Ensure that effective risk management arrangements are in place in their areas of responsibility to ensure the Council's exposure is at an acceptable level. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.

All elected Members and Staff Members	Identify risks and contribute to their management as appropriate. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.
In relation to individual risks:	
Risk Owner	Named individual or role who is accountable for the management and control of all aspects of the risks assigned to them, including determining, authorising, implementing and monitoring the selected controls and actions to address the threats and maximise the opportunities.
Control Owner	The individual or group accountable for ensuring or providing assurance that the specified management control is effective and fit for purpose.
Action Owner	A nominated owner of an action to address a risk. Required to manage action on the risk owner's behalf and to keep them apprised of the situation.



Larger version of diagram from section 6.3

Risk Escalation, Consolidation and Aggregation



Larger version of diagram from section 7.15

From: Roger Gough, Leader of the Council

David Cockburn, Corporate Director for Strategic & Corporate Services and Head of Paid Service

To: Governance and Audit Committee – 21st January 2021

Subject: **CORPORATE RISK REGISTER**

Classification: Unrestricted

Summary: Governance & Audit Committee receives the Corporate Risk Register every six months for assurance purposes.

FOR ASSURANCE

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1. Background

1.1 The Corporate Risk Register is a 'living document' and is usually subject to a more formal and comprehensive refresh annually in the autumn. However, the coronavirus pandemic led to a significant revision of the register during the summer of 2020, which was reported to Cabinet in June and to Governance & Audit Committee in July. A summary of the corporate risk profile was also presented to Cabinet in September, as part of a "winter risks" item.

1.2 Due to the above, and the continually evolving risk environment, a more streamlined refresh process took place during the autumn, involving several conversations with risk and action owners across the organisation to answer specific questions, ahead of collective discussion with Corporate Management Team and Cabinet Members. The output from this was reported to Cabinet on 14th December 2020.

1.3 The register will require regular update and review as further events relating to the coronavirus pandemic continue to impact on our corporate risk profile.

2. Corporate Risk Register summary

2.1 Given the significant refresh over the summer, there has not been major change to the corporate risk profile in terms of the ratings assigned to the risks, particularly as the coronavirus pandemic continues to present the challenges for the council that has led to many risks increasing in recent months.

2.2 However, the context of the risks continues to evolve, along with the Council's responses. A summary of the latest position for each risk is attached in appendix 1, while the full register is attached in appendix 3.

2.3 During the latest refresh process, no new risks have been added to the register, although there have been several amendments to risk levels, as well as risks identified where the context requires significant updating:

2.3.1 CRR0051 - Maintaining or Improving workforce health, wellbeing and productivity throughout Coronavirus response and recovery. A significant majority of the KCC workforce has been working remotely for 10 months and the W*ork and Wellbeing* “pulse check” survey indicated that our staff continue to show tremendous resilience in adapting to new working practices, finding innovative ways to engage with service users and residents and continue to deliver services. However, there are wellbeing concerns for public, service user facing staff, particularly in areas of high infection rates, as we enter a challenging winter period. The latest national ‘lockdown’ restrictions announced by the Government on 4th January 2021 mean that a significant proportion of the workforce will once again be balancing childcare or other caring responsibilities with working from home. The Corporate Management Team will ensure continual engagement with staff to monitor the situation and respond appropriately, putting in place further interventions as necessary to supplement pre-existing support to aid health and wellbeing. Given the above, the risk level has been increased from ‘medium’ to ‘high’ for the coming months.

2.3.2 CRR0014 - Cyber-attack threats and their implications. The risk remains high due to the continuing significant volumes of attempted attacks across the sector and inherent risks of increased cyber-attacks during emergencies such as a pandemic. Further improvements have been made to KCC’s ICT security infrastructure over the past six months, hence the rating has been reduced slightly from the maximum 25 rating, to 20. The Authority’s Technology Strategy continues the endorsement of a move to the “Cloud”, to further increase resilience.

2.3.3 CRR0040 - Financial, governance, reputational and service delivery risks associated with KCC’s Local Authority Trading Companies. This risk was initially added to the register several years ago as the individual companies were being formed. Since then, holding company arrangements have been implemented and from a governance perspective, the council retains control as 100% shareholder to mitigate governance risks. The risk level was previously raised in summer 2020 from a financial perspective, due to the potential loss of income for these companies because of Covid-19 disruption. While this may be the case, this is not of the same scale as other financial pressures presented by Covid-19. A HoldCo transformation project is being scoped as part of the KCC Strategic Reset Programme and the risk is being managed at the Strategic & Corporate Services directorate level.

2.3.4 CRR0045 - Effectiveness of Governance within a Member-led Authority When presented to Governance and Audit Committee in July 2020, it was stated that, *“As currently drafted, it is expected that this risk will come off the register, but it may need to be re-cast alongside the KCC reset.”* It is felt that while several mitigating actions relating to this risk were completed some time ago i.e. review of informal governance arrangements, introduction of officer operating standards etc. the source of the risk relating to the challenging financial and operating environment across the local government sector remains, including the critical importance of avoiding any consequent governance failures relating to decision-making that have been experienced elsewhere in the sector. Therefore, rather than remove this risk altogether, the risk is being re-cast to enable review of any emerging lessons from the sector and any governance implications arising from the coronavirus pandemic that the Council should be cognisant of and actively seek to mitigate or avoid locally.

3. Directorate Risks

3.1 For the first time, a headline summary of directorate risks (title plus rating) is reported to this Committee, to give it oversight of risks that are being regularly monitored and reviewed by Directorate Management Teams. These are attached at appendix 2 and will be reported in more detail to Cabinet Committees in the Spring.

4. Key Risk Indicators

4.1 KCC's Risk Management Policy & Strategy emphasises the importance of utilising the information available to support risk analysis and evaluation processes. As part of this, work is in progress to draw together various risk indicators (sometimes referred to as Early Warning Indicators) of relevance to each risk, most of which are already reported in various committees or forums across the Council. These are being discussed with management teams and will be more explicitly linked to our corporate risks in future reporting arrangements.

5. Monitoring and Review

5.1 The corporate risks led by each Corporate Director are presented to the relevant Cabinet Committees annually, alongside existing arrangements for presentation of directorate risks.

5.2 There is a 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 to Cabinet quarterly via the Quarterly Performance Report.

6. Recommendation

6.1 The Governance and Audit Committee is asked to:

a) NOTE the report for assurance.

Report Author:

Mark Scrivener, Corporate Risk Manager
Email: mark.scrivener@kent.gov.uk

Relevant Director

David Whittle, Director of Strategy, Policy, Relationships and Corporate Assurance
Email: David.whittle@kent.gov.uk

APPENDIX 1

Corporate Risk Register summaries – ranked from highest to lowest Current Score

As at 12/01/2021

Risk Reference	Risk Description	Current Score	Target
CRR0009	Future financial and operating environment for local government	High (25)	High (16)

Comment: This risk underpins many of the risks on the corporate risk register and was raised to the maximum level due to the continued uncertainty regarding local government funding and other national policy agendas and the difficulties this presents for financial planning and assumptions. The impact of COVID-19 has exacerbated the already challenging financial future for local authorities, leading to enormous uncertainty and an unprecedented challenge for the Council as it prepares its budget for the next financial year. Responding to the pandemic has required a huge increase in spending and has come at the same time as reductions in income from council tax, business rates and funding generated by the authority's own services, all of which have been affected by the pandemic. The government's financial settlement in December was welcome but was made up mostly of one-off funding for COVID-19 and is unlikely to be enough to meet the projected shortfall for next year. The costs relating to the impact of the latest national lockdown and wave of infections also need to be taken into account in this environment, as well as the extreme pressure on services and increased levels of financial hardship for residents and businesses.

Risk Reference	Risk Description	Current Score	Target
CRR0004	Simultaneous Emergency Response and Resilience	High (25)	Medium (15)

While there are robust controls in place for this risk, it carries a maximum rating of 25 to acknowledge the expected ongoing strain on council capacity and resources expected to continue throughout the coming months, as we run aspects of Covid-19 response and recovery in parallel, as well as working with partners on any impacts arising from the end of the UK/EU transition period (see risk CRR0042) and requirements for Covid-19 testing of freight drivers at Dover. This is in addition to the more 'regular' planning and response for severe weather during the winter, closely monitoring and responding as appropriate to any avian flu outbreak(s) and maintaining local vigilance in light of continued cyber-security threats and the recent increase in national terrorism threat level to "severe." Local Command and Control structures have been combined to have oversight of these varied threats, with KCC playing a key role.

Risk Reference	Risk Description	Current Score	Target
CRR0015	Managing and working with the social care market	High (25)	Medium (15)
Comment: There is continued concern regarding the viability of local care markets in the wake of the Covid-19 outbreak, which has exacerbated pre-existing challenges. Care home occupancy rates have fallen in some areas, in part due to deaths from coronavirus and possibly a reluctance on the part of families to see loved ones go into care homes. Regular monitoring of supply and demand is undertaken by our Commissioning Analytics team to enable effective oversight and help inform service planning. With the continuation of the Government's Infection Control Fund over the winter, a multi-disciplinary project group has been set up to administer the fund and meet the requirements set out by government to pass the funding to care providers as soon as possible and complete regular monitoring and reporting to notify the government on what the fund has been used for.			

Risk Reference	Risk Description	Current Score	Target
CRR0050	CBRNE incidents, communicable diseases and incidents with a public health implication – KCC response to and recovery from the impacts of the Coronavirus public health emergency	High (25)	12 (Medium)
Comment: This risk was escalated to the Corporate Risk Register by the Director of Public Health and relates to his and the organisation's statutory responsibilities relating to planning, response and recovery from communicable diseases – in this instance Covid-19. The continued rise in confirmed Covid infections across the county throughout the autumn and into winter, including the impact of the new variant of the virus, meant that the Kent and Medway area was placed by central Government into 'Tier 4' restrictions from 19th December, before the country entered its third national lockdown on 6th January 2021. The Public Health team at KCC is working with partners to ensure the restrictions are effectively implemented across the county, as well as managing outbreaks in vulnerable settings with the local Public Health England team. A local Test and Trace system is in operation to support the national system and KCC and partners are working to support mass vaccination rollout. Rapid-result coronavirus (COVID-19) testing for people who don't have symptoms has been rolled out across Kent during early January, as part of a rolling programme to help reduce the rates of transmission in Kent. This follows on from the initial launch of asymptomatic testing in Swale and Thanet during December. Trading Standards will continue to help and advise local businesses on Covid regulations, taking enforcement action where necessary.			

Risk Reference	Risk Description	Current Score	Target
CRR0003	Securing resources to aid economic recovery and enabling infrastructure	High (20)	High (16)

Comment: The scope of the risk has broadened since the coronavirus pandemic, as the Authority, working with partners, seeks to fully understand both short and longer term Covid-19 impacts. The Kent and Medway Economic Partnership has produced a comprehensive Economic Renewal and Resilience Plan to aid local recovery, which has 5 key workstreams, including the establishment of a Kent and Medway Employment Task Force and Action Plan. It is acknowledged that given the continued uncertainty and Covid-19 related restrictions, the plan and associated actions will require continual review.

An active pipeline of local projects is in place for potential funding announcements, while KCC also submitted responses to Government consultations for reform of the planning system, which would have significant infrastructure related impacts for the county. Central Government has since announced that elements of these reforms are being reviewed.

Risk Reference	Risk Description	Current Score	Target
CRR0014	Cyber-attack threats and their implications	High (20)	High (16)

Comment: The risk remains high due to the continuing significant volumes of attempted attacks across the sector and inherent risks of increased cyber-attacks during emergencies such as a pandemic. Further improvements have been made to KCC's ICT security infrastructure over the past six months, with more work planned in the six months ahead. The Authority's Technology Strategy continues the endorsement of a move to the "Cloud" in order to increase resilience.

Risk Reference	Risk Description	Current Score	Target
CRR0001	Safeguarding – protecting vulnerable children	High (20)	Medium (15)

Comment: The risk level was raised during the initial 'lockdown' period to reflect the potential for 'hidden harm' and pent-up demand, given that referrals to children's services dropped considerably. Since children returned to school in autumn 2020 referral rates were returning to pre-lockdown levels, although the nature of referrals began to change, with more complex and serious cases being investigated. There are similar concerns regarding the impact of the latest school closures (except for vulnerable children or children of key workers) that are due to last until mid-February at the earliest.

Risk Reference	Risk Description	Current Score	Target
CRR0007	Resourcing implications arising from serious and complex children's services demand	High (20)	Medium (15)
Comment: This risk links to the safeguarding risk CRR0001 above. After a reduction in demand through the initial lockdown period and no obvious reduction in need, the risk of a demand 'spike' was raised, with consequent resourcing implications and impact on service. In order to aid service planning, modelling of pent-up demand took place. Demand had been returning to pre-Covid-19 levels, although there are indications that a greater proportion of cases are more complex and serious in nature, with the latest national lockdown giving the potential for more uncertainty in demand profile in the coming months.			

Risk Reference	Risk Description	Current Score	Target
CRR0002	Safeguarding – protecting vulnerable adults	High (20)	Medium (15)
Comment: Similar to the safeguarding children risk above, the risk level was raised due to emerging evidence from statutory and voluntary agencies emphasising the increased risks of domestic abuse, as well as safeguarding concerns for older vulnerable adults that live alone. These concerns are still valid and therefore the risk remains 'high'.			

Risk Reference	Risk Description	Current Score	Target
CRR0006	Resourcing implications arising from increasing complex adult social care demand	High (20)	Medium (15)
Comment: During the coronavirus pandemic demand has been unpredictable, with significant reductions in some areas and increases in others, and there is still the potential for latent demand. Supply and demand is being regularly monitored to help inform service planning and any mitigating action required. In addition, the Adult Social Care and Health directorate has developed a Winter Pressure Plan for 2020-21, incorporating the actions required by the Department for Health and Social Care into pre-existing winter preparations, in order to ensure that high-quality, safe and timely support is provided to those who need it, whilst protecting the people who need support, their carers and the social care workforce from COVID-19.			

Risk Reference	Risk Description	Current Score	Target
CRR0039	Information Governance	High (20)	Medium (15)
Comment: Messages are being communicated to staff to raise awareness and warn of increased information governance incidents and signposting to guidance. An audit of information governance arrangements in the context of a mainly 'digital' workplace is in progress, and any issues raised will be responded to by management.			

Risk Reference	Risk Description	Current Score	Target
CRR0042	Post-Transition border systems, infrastructure and regulatory arrangements	High (20)	Medium (12)
KCC, working with both national and local partners, has worked hard to prepare for the end of UK/EU Transition period, in order to minimise disruption to local communities and to keep the county open for business. At time of writing, there have been low numbers of freight travelling to Europe, although volumes were expected to pick up towards the middle of January. As well as leaving the EU single market and customs union, the coronavirus pandemic means anyone leaving the UK must have a negative COVID-19 test within 72 hours of travelling. KCC continues to support partners with the ongoing requirement for a negative COVID-19 test for all travellers to France before they can access Kent's ports.			

Risk Reference	Risk Description	Current Score	Target
CRR0016	Delivery of New School Places is constrained by capital budget pressures and dependency upon the Basic Need allocation and the Education and Skills Funding Agency (ESFA)	High (20)	Medium (12)
Comment: The impact of Covid-19 delays on school places has been assessed, which has led to some delays and additional cost pressures. Operational delivery risk for 2021 is being mitigated, although the medium-term risk remains. The financial aspect of the risk remains high, with continued shortfall in Basic Need grant.			

Risk Reference	Risk Description	Current Score	Target
CRR0010	Suitable accommodation and funding for Unaccompanied Asylum-Seeking Children (UASC)	High (20)	Medium (12)
Comment: As of 7th December KCC, was confident that it could safely resume receiving new arrivals into its care, although it has been made clear to central Government that a long term solution still needs to be implemented to avoid overwhelming Kent services again. Until this national solution is found this risk remains high.			

Risk Reference	Risk Description	Current Score	Target
CRR0044	High Needs funding shortfall	High (20)	High (16)

The increase in High Needs Funding in 2020-21 from Govt is welcome but insufficient to meet the expected demand and the cumulative deficit is expected to increase further during 2020-21 based on current trends. The publication of the government's review into the provision for children with special educational needs and disabilities (SEND) has been delayed until early 2021.

Risk Reference	Risk Description	Current Score	Target
CRR0047	Adequacy of support for children with Special Educational Needs and Disabilities (SEND) – response to Written Statement of Action	High (20)	Medium (10)

Comment: Progress has been made in implementing a new structure to add capacity to the programme team and improve integration between workstreams and delivery plans going forward**.** A local area SEND Strategy has been developed in collaboration with partners, which goes beyond the Written Statement of Action, to enable sustained improvement and transform Kent's SEND offer. The new strategy is due to launch in April, after public consultation.

Risk Reference	Risk Description	Current Score	Target
CRR0048	Maintenance and modernisation of the KCC estate	High (16)	Medium (12)

Comment: The risk relates in part to the ability to produce an affordable capital programme in the current environment, which could mean insufficient funds to undertake the required maintenance. There may an opportunity to accelerate certain projects in light of the increased speed of adoption of virtual solutions to service delivery, although realising some of the benefits from these may be more medium-term.

Risk Reference	Risk Description	Current Score	Target
CRR0049	Fraud and Error	High (16)	Low (6)

Comment: The risk rating is high due to the fraud threat posed during emergency situations being higher than at other times. Covid-19 related fraud risk assessments have been drafted by KCC Counter-Fraud Team for review by services and awareness raising messages are being delivered across the organisation. An exercise is currently in progress to review urgent payments made to suppliers under Procurement Policy Notices (PPN) to help maintain continuity of business during the coronavirus pandemic.
It is important to note that the risk rating does not necessarily relate to staff fraud/error, but other factors such as cyber-fraud, fraud within the supply chain and 'scams' against the Council and Kent residents.

Risk Reference	Risk Description	Current Score	Target
CRR0051	Maintaining or Improving workforce health, wellbeing and productivity throughout Coronavirus response and recovery	High (16)	Medium (8)

Comment: The majority of the workforce has been working remotely for 10 months and a Work and Wellbeing "pulse check" survey in the autumn of 2020 indicated that our staff continue to show tremendous resilience in adapting to new working practices, finding innovative ways to engage with service users and residents, whilst continuing to deliver services. However, there are increasing wellbeing concerns for public service user facing staff, particularly in areas of high infection rates, as we enter a challenging winter period. The latest national 'lockdown' restrictions announced by the Government on 4^{th} January 2021 mean that a significant proportion of the workforce will once again be balancing childcare or other caring responsibilities with working from home, with the potential for more staff absence due to Covid-19 infection or self-isolation. The Corporate Management Team will ensure continual engagement with staff to monitor the situation and respond appropriately, putting in place further interventions as necessary to supplement pre-existing support to aid health and wellbeing.

Risk Reference	Risk Description	Current Score	Target
CRR0005	Development of Integrated Care System (ICS) / Integrated Care Programmes (ICPs) in Kent and Medway NHS system	Medium (12)	Medium (8)

Comment: There is well established partnership working between the Council and Health partners, with considerable effort and resource from KCC senior leaders into the development of health and social care "system" arrangements. A practical programme of joint commissioning is being developed, focusing on areas such as the discharge process and mental health recovery. An NHS Bill is expected in early 2021, to include creating a legal framework for the ICS, which will be an opportune time for a more fundamental review of the opportunities and risks relating to health and social care integration.
Any implications for local Public Health teams arising from the national closure of Public Health England and formation of the Health Protection Institute will be considered once more information is known.

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APPENDIX 2 – Directorate Risk Registers – Summary Risk Profile

Risk No.	Risk Title	Current Risk Rating	Target Risk Rating	Direction of Travel since July 2020
Children, Young People and Education				
CY0035	Implementation of a new management information system	High (16)	Medium (8)	⇔
CY0034	Business Continuity and Resilience	Medium (12)	Medium (8)	⇔
CY0009	Children not in full time education not receiving a suitable education	Medium (12)	Low (6)	⇧
CY0032	Information Governance	Medium (9)	Low (6)	⇔
CY0030	Management of the CYPE Directorate in year budget	Low (6)	Low (6)	⇩
CY0038	Potential increase in NEETs following Covid-19	TBC	TBC	
Growth, Environment and Transport				
GT0020	Identification, planning and delivery of Medium-Term Financial Plan targets	High (25)	Low (4)	⇧
GT0001	Health, Safety and Wellbeing considerations	High (20)	Medium (10)	⇧
GT0021	Internal services provided to the directorate do not meet an acceptable standard	High (16)	Medium (9)	⇔
GT0003	Directorate preparedness for, management of and impact of severe weather incidents	High (16)	Medium (9)	⇔
GT0008	Ash Dieback	Medium (12)	Medium (9)	⇔
GT0024	Information Governance	Medium (12)	Low (6)	⇔
GT0019	Delivery of in-year budget targets	Medium (12)	Low (4)	⇧
GT0004	Skills shortage and capacity issues to apply for funding and manage contracts and projects – in particular the implementation of the Coroners service and also for planning applications.	Medium (9)	Low (6)	⇔

Strategic and Corporate Services				
ST0023	Workforce capacity across the directorate	High (16)	Medium (12)	⇧
ST0025	Financial, Governance and Service Delivery risks associated with KCC's Local Authority Trading Companies	TBC – under review		TRANSFERRED FROM CORPORATE REGISTER
Adult Social Care and Health				
AH0005	Continued pressures on public sector funding impacting on revenue and capital budgets	High (20)	High (16)	⇔
AH0011	Business disruption – possible disruption to services	Medium (12)	Medium (9)	⇩
AH0033	Workforce – recruitment and retention of staff	Medium (9)	Low (2)	⇔

APPENDIX 3

KCC Corporate Risk Register

FOR PRESENTATION TO GOVERNANCE & AUDIT COMMITTEE
21/01/2021

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 July 2020
CRR0001	Safeguarding – protecting vulnerable children	High (20)	Medium (15)	⇔
CRR0002	Safeguarding – protecting vulnerable adults	High (20)	Medium (15)	⇔
CRR0003	Securing resources to aid economic recovery and enabling infrastructure	High (20)	High (16)	⇔
CRR0004	Simultaneous Emergency Response and Resilience	High (25)	Medium (15)	⇔
CRR0005	Development of Integrated Care System (ICS) / Integrated Care Programmes (ICPs) in Kent and Medway NHS system	Medium (12)	Medium (8)	⇔
CRR0006	Resourcing implications arising from increasing complex adult social care demand	High (20)	Medium (15)	⇔
CRR0007	Resourcing implications arising from serious and complex children's services demand	High (20)	Medium (12)	⇔
CRR0009	Future financial and operating environment for local government	High (25)	High (16)	⇔
CRR0010	Suitable accommodation and funding for Unaccompanied Asylum-Seeking Children (UASC)	High (20)	Medium (12)	⇔
CRR0014	Cyber-attack threats and their implications	High (20)	High (16)	⇩
CRR0015	Managing and working with the social care market	High (25)	Medium (15)	⇔
CRR0016	Delivery of New School Places is constrained by capital budget pressures and dependency upon the Basic Need allocation and the Education and Skills Funding Agency (ESFA)	High (20)	Medium (12)	⇔
CRR0039	Information Governance	High (20)	Medium (8)	⇔
CRR0042	Post-Transition border systems, infrastructure and regulatory arrangements – ***under review post 1st Jan 2021***	High (20)	Medium (12)	**Under review**
CRR0044	High Needs Funding shortfall	High (20)	High (16)	⇔

CRR0047	Adequacy of support for children with Special Educational Needs and Disabilities (SEND) – response to Written Statement of Action	High (20)	Medium (10)	⇔
CRR0048	Maintenance and modernisation of the KCC estate	High (16)	Medium (12)	⇔
CRR0049	Fraud and Error	High (16)	Low (6)	⇔
CRR0050	CBRNE incidents, communicable diseases and incidents with a public health implication – KCC response to and recovery from the impacts of the Coronavirus public health emergency	High (25)	Medium (15)	⇔
CRR0051	Maintaining or Improving workforce health, wellbeing and productivity throughout Coronavirus response and recovery	High (16)	Medium (8)	⇧

*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.
** Context of the risk has been changed, hence direct comparison of score not applicable.

NB: Current & Target risk ratings: The ‘current’ risk rating refers to the current level of risk taking into account any mitigating controls already in place. The ‘target residual’ rating represents what is deemed to be a realistic level of risk to be achieved once any additional actions have been put in place. On some occasions the aim will be to contain risk at current level.

Likelihood & Impact Scales					
Likelihood	Very Unlikely (1)	Unlikely (2)	Possible (3)	Likely (4)	Very Likely (5)
Impact	Minor (1)	Moderate (2)	Significant (3)	Serious (4)	Major (5)

Risk ID	CRR0001	Risk Title	Safeguarding – protecting vulnerable children		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable children in a complex and challenging environment. e.g. the challenge of recruiting and retaining suitably experienced and qualified permanent staff. 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 radicalisation. 'Lockdown' restrictions due to Covid-19 mean that children and families are at home for long periods of time, with significantly reduced numbers of children in schools. This has introduced uncertain impacts for children's mental health and resilience and the potential for latent demand to build. This risk links to the demand for children's services risk (CRR0007).	Failure to fulfil statutory safeguarding obligations. Failure to meet the requirements of the "Prevent Duty" placed on Local Authorities. Safeguarding risks are not identified to / by KCC in a timely fashion during the Coronavirus pandemic. Spike in demand impacts on robustness of controls	Incident of serious harm or death of a vulnerable child. Serious impact on vulnerable people. 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.	Matt Dunkley Corporate Director Children, Young People and Education (CYPE) **Responsible Cabinet Member(s):** Sue Chandler, Integrated Children's Services Richard Long, Education and Skills Mike Hill (Lead Member for PREVENT)	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

Control Title	Control Owner
Consistent scrutiny and performance monitoring through Divisional Management Team, “Performance, Challenge and support” meetings and audit activity.	Sarah Hammond, Director of Integrated Services (Children’s Social Work Lead) / Matt Dunkley, Corporate Director, CYPE
Kent Safeguarding Children Multi-Agency Partnership (KSCMP) arrangements in place, replacing the previous Kent Safeguarding Children Board.	Matt Dunkley, Corporate Director CYPE (KCC representative on Executive Board) / David Whittle, Director SPRCA
New KSCMP arrangements introduced and embedded, including a Scrutiny and Assurance Framework.	David Whittle, Director SPRCA
“Section 11” audit conducted periodically to provide assurance that relevant agencies and individuals are co-operating to safeguard children and promote their welfare, with feedback and follow-up. (2020 audit in progress).	Jennifer Maiden-Brooks, KSCMP System Improvement Manager, Kent Safeguarding Children Multi-Agency Partnership
Manageable caseloads per social worker and robust caseload monitoring. Social work vacancies monitored with action taken to address as required	Sarah Hammond, Director of Integrated Services (Children’s Social Work Lead)
Active strategy in place to attract, recruit and retain social workers through a variety of routes with particular emphasis on experienced social workers	Sarah Hammond, Director of Integrated Services (Children’s Social Work Lead) / Amanda Beer, Corporate Director People and Communications
Multi-agency public protection arrangements (MAPPA) in place	Kevin Kasaven, Assistant Director Safeguarding and Quality Assurance
Extensive staff training – Quality Assurance Framework has been rolled out and Integrated Children’s Services team has received mandatory training related to this	Sarah Hammond, Director of Integrated Services (Children’s Social Work Lead) / Stuart Collins, Director Integrated

	Services (Early Help and Preventative Services Lead)
Children's Assurance Board established to give assurance to the rest of the council, including safeguarding arrangements. Now includes review of qualitative audit information and triangulates with quantitative picture.	Matt Dunkley, Corporate Director, CYPE
Kent & Medway Prevent Duty Delivery Board (chaired by KCC) oversees the activity of the Kent Channel Panel, co-ordinating Prevent activity across the County and reporting to other relevant strategic bodies in the county (including reporting route to the Kent Safeguarding Children Multi-Agency Partnership).	Richard Smith, Interim Corporate Director, Adult Social Care and Health (ASCH)
Kent Channel Panel (early intervention mechanism providing tailored support to people who have been identified as at risk of being drawn into terrorism) in place	Nick Wilkinson, Prevent and Channel Strategic Manager
KCC cross-directorate PREVENT group meets regularly and ensures the PREVENT duty is embedded across the organisation. Regular updates are provided to the Corporate Management Team.	Nick Wilkinson, Prevent and Channel Strategic Manager
Joint Exploitation Group (Kent & Medway) children and adults focuses on PREVENT, gangs, Modern slavery, human trafficking and online safeguarding matters – reports to Kent and Medway Adults Safeguarding Board and KSCMP	Nick Wilkinson, Prevent and Channel Strategic Manager
Safeguarding and Quality Assurance Unit conducts audits, reviews of practice, identifies themes and patterns for accountable managers to respond to and provides challenge.	Kevin Kasaven, Assistant Director, Safeguarding and Quality Assurance
Communities of Practice introduced during the pandemic, offering support for practitioners, with over 100 practitioners attending weekly	Kevin Kasaven, Assistant Director, Safeguarding and Quality Assurance.
Education Safeguarding Team in place as part of the contract with The Education People	David Adams, Director of Education
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 place with other practitioners	David Adams, Director Education / Craig Chapman, Interim Head of Admissions & Transport
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	Kevin Kasaven, Assistant Director Safeguarding and Quality Assurance

Multi-agency Crime and Sexual Exploitation Panel (MACSE) provides a strategic, county-wide, cross-agency response to Child Sexual Exploitation	Matt Dunkley Corporate Director, CYPE (KCC lead)
PREVENT training strategy in place and regularly reviewed.	Nick Wilkinson, Prevent and Channel Strategic Manager
Integrated practice model in place	Sarah Hammond, Director of Integrated Services (Children's Social Work Lead) / Stuart Collins, Director Integrated Services (Early Help and Preventative Services Lead)
Kent and Medway Gangs Strategy 2018-21 outlines the multi-agency approach to ending the criminal exploitation of vulnerable children and adults by gangs	Stuart Collins, Director Integrated Services (Early Help and Preventative Services lead)
Introduction and appointment of independent scrutineer as part of multi-agency safeguarding children arrangements	Matt Dunkley, Corporate Director CYPE (KCC lead) / David Whittle, Director SPRCA
Deep dive activity takes place to investigate vacancy rates for staff that reflects factors such as maternity leave	Sarah Hammond, Director of Integrated Services (Children's Social Work Lead)

Action Title	**Action Owner**	**Planned Completion Date**
Embedding of new adolescent risk management process and approach.	Stuart Collins, Director Integrated Services (Early Help and Preventative Services lead)	January 2021 (review)
Continue the semi-regional PREVENT model of delivery across Kent & Medway	Nick Wilkinson, Prevent and Channel Strategic Manager	December 2020 (review)

Risk ID	CRR0002	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 a complex and challenging environment e.g. challenges relating to demand for services and consistent quality of care in the provider market. The change from 'safeguarding alerts' to 'safeguarding enquiries' has led to a significant increase in the number of safeguarding concerns received. There has also been an increase in domestic abuse referrals. In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism. The Coronavirus pandemic and associated 'lockdown' measures has raised concerns of increases in hidden harm, self-harm and neglect. This has impacted demand profiles. Social care services are making substantial adaptations to service delivery across the system. This risk links to the demand risk (CRR0006)	Failure to fulfil statutory obligations. Failure to meet the requirements of the "Prevent Duty" placed on Local Authorities. Safeguarding risks are not identified to / by KCC in a timely fashion during the Coronavirus pandemic.	Incident of serious harm or death of a vulnerable adult. 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.	Richard Smith Corporate Director Adult Social Care and Health (ASCH) **Responsible Cabinet Member(s):** Clair Bell, Adult Social Care and Public Health Mike Hill (Lead Member for PREVENT)	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

Control Title	Control Owner
KCC is a partner in multi-agency public protection arrangements (MAPPA) for managing sexual and violent offenders, a mechanism through which agencies can better discharge their statutory responsibilities and protect the public in a coordinated manner.	Richard Smith, Corporate Director ASCH
KCC is a member of the Kent & Medway Safeguarding Adults Board – a statutory service which exists to make sure that all member agencies are working together to help Kent and Medway's adults safe from harm and protect their rights. The Board has an independent Chair and its work carried out by a number of working groups.	Richard Smith, Corporate Director ASCH / Julie Davidson, Head of Adult Safeguarding
Quarterly safeguarding report brings together key information to enable scrutiny and performance monitoring for management teams and the Cabinet Member.	Divisional Directors / Julie Davidson, Head of Adult Safeguarding
Kent & Medway Prevent Duty Delivery Board (chaired by KCC) oversees the activity of the Kent Channel Panel, co-ordinating Prevent activity across the County and reporting to other relevant strategic bodies in the county	Richard Smith, Corporate Director ASCH
KCC cross-directorate PREVENT group meets regularly and ensures the PREVENT duty is embedded across the organisation. Regular updates are provided to the Corporate Management Team.	Nick Wilkinson, Prevent and Channel Strategic Manager
Joint Exploitation Group (Kent & Medway) focuses on PREVENT agenda, gangs, modern slavery, human trafficking and online safeguarding matters – reports to Adults Safeguarding Board and Children's Partnership	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) in place	Nick Wilkinson, Prevent and Channel Strategic Manager
PREVENT training strategy in place and regularly reviewed.	Nick Wilkinson, Prevent and Channel Strategic Manager
KCC contributes to the Multi-agency risk assessment conference (MARAC) process, which allows for the best possible safety planning for victims of domestic abuse who are considered to be at high risk of experiencing further significant harm/injury.	Janice Duff, Director Adult Social Care East Kent
Quality Surveillance Group - regular KCC meetings with Care Quality Commission to share intelligence. This is currently being relaunched and the function of the group reconsidered.	Sharon Dene, Strategic Commissioning
Strategic Safeguarding and Quality Assurance team in Adult Social Care and Health leads on a strategic framework for policy, service development, strategic safeguarding and quality assurance	Sarah Denson, Service Manager ASCH

KCC Safeguarding Competency Framework in place, including Mental Capacity Act requirements.		Julie Davidson, Head of Adult Safeguarding
Action Title	**Action Owner**	**Planned Completion Date**
Revised Quality Assurance system (including Making Safeguarding Personal) being embedded to ensure a clear and holistic view of practice, consisting of quantitative data, safeguarding audit activity focussing on quality of practice and the service user voice	Janice Duff, Director Adult Social Care East Kent	December 2020 (review)
Preparation for introduction of new Liberty Protection Safeguards system under the Mental Capacity (Amendment) Act 2019.	Maureen Stirrup, Head of Deprivation of Liberty Safeguards	ON HOLD – awaiting further Govt update on timescales
Explore options for independent scrutiny e.g. peer review driven through the MADE programme.	Julie Davidson, Head of Adult Safeguarding	December 2020 (review)
KCC Safeguarding Competency Framework being reviewed to ensure currency and look for areas for improvement.	Julie Davidson, Head of Adult Safeguarding	TBC
Continue the semi-regional PREVENT model of delivery across Kent & Medway	Nick Wilkinson, Prevent and Channel Strategic Manager	December 2020 (review)
Development of a Quality Assurance Framework that is a systemic integrated approach to monitoring and evaluating the effectiveness of delivery of services using a variety of approaches to enable Adult Social Care to review the performance of the service against its' aspirations. This framework is informed by key plans, legislation and the performance framework.	Janice Duff, Director Adult Social Care East Kent	May 2021

Risk ID	CRR0003	Risk Title	Securing resources to aid economic recovery and enabling infrastructure		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Coronavirus pandemic is impacting on the economy in Kent & Medway. This is likely to become more severe in the latter part of 2020, particularly as the Govt furlough scheme ends, and the impacts could be disproportionate across the county (e.g. in coastal areas). To gain an understanding of the implications, an impact assessment has been conducted, which has led to the preparation and launch of an 18-month local economic renewal and resilience plan, which aims to act as a stimulus for improvement. The Council actively seeks to secure the resources/funding necessary to provide the infrastructure required to support growth, which often need to be bid for in very tight timescales and are increasingly subject to the drive to deliver economic impact, housing and employment outputs. EU structural funds are set to be replaced by UK funds, with further detail awaited.	The inability to secure sufficient funding, including contributions from development, to deliver the infrastructure necessary to support growth may require gap funding in order for KCC to fulfil its statutory duties. Deferral of developer contributions and / or elongated planning consents leads to delayed or compromised infrastructure.	Key opportunities for growth missed. The Council finds it increasingly difficult to fund services across Kent and fully mitigate the overall impact of housing growth on KCC services and, therefore communities. Kent becomes a less attractive location for inward investment and business. Our ability to deliver an enabling infrastructure becomes constrained. Reputational risk associated with delayed delivery of infrastructure required Additional revenue costs incurred due to infrastructure delays e.g. Home to school transport	Barbara Cooper, Corporate Director Growth, Environment and Transport (GET) **Responsible Cabinet Member(s):** On behalf of Cabinet Mike Whiting, Economic Development Michael Payne, Highways & Transport	V. Likely (5) **Target Residual Likelihood** Likely (4)	Serious (4) **Target Residual Impact** Serious (4)

At a local level there is often a significant gap between the overall costs of the infrastructure required and the Council's ability to secure sufficient funds through the current funding systems, including S106 contributions, Community Infrastructure Levy and other growth levers.

Control Title	Control Owner
Growth and Infrastructure Framework for Kent and Medway sets out the infrastructure needed to deliver planned growth	Stephanie Holt-Castle, Interim Director Environment Planning & Enforcement (EPE)
Teams across the Growth, Environment and Transport directorate work with each individual District on composition of local infrastructure plans including priorities for the CIL and Section 106 contributions, to articulate needs for the demands on services	David Smith, Director Economic Development / Stephanie Holt-Castle, Interim Director EPE
Single Monitoring System (SMS) is used to track individual s106 planning obligations from the Council's initial request for developer contributions through to the issue of invoice for payment.	Economic Development / EPE
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 its Local Industrial Strategy with central Government to ensure that KCC is in a strong position to secure resources from future funding rounds	Sarah Nurden, Strategic Programme Manager (KMEP)
Local Transport Plan 4 produced and approved by County Council	Tom Marchant, Head of Strategic Planning & Policy
Officers are working on bids to secure funding as appropriate, including Local Growth Fund, Housing Infrastructure Fund, Major Roads Network	Lee Burchill, Local Growth Fund Manager / Joe Ratcliffe,

	Transport Strategy Manager
Kent and Medway Renewal and Resilience Plan Economic Impacts Evidence Base sets out a high-level assessment of the impacts of the Covid-19 crisis on the Kent and Medway economy to inform the Renewal and Resilience Plan for the next 12-18 months.	Rachel Kennard, Chief Analyst, KCC
Economic Recovery Dashboard in place	Rachel Kennard, Chief Analyst, KCC
Multi-agency Kent and Medway Employment Task Force has been set up and regular meetings have been scheduled.	David Smith, Director Economic Development (KCC lead)
Government consultations on proposals for reform of the planning system in England considered and responded to.	Tom Marchant, Head of Strategic Planning and Policy
Active pipeline in place of projects for potential funding announcements.	David Smith, Director Economic Development

Action Title	**Action Owner**	**Planned Completion Date**
Kent & Medway Business Fund, KMBF Recovery Fund and KMBF Capital Growth Fund re-launched. A second round of funding is expected once availability of funding determined.	David Smith, Director Economic Development (KCC lead)	December 2020
Establishment of Infrastructure First Group, covering areas such as local plans, s106/ CIL and overview of larger planning applications etc. The Terms of Reference is now drafted. Sign off received by senior management and now await Leader endorsement.	Tom Marchant, Head of Strategic Planning & Policy	January 2021
Contribute to implementation of the Kent and Medway Economic Partnership's local Economic Renewal and Resilience Plan, key delivery principles of which are: • Greener Futures (building a sustainable, lower carbon economy • Open and Productive (supporting long term productivity growth in an	David Smith, Director Economic Development (KCC lead)	December 2021

economy that welcomes investment and trade)

- Better Opportunities, Fairer Chances (ensuring that people are supported through recession and stand to gain from a more resilient economy in the return to growth).

Participation on the Renewal and Resilience Group Plan group and the Employment Taskforce plans are being scoped to support key delivery principles.

Risk ID	CRR0004	Risk Title	Simultaneous Emergency Response, Recovery 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 major incidents and emergencies. This includes responses associated with the Government's Counter-terrorism Strategy (CONTEST) 2018. 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, threats of 'cyber attacks' and uncertainties around implications of the future UK/EU relationship. The response to, and recovery from the Coronavirus pandemic is putting significant strain on organisational capacity and resources.	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. Focus on Coronavirus response and recovery and post UK/EU transition contingency planning means less opportunity to progress other aspects of emergencies and resilience agenda. Future wave(s) of pandemic put further strain on capacity and resource.	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 (GET) **Responsible Cabinet Member(s):** On behalf of Cabinet: Mike Hill, Community & Regulatory Services Susan Carey, Environment	V. Likely (5) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

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. Includes sub-groups relating to Health and Severe Weather	Mike Overbeke, Head of Public Protection (for Kent Resilience Team Activity)
The Director of Public Health works through local resilience forums to ensure effective and tested plans are in place for the wider health sector to protect the local population from risks to public health	Andrew Scott-Clark, Director of Public Health
Management of financial impact to include Bellwin scheme	Cath Head, Head of Finance (Operations)
Implementation of Kent's Climate Adaptation Action Plan	Christine Wissink, Interim, 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	Lisa Guthrie, KCC Manager, Kent Resilience Team
On-going programme of review relating to ICT Disaster Recovery and Business Continuity arrangements. ICT resilience improvements are embedded as part of the ICT Transformation Programme	Andrew Cole, Head of ICT Strategy and Commissioning
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 over the short term	Stephanie Holt-Castle, Interim Director Environment Planning & Enforcement (EPE)
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	Andrew Scott-Clark, Director Public Health / Stephanie Holt-Castle, Interim Director EPE
Emergency planning training rolled out at strategic, tactical and operational levels. KCC Resilience Programme in place to deliver further training opportunities and exercises regularly conducted to test different elements of KCC emergency and business continuity arrangements with partners	Stephanie Holt-Castle, Interim Director EPE
Updated and expanded Duty and Recovery Director rota introduced	Stephanie Holt-Castle, Interim

	Director EPE
KCC Business Continuity Management Policy and overarching Business Continuity Plan in place, underpinned by business continuity plans at service level	Stephanie Holt-Castle, Interim Director EPE
Kent & Medway 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	Richard Smith, Interim Corporate Director ASCH
KCC Strategic Prevent Lead is a member of the Covid-19 District Recovery Cell and disseminates appropriate protective security advice and online tension monitoring reports	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
Ongoing development of a PREVENT counter-terrorism risk assessment	Nick Wilkinson, Prevent and Channel Strategic Manager
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	Stephanie Holt-Castle, Interim Director EPE
Fire Safety Guidance provided by KCC reviewed and updated	Flavio Walker, Head of Health & Safety
Local procedures have been and are being continually reviewed and refined for occasions the national threat level increases to critical. This includes an update of the Corporate Business Continuity Plan	Stephanie Holt-Castle, Interim Director EPE
New approach to Business Continuity Governance arrangements implemented, to enable increased focus on directorate issues and complement KCC's cross-directorate Resilience group	Stephanie Holt-Castle, Interim Director EPE
Review of Kent Resilience Forum Local Authorities Emergency Planning group's mutual aid arrangements with District Councils and other councils across the region undertaken	Lisa Guthrie, KCC Manager, Kent Resilience Team
KCC services have reviewed business continuity arrangements, taking potential no-deal Transition scenarios into consideration (cross-reference to CRR0042), with coordination via Directorate Resilience Groups	Service Managers / Directorate Resilience Chairs
KCC has a Major Emergency Plan that is refreshed regularly	Tony Harwood, Resilience and Emergencies Manager
Work programme implemented to deliver Kent County Council compliance with the Radiation (Emergency Preparedness and Public Information) Regulations 2019, including amendments to the Dungeness Offsite Emergency Plan	Tony Harwood, Resilience and Emergencies Manager

KRF and KCC Command and Control structures planned and in place to deal with simultaneous events		Barbara Cooper, Corporate Director GET / Stephanie Holt-Castle, Interim Director EPE
Action Title	**Action Owner**	**Planned Completion Date**
Response to, and recovery from, Coronavirus pandemic being managed, both at KCC level and with partners	Andrew Scott-Clark, Director Public Health / Barbara Cooper, Corporate Director GET / David Whittle, Director SPRCA	Ongoing
Continued preparations for, and response to, implications of future UK/EU relationship in relation to border friction, regulatory change etc. (cross-reference to CRR0042)	Barbara Cooper, Corporate Director GET	January 2021 and ongoing
Plan and organise multi agency exercise to determine the adequacy of the updated Dungeness Offsite Emergency Plan and the response to the plan.	Tony Harwood, Resilience and Emergencies Manager	September 2021

Risk ID	**CRR0005**	**Risk Title**	**Development of ICS/ICPs in Kent and Medway NHS system**		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Kent & Medway NHS system is under significant pressure with increasing levels of demand driving across financial deficits across commissioner and provider budgets, placing pressure on the Kent & Medway NHS system control total. In response the NHS in Kent and Medway has formed an Integrated Care System (ICS) with 8 CCGs merging to form the basis of the System Commissioner, above four ICPs (Integrated Care Partnerships) and 42 PCN's (Primary Care Networks). The policy intent of structural reform is to deliver better strategic planning and delivery of health and social care services at place-based community level and shift from acute to primary and community level services. The relative roles and responsibilities between the proposed ICS and the emerging ICPs in Kent is still under development. The final legal structure and functional responsibilities of ICPs is still	Failure to develop more partnership and aligned health & social care services and commissioning at both ICS and ICP level places pressure on system finances and hinders highest possible quality of care Development of four ICP generates additional demand/work on strategic leadership of KCC, particularly in ASCH and Public Health which has significant opportunity costs, including impact on business as usual activity. Multiple ICP's leads to differences in form, function and relationships between ICPs and the ICS and/or KCC which increases system complexity and leads to variation which increase costs/risks. System complexity leads to failure to meet statutory duties around the sufficiency of the care market, care quality and safeguarding.	Further deterioration in the financial and service sustainability of health and social care services in Kent and Medway. Additional budget pressures transferred to social care as system monies are used to close acute and primary care service gaps. Legal challenge/judicial review of decisions and decision-making framework for joint decisions. Social care and public health priorities not sufficiently factored into/shaping emerging ICS/ICP plans and priorities, weakening integrated approach. Focus on structural changes workstreams prevents more agile improvements/joint	Richard Smith, Corporate Director Adult Social Care & Health (ASCH) Vincent Godfrey, Strategic Commissioner Andrew Scott-Clark, Director Public Health **Responsible Cabinet Member(s):** Roger Gough, Leader of the Council Clair Bell, Adult Social Care and Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

under development and may require primary legislative change. Regulators (CQC / Ofsted) increasing review health and care services and the commissioning/performance of those services and ‘system’ level.	Lack of understanding within KCC of NHS policy and regulatory environment; and vice versa, lack of understanding of local authority legislative, policy and democratic environment in NHS.	working being undertaken. Reputational damage to either KCC or NHS or both in Kent. Adverse outcome from CQC local system review.	

Control Title	**Control Owner**
Health Reform and Public Health Cabinet Committee provides non-executive member oversight and input of KCC involvement in the STP	Ben Watts, General Counsel
Senior KCC political and officer representation on the System Transformation Executive Board and System Commissioner Steering Group	Richard Smith, Corporate Director ASCH Andrew Scott-Clark, Director Public Health Vincent Godfrey, Strategic Commissioner
Senior KCC level officer representation on the East Kent, West, North and Medway & Swale ICP Development Boards	Richard Smith, Corporate Director ASCH
County Council agreed framework for KCC engagement within the ICS/ICPs	Richard Smith, Corporate Director ASCH
A joint KCC and Medway Health and Wellbeing Board for system-wide related matters/issues has been established	David Whittle, Director SPRCA
Public Health Leadership for the STP Prevention workstream	Andrew Scott-Clark, Director Public Health
Working through KCC Public Health partnership with the Kent Community Healthcare Foundation Trust (KCHFT) to ensure Public Health improvement programmes are linked and delivered alongside Local Care through Primary Care Networks and other primary care providers (e.g. community pharmacy)	Andrew Scott-Clark, Director Public Health
Kent and Medway Integrated Care System update paper taken to County Council in May 2019.	Richard Smith, Corporate

	Director ASCH

Risk ID	CRR0006	Risk Title	Resourcing implications arising from increasing complex 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. The cost of adult social care services in Kent continues to increase due to the complexity of presenting need, including increasing numbers of young adults with long-term complex care needs. This is all to be managed against a backdrop of public sector funding restraint, implications arising from the implementation of the Care Act, increases in Deprivation of Liberty Assessments, impacts associated with reducing budgets of partner agencies and longer-term demographic pressures. In addition, the Coronavirus pandemic is resulting in fluctuations for demand in services, with the expectation of increasing demand as recovery progresses. The workforce will face significant further pressure in the short, medium and long term against this backdrop of working in unprecedented conditions and delivering rapid	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.	Richard Smith, Interim Corporate Director Adult Social Care and Health (ASCH) **Responsible Cabinet Member(s):** Clair Bell, Adult Social Care and Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

change. Altered demand as well as increasing demand – more in some areas, some of demand that would have taken a long to come up has come up sooner and may be more intense needs. More complexity on how teams prepare to carry out review. Adult social care services are part of a complex system to meet needs, which requires the whole system to work cohesively.	
Control Title	**Control Owner**
Regular analysis and refreshing of forecasts to maintain the level of understanding of volatility of demand, which feeds into the relevant areas of the MTFP and the business planning process	Richard Smith, Corporate Director ASCH / Rachel Kennard, Chief Analyst
Continued support for investment in preventative services through voluntary sector partners	Richard Smith, Corporate Director ASCH / Vincent Godfrey, Strategic Commissioner
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/ ASCH Divisional Directors
Continual review and monitoring of demand in relation to Deprivation of Liberty assessments (DoLs) with external resources brought in as necessary. Increased data cleansing has led to an improved overview of backlog cases	Maureen Stirrup, Head of Deprivation of Liberty Safeguards
Targeted use of additional social care monies received from Government, investing in services which evidence suggests will have the greatest impact. Set out in Kent Integration and Better Care Fund plan.	Richard Smith, Corporate Director ASCH
New operating model for Adult Social Care and Health, including Promoting Wellbeing approach to help manage demand	Richard Smith, Corporate Director ASCH
Core services have been significantly adapted during the Coronavirus pandemic, requiring new models of	ASCH DMT and Heads of

delivery, realignment of staff, and delivery of services through remote provision where possible.	Services
Ongoing monitoring and modelling of changes in supply and demand in order to inform strategies and service planning going forward.	Rachel Kennard, Chief Analyst

Action Title	**Action Owner**	**Planned Completion Date**
Development of MADE programme as part of KCC Strategic Reset	Richard Smith, Corporate Director ASCH	March 2021 (review)
ASCH representatives have worked with partners in the Kent Resilience Forum to assess health and social care impacts and contributed to a local recovery strategy and action plan	Richard Smith, Corporate Director ASCH	March 2021

Risk ID	**CRR0007**	**Risk Title**	**Resourcing implications arising from serious and complex Children's Services demand (excludes SEND – covered in CRR0044)**		
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, policy/legislative changes etc. These challenges need to be met as children's services face increasingly difficult financial circumstances and operational challenges. The Council needs to remain aware of London Boroughs, utilising higher per-capita funding and large capital/reserve budgets to procure sites in Kent to ease their overspends on housing/homelessness, due to potential demand implications. The Coronavirus pandemic has seen a reduction in referrals for support during lockdown, with no obvious reduction in need. There has been a small increase in number of referrals since September 2020, however the main risk relates to the demand	High volumes of workflow into integrated children's services leading to unsustainable pressure being exerted on them (recognising seasonal spikes). Spike in demand for children's services in autumn once 'lockdown' measures are fully eased. Future wave(s) of pandemic exacerbate pressures on children's services, with insufficient capacity to manage.	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 and potentially difficult policy decisions required. Ultimately an impact on outcomes for children, young people and their families.	Matt Dunkley, Corporate Director CYPE **Responsible Cabinet Member(s):** Sue Chandler, Integrated Children's Services	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

being related to more serious and more complex cases.	
Control Title	**Control Owner**
The *Change for Kent Children* Programme is working to ensure that vulnerable families can access the right support through intensive work in Early Help Units and Step-Down Panels, open access services or through targeted casework	Stuart Collins, Director Integrated Children's Services (Early Help and Preventative Services Lead)
Intensive focus on ensuring early help to reduce the need for specialist children's support services	Matt Dunkley, Corporate Director CYPE
'Threshold' document outlines the criteria required by partners when making a referral and have been working with partners to promote aid appropriate application	Jennifer Maiden-Brooks, Programme and Performance Manager, Kent Safeguarding Children Multi-Agency Partnership
The Children's Social Work budget has been adjusted to compensate for additional demand	Cath Head, Head of Finance (Operations)
Relationships with London Councils allow us to understand / test their intentions on an individual site basis regarding any large-scale potential purchasing of land to use for vulnerable family placements.	Debra Exall, Strategic Relationships Advisor
Modelling of latent demand related to Coronavirus pandemic completed and used to inform service resource planning. Review being undertaken of what happened against what was expected.	Rob Comber, Transformation and Innovation Manager / Rachel Kennard, Chief Analyst

Action Title	**Action Owner**	**Planned Completion Date**
Implementation of *Change for Kent Children* programme (phase 2) included as part of KCC Strategic Reset programme.	Matt Dunkley, Corporate Director, CYPE	March 2021
Redeployment of resources to deal with demand arising from Covid and other factors.	Matt Dunkley, Corporate Director, CYPE	March 2021

Risk ID	CRR0009	Risk Title	Future financial and operating environment for Local Government

Source / Cause of risk	Risk Event	Consequence	Risk Owner (s)	Current Likelihood	Current Impact
Financial, economic and societal impacts of Coronavirus pandemic and uncertainty regarding associated funding, exacerbating an already uncertain financial and operating environment, including lack of funding settlement beyond 2021-22 in the absence of three-year Spending Review. The uncertainty also applies to services funded via ring-fenced specific grants. Of particular concern is the special educational needs and disability (SEND) provision funded by the Dedicated Schools Grant (DSG). The high needs block of DSG has not kept pace with the substantial increase in demand for SEND (see CRR0044) resulting in deficit accruing on DSG spending. The uncertainty also applies to capital expenditure funded by grants. In particular, the basic need grant is insufficient to provide the number of school places identified in the commissioning plan, so the authority may not have capacity to incur additional borrowing costs to	Additional costs, income losses and delays to savings plans incurred as a result of the Coronavirus pandemic are not reimbursed in full. Additional unfunded spending demands and continued real-terms funding reductions threaten the 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. Quality of KCC commissioned / delivered services suffers as financial situation continues to worsen. Delays and uncertainty surrounding Spending / Fair Funding reviews impacts on KCC's medium term financial planning.	Unsustainable financial situation, ultimately resulting in s114 notice. Potential for partner or provider failure – including sufficiency gaps in provision. Reduction in resident satisfaction and reputational damage.	On behalf of CMT: Zena Cooke, Corporate Director Finance (Section 151 Officer) **Responsible Cabinet Member(s):** All Cabinet Members	V. Likely (5) **Target Residual Likelihood** Likely (4)	Major (5) **Target Residual Impact** Serious (4)

make up for the shortfall.

Control Title	Control Owner
Robust budgeting and financial planning in place via Medium Term Financial Planning (MTFP) process, including stakeholder consultation.	Zena Cooke, Corporate Director Finance (Section 151 Officer)
Processes in place for monitoring delivery of savings and budget as a whole, including identification of management action.	Zena Cooke, Corporate Director Finance (Section 151 Officer)
KCC Quarterly Performance Report monitors key performance and activity information for KCC commissioned or delivered services. Regularly reported to Cabinet.	Rachel Kennard, Chief Analyst
Financial analysis conducted after each budget statement.	Dave Shipton, Head of Finance (Policy, Strategy and Planning)
Engagement with County Councils Network, Society of County Treasurers, other local authorities and Government of potential opportunities and issues around devolution and public reform.	David Whittle, Director SPRCA
Continued engagement with Government for a fair Basic Need allocation to meet the demand for school places.	David Adams, Director Education
Continued engagement with Government regarding High Needs funding concerns.	Dave Shipton, Head of Finance (Policy, Strategy and Planning) / Matt Dunkley, Corporate Director CYPE
Fundamental review of both the revenue budget and capital programme, involving major recast, has been completed. In-year gap dealt with.	Zena Cooke, Corporate Director Finance (Section 151 Officer)
KCC Interim Strategic Plan and Strategic Reset Framework developed, outlining how the Council will operate in future, taking into account implications of the Coronavirus pandemic.	David Whittle, Director SPRCA

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 Finance (Policy, Strategy and Planning)	TBC

Engage with Government for a fair-funding needs formula for Grant distribution and tariffs/top ups under business rate retention	Dave Shipton, Head of Finance (Policy, Strategy and Planning)	TBC
Ensure appropriate response to next Government Spending Review.	Dave Shipton, Head of Finance (Policy, Strategy and Planning)	September 2021
Assess impact of and respond to Government plans for the future of social care.	Richard Smith, Corporate Director ASCH	TBC
Respond to Government Devolution white paper.	David Whittle, Director SPRCA	TBC
Ensure evidence of any additional KCC spend required to cover impacts relating to the end of the UK/EU Transition period is captured e.g. new burdens imposed.	Dave Shipton, Head of Finance (Policy, Strategy and Planning)	December 2020 (review)
Continue to lobby Government regarding High Needs funding concerns	Dave Shipton Head of Finance (Policy, Strategy and Planning)/ Matt Dunkley, Corporate Director CYPE	Ongoing

Risk ID **CRR0010** **Risk Title** **Suitable accommodation and funding for Unaccompanied Asylum-Seeking Children (UASC)**					
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
While numbers of UASC has not reached 2015 levels, there is additional pressure on this service from new arrivals, plus current additional quarantine and social distancing requirements as well as significant numbers of age-disputed new arrivals. Government uplifts to funding introduced in 2020 have helped, although there are still legacy cost issues relating to care leavers. Between August and December 2020, KCC could not safely accommodate additional UASC into its care and could not accept new arrivals. KCC has resumed accepting new arrivals since 7th December 2020 but has warned that without a long-term national solution, the risk will of needing to review its position again is significant.	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.	Impact on vulnerable young people. The Council would be unable to fulfil its statutory duties effectively. Additional budget pressures on the Authority. Main risk relates to the legal position, with operational and reputational risks.	Matt Dunkley, Corporate Director, CYPE **Responsible Cabinet Member** Sue Chandler, Integrated Children's Services	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Control Title	Control Owner
National Transfer Scheme re-invigorated, meaning some children have been transferred to other local authorities	Sarah Hammond, Director Integrated Children's Services
The Council has utilised / re-purposed buildings in order to increase accommodation capacity in the short term	Rebecca Spore, Director Infrastructure
Lobbying of Govt for additional support to deal with care leaver legacy costs	Roger Gough, Leader / Sue Chandler, Cabinet Member Integrated Children's Services / Matt Dunkley, Corporate Director CYPE
UASC analytical modelling complete and monitored to assess capacity	Rachel Kennard, Chief Analyst

Risk ID	CRR0014	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, exacerbated by the Coronavirus pandemic, 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	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.	Rebecca Spore, Director Infrastructure Ben Watts, General Counsel and KCC Data Protection Officer Amanda Beer, Corporate Director People and Communications **Responsible Cabinet Member(s):** Peter Oakford, Finance, Corporate and Traded Services Shellina Prendergast, Communications, Engagement	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

security.	and People Roger Gough, Leader	

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	Internal Communications function / Rebecca Spore, Director Infrastructure / All Managers
Electronic Communications User Policy, Virus reporting procedure and social media guidelines in place	Andrew Cole, Head of ICT Strategy and Commissioning
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
Data Protection and Information Governance training is mandatory and requires staff to refresh periodically. Progress rates monitored regularly	Ben Watts, General Counsel
Further training introduced relating to cyber-crime, cyber security and social engineering to raise staff awareness and knowledge	Kathy Stevens, Compliance and Risk Manager
Messages to encourage increased awareness of information security amongst staff are being communicated to align with key implementation milestones of the ICT Transformation Programme	Diane Trollope, Head of Engagement and Consultation
Procedures to address data breaches from KCC 'client side' perspective are covered within the Infrastructure business continuity plan	Kathy Stevens, ICT Compliance and Risk Manager
Monthly updated remediation plans produced for the Director of Infrastructure and Senior Information Risk Owner. Quarterly reporting to the Directorate Management Team	Kathy Stevens, ICT

		Compliance and Risk Manager
A Cyber incident response and management policy has been developed which strengthens the responsibilities and accountabilities across the Authority		Kathy Stevens, ICT Compliance and Risk Manager
Changes and additions to security controls remains an on-going theme as the Authority updates and embraces new technologies.		Andrew Cole, Head of ICT Strategy and Commissioning
Additional messages warning staff of cyber threats are being sent out regularly		Diane Trollope, Service Manager OD and Engagement.
Service Partners / Providers liaised with to ensure clarity regarding support available and respective responsibilities to address data breaches should they occur.		Kathy Stevens, ICT Compliance and Risk Manager
Action Title	**Action Owner**	**Planned Completion Date**
Procedure for incident management being reviewed and updated and responses to liaison picked up under action plan.	Kathy Stevens, ICT Compliance and Risk Manager	January 2021
Implementation of action plan in response to findings of independent cyber-security and resilience review	Andrew Cole, Head of ICT Strategy and Commissioning	January 2021
Utilise new licensing agreement with Microsoft to enhance the security of KCC's infrastructure. Working on implementation and rollout.	Andrew Cole, Head of ICT Strategy and Commissioning	February 2021

Risk ID	CRR0015	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 in light of new settled status arrangements mean that the care market is under pressure. The Coronavirus pandemic has added additional pressures, further threatening sustainability of the market.	Care home market (particularly residential and nursing care) not sustainable. Inability to obtain the right kind of 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.	Richard Smith, Corporate Director ASCH, in collaboration with Vincent Godfrey, Strategic Commissioner **Responsible Cabinet Member(s):** Clair Bell, Adult Social Care and Public Health Roger Gough, Leader of the Council	V. Likely (5) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

Control Title	Control Owner
Opportunities for joint commissioning and procurement in partnership with key agencies (i.e. Health) being regularly explored, including joint work regarding the provision of dementia nursing beds	Vincent Godfrey, Strategic Commissioner
As part of the Commissioning Success model, Analytics function utilises data to inform decision making before moving commissioning activity forward	Rachel Kennard, Chief Analyst
Regular engagement with provider and trade organisations	Vincent Godfrey, Strategic Commissioner

Ongoing contract monitoring, working in partnership with the Access to Resources team	Clare Maynard, Head of Commissioning Portfolio – Outcome 2 and 3
Ongoing monitoring of Home Care market and market coverage. Commissioners and operational managers review the capacity of the Home Care market with a view to developing a strategy to ensure market coverage	Clare Maynard, Head of Commissioning Portfolio – Outcome 2 and 3
Ensuring contracts have indexation clauses built-in, managed through contract monitoring	Strategic Commissioning
KCC is part of local and regional Quality Surveillance Groups that systematically bring together the different parts of the health and care system to share information, identify and mitigate risks to quality, including those relating to care providers	Sharon Dene, Strategic Commissioning (KCC lead)
Older Person’s accommodation strategy refreshed, which analyses demand and need and sets the future vision and direction for accommodation to support vulnerable Kent residents alongside the Adult Social Care Strategy – Your Life, Your Wellbeing.	Richard Smith, Interim Corporate Director ASCH
Phase 1 of Care and Support in the Home Services contract live, combining homecare and community based supporting independence services. This has reduced the number of care packages being placed off contract	Tracey Schneider, Commissioning Manager
Ongoing work to improve maturity of the market	Vincent Godfrey, Strategic Commissioner
Phase 2 of the Care in the Home Services refresh commenced, bringing the various Discharge services and Supported Living Services under the “Care in the Home” Umbrella.	Tracey Schneider, Senior Commissioner
New contracts commenced relating to Disability and Mental Health Residential Care services.	Paula Watson, Senior Commissioner

Action Title	**Action Owner**	**Planned Completion Date**
Community Support Market Position Statement being refreshed, to inform market shaping, oversight and sustainability	Simon Mitchell, Interim Commissioner	March 2021
Analytical work is being conducted on assessments and reviews in adult social care to help inform key commissioning activity, including Winter planning and impact of Covid.	Rachel Kennard, Chief Analyst	March 2021

Risk ID CRR0016	Risk Title	Delivery of New School Places is constrained by Basic Need allocation and 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, with impact in the short to medium term to secondary age. The "Basic Need" capital grant from Dept of Education (DfE) will not fund the expansion in full. There is a current funding gap needing to be bridged to deliver the commissioning plan, created by cost pressures from higher than expected build costs, low contributions from developers (see risk CRR0003) and increases in pupil demand. The delivery of the plan is highly dependent upon securing a number of Free Schools in Kent over the period and that the ESFA complete the Free School projects on time and to an appropriate standard. The Coronavirus pandemic is also impacting on project delivery timescales and costs.	The expansion required may not be delivered, meaning KCC is not able to provide appropriate school places. Further upward demand pressures beyond what is forecast.	Some children must travel much further to attend a school, with a resulting impact on the transport budget. The duty to provide sufficient school places is not met, which may lead to legal action against the council.	Matt Dunkley, Corporate Director CYPE **Responsible Cabinet Member(s):** Richard Long, Education and Skills	Very Likely (5) **Target Residual Likelihood** Likely (4)	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	David Adams, Director Education
The Officer-led Education Asset Board is being refreshed, which monitors school expansion capital programme, as well as Developer Contributions. Cabinet Committee and Cabinet also receive updates on the programme.	Ian Watts, Area Education Officer
CYPE capital monitoring mechanism with Member involvement now created including Cabinet Committee twice yearly reporting.	David Adams, Director Education
Policy and operations to secure sufficient developer contributions are overseen by Infrastructure Funding Group and approach to be updated in new Developer Contribution Policy, along with request for additional contributions.	David Adams, Director Education /Stephanie Holt-Castle, Interim Director Environment, Planning and Enforcement
Regular negotiations take place with District Councils regarding allocation of contributions	Area Education Officers
Close working with the ESFA and lobbying of the DfE/ESFA, Secretary of State and Kent MPs raising of the issue via the County Councils Network	David Adams, Director Education / Cabinet Member CYPE / Leader of the Council
Regular meetings with ESFA officials to monitor progress at individual project level and identify ways in which KCC can help progress these projects (Local delivery). Issue discussed with the Regional Schools Commissioner	David Adams, Director Education / Area Education Officers
Contingency plans for alternative interim accommodation for each Free School project are being developed on a case-by-case basis i.e. temporary expansions to schools to meet immediate pressures, or the allocation of available places within existing schools.	David Adams, Director Education
Additional budget relating to Covid-19 delays, to cover off pressures	David Adams, Director Education

Action Title	Action Owner	Planned Completion Date
Proactive consideration and preparation for future bids as part of schools rebuilding programme.	David Adams, Director Education	TBC

Risk ID	**CRR0039**	**Risk Title**	**Information Governance**		
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, including disposal of data under the Data Protection Act 2018, which is particularly challenging given the volume of information handled by the authority on a daily basis. General Data Protection Regulations (GDPR) came into effect that have introduced significantly increased obligations on all data controllers, including the Council. The Coronavirus pandemic introduces new risks e.g. staff adapting to new ways of working and increasing information security threats. There is insufficient resource available to undertake comprehensive oversight / assurance activity that provides assurance on compliance with existing information governance standards. There is a critical dependency on one of the Council's Local Authority Trading Companies (CBS) to support Information	Failure to embed the appropriate processes and procedures to meet regulations. Information security incidents (caused by both human error and / or system compromise) resulting in loss of personal data or breach of privacy / confidentiality. Council accreditation for access to government and partner ICT data, systems and network is withdrawn. Cantium Business Solutions prioritises commercial work or does not undertake information governance compliance work in an appropriate and timely fashion.	Information Commissioner's Office 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. Increased risk of litigation. Reputational damage.	Ben Watts, General Counsel and Data Protection Officer in collaboration with David Whittle, Senior Information Risk Owner **Responsible Cabinet Member(s):** Roger Gough, Leader Shellina Prendergast, Communications, Engagement and People	V. Likely (5) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Governance compliance for the KCC systems and network. KCC services' requirement for non-standard systems creates vulnerabilities.	
Control Title	**Control Owner**
Data Protection Officer in place to act as designated contact with the Information Commissioner's Office.	Ben Watts, General Counsel
Caldicott Guardian appointed with support to undertake the role.	Richard Smith, Corporate Director ASCH
Senior Information Risk Owner for the Council appointed with training and support to undertake the role.	David Whittle, Director SPRCA
Corporate Information Governance group to allow for effective management of information governance risks and issues between the DPO, SIRO and Caldicott Guardian.	Ben Watts, General Counsel
Management Guide / Operating Modules 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 and reviewed regularly.	Ben Watts, General Counsel
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 / Amanda Beer, Corporate Director People and Communications
ICT Commissioning function has necessary working / contractual relationship with the Cantium Business Solutions to require support on KCC ICT compliance and audit.	Rebecca Spore, Director of Infrastructure
Information Resilience and Transparency team in place, providing business information governance support.	Caroline Dodge, Team Leader Information Resilience & Transparency
Cross Directorate Information Governance Working Group in place	Michael Thomas-Sam,

	Strategic Business Advisor
Privacy notices as well as procedures/protocols for investigating and reporting data breaches reviewed and updated.	Caroline Dodge, Team Leader Information Resilience & Transparency

Action Title	**Action Owner**	**Planned Completion Date**
Review methods of recording data breaches and identification / analysis of trends. Information Governance escalation report to CMT re breaches, behaviours and remedies.	Ben Watts, General Counsel	December 2020
Utilise new licensing agreement with Microsoft to enhance the security of KCC's infrastructure. Working on implementation and rollout. (Cross reference to CRR0014)	Andrew Cole, Head of ICT Strategy and Commissioning	February 2021
Working from Home Information Governance audit implementation of recommendations	Ben Watts, General Counsel / David Whittle, Director SPRCA	March 2021

Risk ID	CRR0042	Risk Title	Post Transition period border systems, infrastructure and regulatory arrangements – *UNDER REVIEW POST 1st JANUARY 2021*		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
On 1 January 2021 the Transition period with the European Union ended, and the United Kingdom now operates a full, external border as a sovereign nation. This means that controls are now placed on the movement of goods between Great Britain and the EU. To afford industry extra time to make necessary arrangements, the UK Government has taken the decision to introduce the new border controls in three stages up until 1 July 2021. KCC has been working with partners at a local and national level to assess potential implications for the county and prepare for various scenarios. KCC is reliant on coherent, coordinated governance and information across Government to aid the Local Authority and partners locally in planning their contingency arrangements and responding appropriately.	Significant slowdown in the existing flow of goods and people through the Kent Ports leads to long delays in accessing Dover Ports and Eurotunnel. That the Government does not provide sufficient capital and revenue financial support to departments, agencies, local authorities and other infrastructure stakeholders necessary to address the personnel, procedures and physical infrastructure to support post-Transition border arrangements.	Impacts on major traffic routes to support Operation Brock and other mitigations for port delays and the consequential increase in local and pan-Kent road journey times, impacting on local residents and businesses. Significant detrimental impact on county's economic competitiveness, attractiveness for inward investment and quality of life for Kent residents.	Barbara Cooper, Corporate Director Growth, Environment & Transport **Responsible Cabinet Member(s):** Michael Payne, Highways & Transport Mike Hill, Community & Regulatory Services	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Regular engagement with senior colleagues in relevant Government Departments on the impacts and implications of transition on KCC's regulatory responsibilities relating to Trading Standards and the resilience of Kent highways	Barbara Cooper, Corporate Director GET
KCC membership of the Delivery Models Operational Group and associated working groups such as Emergency Planning, Infrastructure, etc.	Steve Rock, Head of trading Standards
KCC membership and support to the Kent Resilience Forum	Mike Overbeke, Head of Public Protection
Operation Fennel strategic plan in place	Barbara Cooper, Corporate Director GET
KCC involvement in Operation Fennel Strategic and Tactical Groups (multi-agency planning groups for potential disruption at Port of Dover and Eurotunnel).	Barbara Cooper, Corporate Director GET
KCC contribution to multi-agency communications in the 'response' phase, and leadership of communication in the 'planning' and 'recovery' phases.	Christina Starte, Head of Communications
KCC cross-directorate Resilience Forum reviews latest situation regarding Transition preparedness	Stephanie Holt-Castle, Interim Director EPE
KCC services are continually reviewing business continuity arrangements, taking potential scenarios into consideration (cross-reference to CRR0004), with coordination via Directorate Resilience Groups.	Service Managers / Directorate Resilience Group Chairs
Several training exercises took place in advance of January 1st 2021 to prepare for various scenarios	Barbara Cooper, Corporate Director GET

Action Title	Action Owner	Planned Completion Date
KCC continues to make a case for further funding from the Ministry of Housing, Communities and Local Government (MHCLG) and Department for Transport (DfT) for direct impact costs of Transition preparedness in the county.	Barbara Cooper, Corporate Director GET	Ongoing
Continued preparations for Transition focusing on refining the traffic management plans in light of new planning scenarios.	Barbara Cooper, Corporate Director GET	Ongoing

Risk ID	**CRR0044**	**Risk Title**	**High Needs Funding shortfall**		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The demand for Special Educational Needs and Disability (SEND) support is rising and at a much faster rate than the school age population, and the Council's Dedicated Schools Grant (DSG) budget is overspending on the High Needs Block and has already accrued a deficit on the DSG reserve. Corresponding pressure on some of KCC's non-DSG SEND related budgets e.g. SEN Home to School Transport, is also being experienced. Consequently, meeting the needs of children and young people with SEND within available resources is becoming ever more challenging. The ability to forecast costs in future years is difficult. The Department for Education (DfE) is introducing tighter reporting requirements on local authorities who have a deficit in their DSG account.	Inability to manage within budget going forward. Inability to reduce accumulated deficit on Dedicated Schools Grant reserve.	Continued funding of deficit on the DSG reserve by net surplus balances in other reserves becomes unsustainable, impacting on the financial resilience of the Council. Impact on support for children with SEND (cross reference to CRR0047)	Matt Dunkley, Corporate Director CYPE **Responsible Cabinet Member(s):** Richard Long, Education & Skills	Likely (4) **Target Residual Likelihood** Likely (4)	Major (5) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Continual lobbying of Government on two matters; increased funding in both the short and medium term, and structural changes to government policy to help reduce the demand i.e. via County Council Network, Association of Directors' of Children's Services. Includes provision of evidence of the impact of the High Needs pressures on the quality of education children receive, schools, other providers and the Local Authority.	Roger Gough, Leader of the Council and /Richard Long, Cabinet Member Education & Skills / Matt Dunkley, Corporate Director CYPE
KCC conducted a review of provision of pupils in mainstream schools with High Needs, introducing changes aiming to ensure the number of High Needs pupils in mainstream schools does not contribute to the current budget pressures.	Karen Stone, Interim Finance Business Partner / David Adams, Director of Education
Block payment arrangement negotiated with Further Education colleges. For this early confirmation and certainty in funding colleges are expected to absorb inflationary pressures and provide support to any growth in the number of post 16 young people with High Needs.	Karen Stone, Interim Finance Business Partner / David Adams, Director of Education

Action Title	Action Owner	Planned Completion Date
Implementation of SEND Written Statement of Action Inclusion workstream to better address the relationship between learner need, outcomes, provision and cost. Including: - Tighter commissioning arrangements to drive down the cost of placements in Independent Non-Maintained Special Schools	Matt Dunkley, Corporate Director CYPE	March 2021 (review)
Building capacity and an inclusive ethos in mainstream schools to improve teaching and confidence in supporting more children with higher levels of need.	Matt Dunkley, Corporate Director CYPE	March 2021 (review)
As required by the DfE, a recovery plan is to be produced (if the LA is either in deficit or if there is a significant reduction in their surplus) outlining how KCC can bring in-year spending in line with in-year funding, and options for how the accumulated deficit could be repaid. To be presented to the Schools' Funding Forum and approved by the Council's Section 151 Officer	David Adams, Director of Education / Zena Cooke, Corporate Director Finance (Section151 Officer).	December 2020 (review)
High Needs Funding review to be undertaken and recommendations to be agreed with the School's Funding Forum. This links to Workstream B of the Written Statement of Action in supporting Inclusive Practices in schools.	Karen Stone, Interim Finance Business Partner / David Adams, Director of Education	March 2021

Risk ID	CRR0047	Risk Title	Adequacy of support for children with Special Educational Needs and Disabilities (SEND) – implementation of Kent Local Area SEND Written Statement of Action

Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
Ofsted and the Care Quality Commission (CQC) conducted a joint inspection of the local area of Kent in early 2019, to judge the effectiveness of the area in implementing the disability and special educational needs reforms set out in the Children and Families Act 2014. While a number of strengths were identified, a number of weaknesses and areas of concern were raised. In response to these concerns a programme has been identified across both KCC and Clinical Commissioning Groups to implement the changes and improvements required. The programme is being delivered against a challenging backdrop of significant increases in demand and a shortfall in High Needs funding (see risk CRR0044), while some aspects of the programme are being revised to take account of implications of the Coronavirus pandemic.	Insufficient improvement in areas identified within timescales.	Adverse impact on outcomes for vulnerable young people Dissatisfaction from families Potential for legal action if statutory time limits or processes are not met.	Matt Dunkley, Corporate Director CYPE **Responsible Cabinet Member(s):** Sue Chandler, Integrated Children's Services	Likely (4) **Target Residual Likelihood** Unlikely (2)	Major (5) **Target Residual Impact** Major (5)

Control Title		**Control Owner**
0-25 Health and Wellbeing Board is the strategic board for children's services that oversees delivery of these services in Kent. A new joint governance with health has been established from November 2020. 0-25 H&WB remains.		Matt Dunkley, Corporate Director CYPE (KCC lead)
SEND Improvement Board established, meeting monthly, to ensure collaborative working across education, health and social care, to have a strategic overview of services and drive the operational workstreams that have been developed to address each area of significant weakness. This continues.		Matt Dunkley, Corporate Director CYPE (KCC lead)
SEND Steering Group in place, with responsibility for coordinating activity and tracking progress across the five identified workstreams in the Written Statement of Action, reporting into the Improvement Board.		Mark Walker, Interim Director of SEND and Disabled Children's Services
Robust programme management in place, ensuring appropriate integration between workstreams and delivery plan. Programme management in place with oversight across all workstreams.		Mark Walker, Interim Director of SEND and DC Services
Kent Joint SEND vision established.		Matt Dunkley, Corporate Director CYPE (KCC lead)
Kent SEND strategy developed.		Matt Dunkley, Corporate Director CYPE (KCC lead)
Action Title	**Action Owner**	**Planned Completion Date**
Development of a local area SEND Strategy in collaboration with partners, which goes beyond the Written Statement of Action to enable sustained improvement and transform Kent's SEND offer. This is in draft and is due to be approved to move to public consultation at the end of November. Public consultation due to complete end January 2021 with launch of new strategy in April.	Mark Walker, Interim Director of SEND and Disabled Children's Services	March 2021 (review)
In collaboration with partners, implement the SEND Improvement Programme, which includes delivery of requirements detailed in the Kent Written Statement of Action, covering five key workstreams relating to: -Parental engagement and co-production -Inclusive practice and the outcomes, progress and attainment of children	Mark Walker, Interim Director of SEND and Disabled Children's Services (KCC lead)	March 2021

and young people. - Quality of Education, Health and Care Plans - Joint commissioning and governance - Service provision - Preparation of adulthood.

Risk ID	CRR0048	Risk Title	Maintenance and modernisation of KCC Estate		
Source / Cause of risk While there has been significant investment in parts of our estate over time, there will never be enough funding available to satisfy all aspirations relating to modernisation of our estate. It is becoming increasingly challenging to ensure that all of our property assets are maintained to a sufficient standard, so that they are safe and fit-for-purpose. As parts of our estate age (e.g. some of our schools and our corporate headquarters), maintenance and / or modernisation costs will increase, and will be sub-optimal in terms of our environmental footprint and supporting new working practices. Ongoing investment to maintain and modernise our estate continues to compete with the other priorities to protect frontline services from effects of public sector funding restraint. Property asset considerations need to be viewed as part of a strategic picture alongside technology and people strategies and the appetite for change	**Risk Event** Lack of affordable capital programme, meaning insufficient investment in KCC estate to ensure it remains safe and fit-for-purpose.	**Consequence** Business interruption due to increasing level of reactive / emergency repairs required, or parts of the estate decommissioned (in whole or partially) if deemed unsafe Adverse impact on achievement of environmental targets. Adverse impact on opportunities to rethink current working practices and adopt new ways of working Impact on staff morale and productivity.	**Risk Owner** On behalf of CMT: Rebecca Spore, Director of Infrastructure **Responsible Cabinet Member(s):** Peter Oakford, Finance, Corporate and Traded Services	**Current Likelihood** Likely (4) **Target Residual Likelihood** Possible (3)	**Current Impact** Serious (4) **Target Residual Impact** Serious (4)

tested.

The Coronavirus pandemic has accelerated the pace of change to working practices, while also having adverse impact the council's capital programme.

Control Title	**Control Owner**
Future Service Models work reviews how service strategies align with use of assets and potential for changes.	Barbara Cooper, Corporate Director GET
Safety factors associated with our assets are given priority during the budget setting process.	Zena Cooke, Corporate Director Finance (Section 151 Officer)
An annual programme of planned preventative maintenance is undertaken at KCC sites by the relevant Facilities Management contract partners.	Tony Carty, Infrastructure Commissioning
Property commissioning function takes a 'hands on' approach to building compliance management.	Tony Carty, Infrastructure Commissioning

Action Title	**Action Owner**	**Planned Completion Date**
Revisit KCC's Property Asset Strategy, reviewing the principles and ensuring an effective locality offer matched to need, in the context of financial constraints.	Rebecca Spore, Director of Infrastructure	TBC
Development of rolling 3-year Condition Programme in order to gain a clearer picture of long-term backlog of works.	James Sanderson, Strategic Capital Programme Manager	TBC
Consolidated lifecycle plan to be developed for properties.	Lifecycle Programme Manager	TBC

Risk ID	CRR0049	Risk Title	Fraud and Error

Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
As with any organisation, there is an inherent risk of fraud and/or error that must be acknowledged and proactively managed. The fraud threat posed during emergency situations is higher than at other times, and all public bodies should be attuned to the risks facing their organisations and the public sector. It is critical that management implements a sound system of internal control and demonstrates commitment to it at all times, and that investment in fraud prevention and detection technology and resource is sufficient. This includes ensuring that new emerging fraud/error issues are sufficiently risk assessed.	Failure to prevent or detect significant acts of fraud or error from internal or external sources, in that within any process or activity there are: - false representations are made to make a gain or expose another to a loss - failure to notify a change of circumstances to make a gain or expose another to a loss - abuses their position, in which they are expected to safeguard to make a gain or expose another to a loss.	Financial loss leading to pressures on budgets that may impact the provision of services to service users and residents Reputational damage, particularly if the public see others gaining services or money that are not entitled to, leading to resentment by the public against others.	Zena Cooke, Corporate Director Finance (Section 151 Officer) **Responsible Cabinet Member(s):** Peter Oakford, Finance, Corporate and Traded Services	Likely (4) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	Control Owner
Anti-fraud and corruption strategy in place and reviewed annually	James Flannery, Counter-Fraud Manager
Systems of internal control which aim to prevent fraud and increase the likelihood of detection.	Corporate Management Team/Statutory Officers

Internal Audit includes proactive fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.	Jonathan Idle, Head of Internal Audit
Training and awareness raising is conducted periodically.	James Flannery, Counter-Fraud Manager / Amanda Beer, Corporate Director People and Communications
Preventing Bribery Policy in place, presenting a clear and precise framework to understand and implement the arrangements required to comply with the Bribery Act 2010	James Flannery, Counter-Fraud Manager
Whistleblowing Policy in place for the reporting of suspicions of fraud or financial irregularity.	James Flannery, Counter-Fraud Manager
KCC is part of the Kent Intelligence Network (KIN), a joint project between 12 district councils, Medway Council, Kent Fire & Rescue and Kent County Council which analyses and data matches financial and personal information to allow fraudulent activity in locally administered services to be detected more proactively within Kent	Nick Scott, Operations Manager, Kent Intelligence Network / James Flannery, Counter-Fraud Manager (KCC lead)
An agreed Memorandum of Understanding is in effect with partners (District Councils, Police and Fire Service) outlining the minimum standards expected to be applied by collection authorities (District Councils) to address fraud and error relating to council tax and business rates. Additional work jointly funded to identify and investigate high risk cases based on each authority's share of the tax base.	Dave Shipton, Head of Finance (Policy, Strategy and Planning)
Fraud risk assessments have been developed by the Counter-Fraud team and are being considered by service directorates to aid awareness and facilitate appropriate mitigations.	Directorate Management Teams
Counter-fraud resources reviewed and increased for 2020-21.	Jonathan Idle, Head of Internal Audit

Action Title	**Action Owner**	**Planned Completion Date**
Review existing arrangements for segregation of duties, with focus on high risk areas e.g. commissioning/procurement	James Flannery, Counter-Fraud Manager	December 2020
Counter Fraud Manager to liaise with CMT regarding all new policies, initiatives and strategies to be assessed for the risk of fraud, bribery and corruption through engagement with the Counter Fraud Team.	James Flannery, Counter-Fraud Manager	March 2021

Risk ID	CRR0050	Risk Title	CBRNE incidents, communicable diseases and incidents with a public health implication		
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. 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.	Insufficient capacity / resource to deliver response and recovery concurrently for a prolonged period, including potential future wave(s) of Coronavirus.	Potential increased harm or loss of life if response is not effective. 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 fulfil KCC's obligations under the Civil Contingencies Act or other associated legislation.	On behalf of CMT: Andrew Scott-Clark, Director Public Health **Responsible Cabinet Member(s):** Clair Bell, Adult Social Care and Public Health	V. Likely (5) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

Control Title	**Control Owner**
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
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.	Andrew Scott-Clark, Director Public Health
Kent Resilience Forum has a Health sub-group to ensure co-ordinated health services and Public Health	Andrew Scott-Clark, Director

England planning and response is in place	Public Health
DPH now has oversight of the delivery of immunisation and vaccination programmes in Kent through the Health Protection Committee DPH has regular teleconferences with the local Public Health England office on the communication of infection control issues DPH or consultant attends newly formed Kent and Medway infection control committee	Andrew Scott-Clark, Director Public Health
Utilising data sets from Public Health England to give a picture of Covid-19 across Kent	Andrew Scott-Clark, Director Public Health
Multiple governance – e.g. Health Protection Board feeds into KRF Health and Care cell.	Andrew Scott-Clark, Director Public Health (KCC lead)
There is coverage across Kent for Covid-19 testing, with regional and/or mobile testing sites.	Andrew Scott-Clark, Director Public Health
Kent Resilience Forum Local Outbreak Control Plan published, building on existing health protection plans already in place between Kent County Council, Medway Council, Public Health England - South East, the 12 Kent District and Borough Council Environmental Health Teams, the Strategic Coordinating Group of the Kent Resilience Forum, Kent and Medway Clinical Commissioning Group and other key partners.	Andrew Scott-Clark, Director Public Health
“Protect Kent and Medway, Play your Part” media campaign	Andrew Scott-Clark, Director Public Health (KCC lead)
Kent Local Tracing Partnership, supporting Government Test and Trace scheme.	Andrew Scott-Clark, Director Public Health / Christina Starte, Head of Kent Communications

Action Title	**Action Owner**	**Planned Completion Date**
Support mass testing and vaccination rollout.	Andrew Scott-Clark, Director Public Health	March 2021

Risk ID **CRR0051** **Risk Title** **Maintaining or Improving workforce health, wellbeing and productivity throughout Coronavirus response and recovery**

Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
The Coronavirus pandemic has required the council's workforce to substantially adapt the way it operates and delivers services at short notice. This brings with it opportunities to accelerate programmes of change, improve productivity, wellbeing and promote our employer brand, but also, in the short term at least, risks that require close monitoring and management. Staff across the organisation continue to work under intense operational pressures, with some still balancing caring / childcare responsibilities while working from home.	Lack of managerial capacity and / or capability to deliver in new environment Staff mental and physical fatigue due to prolonged period of response and recovery, while adapting to a new working environment. Lack of depth / resilience of key personnel or teams. Insufficient capacity should future wave of pandemic occur.	Increased absence levels Impact on productivity (could be positive or negative)	Corporate Management Team **Responsible Cabinet Member(s):** Shellina Prendergast, Communications, Engagement and People	Possible (4) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Comprehensive resources and tools available for staff to access, including Support Line counselling services, i-resilience tool, mindfulness and wellbeing sessions, tailored to staff groups as appropriate.	Amanda Beer, Corporate Director, People and Communications

Intranet site contains dedicated Covid-19 area, with latest advice and guidance – including staff FAQs, Keeping Well, Comfort and Safety and Remote Working	Diane Trollope, Service Manager, OD and Engagement
Working and Wellbeing Survey Comprehensive Covid-19 work and wellbeing staff survey conducted, to build understanding of current picture and inform future planning and action.	Diane Trollope, Service Manager, OD and Engagement
Health & Safety team support for services, including updated Covid-19 related advice and guidance e.g. with Task Safety Analysis and supporting use of premises safely during response and recovery.	Flavio Walker, Head of Health & Safety
Regular engagement with recognised trades unions	Paul Royel, Head of HR and OD
Additional guidance produced for staff on Display Screen Equipment self-assessments when working from home on a semi-permanent basis.	Flavio Walker, Head of Health and Safety
Promoting even more regular communications between managers and their teams while working remotely via 'Good Conversations' tools etc.	Diane Trollope, Service Manager, OD and Engagement
KCC's Organisation Design Principles refreshed	Paul Royel, Head of HR and OD
Refocus on medium-term Organisation Development Plan	Diane Trollope, Service Manager, OD and Engagement

Action Title	**Action Owner**	**Planned Completion Date**
Utilising feedback from the second staff survey, engagement with managers across the organisation to explore solutions and devise next steps	Diane Trollope, Service Manager, OD and Engagement	December 2020
KCC's values, behaviours and culture embedded by managers, linked to KCC Strategic Reset programme.	Diane Trollope, Service Manager, OD and Engagement	March 2021

From:	Peter Oakford, Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services Zena Cooke, Corporate Director of Finance
To:	Governance and Audit Committee – 21 January 2021
Subject:	Treasury management 6 month review 2020-21
Classification:	Unrestricted
Future Pathway of report	County Council

Summary:

This report provides a review of Treasury Management Activity 2020-21 to date

Recommendation:

Members are asked to endorse this report and recommend that it is submitted to Council.

FOR DECISION

1. Introduction

1.1 This report covers Treasury Management activity for the 6 months to 30 September 2020 and developments in the period since up to the date of this report.

1.2 If agreed by members this report will go on to Council.

1.3 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report therefore ensures this council is embracing Best Practice in accordance with CIPFA's recommendations.

1.4 The Council's Treasury Management Strategy for 2020-21 was approved by full Council on 13 February 2020.

1.5 The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.

2. Governance

2.1 The Corporate Director Finance is responsible for the Council's treasury management operations and day to day responsibility is delegated to the Head of Finance (Policy, Planning & Strategy) / Head of Finance (Operations) and Treasury and Investments Manager. The detailed responsibilities are set out in the Council's Treasury Management Practices.

2.2 Council will agree the Treasury Management Strategy and receives annual and half yearly reports on treasury management activity. Governance and Audit Committee receives annual and half-yearly reports and makes recommendations to County Council. It also receives quarterly updates. The Treasury and Investments Manager produces a monthly report for members of the Treasury Management Advisory Group.

3. External context

3.1 **Economic background:** The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the containment of the transmission of the virus while supporting their economies. Throughout the period efforts to reach an agreement between the UK and EU on a trade deal were in the headlines. Agreement was finally reached on a post Brexit deal on 24 December which was passed into UK law on 30 December.

3.2 The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers.

3.3 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, as well as grants and loans to businesses.

3.4 Having contracted by 18.8% in Q2 2020 (Apr-Jun) GDP grew again in Q3 (Jul – Sep) by 16.0% due to the easing of lockdown restrictions throughout the summer. However it is unlikely that this growth will continue into Q4 as these restrictions were reinstated. According to the Office for National Statistics, the annual growth rate was down to -8.6%. After falling dramatically in Q2 construction, services and production output all rose during Q3.

3.5 The headline rate of UK Consumer Price Inflation (CPI) fell to 0.3% year/year in November, further below the Bank of England's 2% target. This was driven by falling prices for clothing as well as food and non-alcoholic beverages. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.6% y/y.

3.6 In the three months to October, labour market data showed the unemployment rate increased to 4.9% while wages grew by 2.7% for total pay in nominal terms (2.8% regular pay) and was up 1.9% in real terms (2.1% regular pay). The extended Coronavirus Job Retention Scheme and new Job Scheme will mitigate the impact of weaker economic activity on the labour market however the unemployment rate is expected to peak at around 8% in Q2 2021.

3.7 The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

3.8 Equity markets continued their recovery, with the Dow Jones climbing above its pre-crisis peak, being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up most of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

3.9 Ultra-low interest rates and the flight to quality continued, keeping gilt yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield fell during the period June – December to -0.010% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.28% over the same period. 1-month, 3-month and 12-month bid rates remained low ending the period at 0.01%, 0.01% and 0.10% respectively over the period.

4. Local context

4.1 On 31 March 2020 the Council had £381.4m of investments arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the capital financing requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are shown in the following table.

	31.3.20 Actual £m
Loans CFR	1,039.8
External borrowing	-883.8
Internal borrowing	**155.9**
Less: Usable reserves	-393.0
Less: Working capital	-144.3
Net investments	**381.4**

4.2 Lower official interest rates have reduced the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

4.3 The treasury management position on 30 November 2020 and the change over the eight months is shown in the following table.

	31.3.20 Balance £m	**Movement £m**	**30.11.20 Balance £m**	**30.11.20 Rate %**
Long-term borrowing	883.8	-6.8	877.0	4.60
Total borrowing	**883.8**	**-6.8**	**877.0**	**4.60**
Long-term investments	157.3	+10.6	167.9	4.10
Short-term investments	137.4	+48.6	186.0	0.40
Cash and cash equivalents	86.7	+36.4	123.1	0.04
Total investments	**381.4**	**+95.6**	**477.0**	**1.51**
Net borrowing	**502.4**	**-102.4**	**400.0**	

5. Borrowing update

5.1 The Chancellor's March 2020 Budget statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction.

5.2 Kent submitted a response broadly supportive of the proposed changes and on 25 November HMT published the details of new PWLB lending terms as well as their response to the consultation. The main points to note are:

- A reduction of 1% in all Standard Rate and Certainty Rate PWLB loans from 26 November 2020.

- The PWLB will not lend to an authority that plans to buy investment assets primarily for yield anywhere in their capital plans.

5.3 The reduction in the lending rate is good news and HMT's response is broadly in agreement with our response to the consultation and our policy on borrowing.

6. Borrowing Strategy during the period

6.1 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.

6.1 In keeping with these objectives no new borrowing was undertaken and £6.8m of existing loans were allowed to mature without replacement.

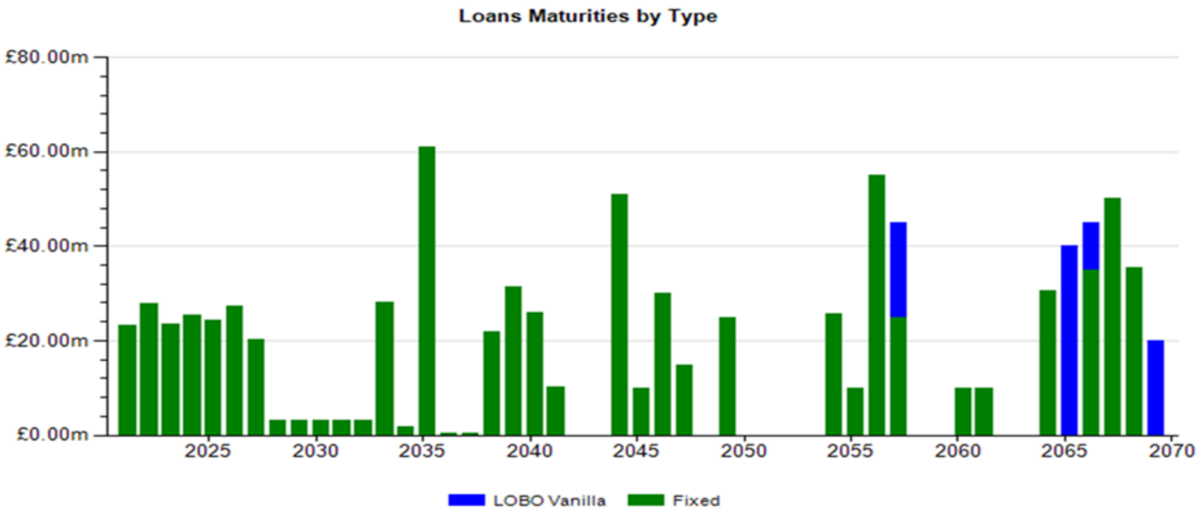
6.2 With short-term interest rates remaining much lower than long-term rates, the Council has considered it to be more cost effective in the near term to use internal resources or has borrowed short term loans instead. The Council's strategy has enabled it to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

6.3 The Council continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

6.4 The Council's borrowing activity in the 8 months to 30 November is as follows. On 30 November the Council had total external debt of £877m, a reduction of £6.8m from the end of March.

	31/03/2020	2020-21	30/11/2020	30/11/2020	30/11/2020
	Balance	**Movement**	**Balance**	**Weighted average rate**	**Weighted average maturity**
	£m	**£m**	**£m**	**%**	**years**
Public Works Loan Board	473.28	-2.34	470.94	4.99	15.59
Banks (LOBO)	90.00	0.00	90.00	4.15	43.21
Banks (Fixed Term)	291.80	0.00	291.80	4.40	37.84
Streetlighting project	28.75	-4.44	24.31	1.21	9.86
Total Borrowing	**883.83**	**-6.77**	**877.06**	**4.60**	**25.67**

6.5 The maturity profile of the Council's outstanding debt is as follows:



6.6 The following table shows the maturity profile of our debt in 5 year tranches.

Loan Principal Maturity Period	Total Loan Principal Maturing	Balance of Loan Principal Outstanding
Balance 30/11/2020		£877,056,074
Maturity 0 - 5 years	£102,937,569	£774,118,505
Maturity 5 - 10 years	£77,140,446	£696,978,059
Maturity 10 - 15 years	£38,700,173	£658,277,886
Maturity 15 - 20 years	£114,668,374	£543,609,512
Maturity 20 - 25 years	£87,009,512	£456,600,000
Maturity 25 - 30 years	£79,800,000	£376,800,000

Maturity 30 - 35 years	£35,700,000	£341,100,000
Maturity 35 - 40 years	£100,000,000	£241,100,000
Maturity 40 - 45 years	£50,600,000	£190,500,000
Maturity 45 - 50 years	£190,500,000	£0
Total	**£877,056,074**	

7. Treasury investment activity

7.1 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the period the Council's investment balance ranged between £296m and £530m due to timing differences. The investment position is shown below.

7.2 In March, May, August and November the Council received total additional central government funding of £95m in relation to COVID-19 challenges. This was temporarily invested in short-dated, liquid instruments such as call accounts and money market funds. Most of these monies had been disbursed by the end of November.

7.3 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.

7.4 In the light of the pandemic crisis and the likelihood of unexpected calls on cash flow the council holds more cash in money market funds as well as in bank call accounts which have same day availability. This liquid cash was diversified over several counterparties and money market funds to manage both credit and liquidity risks.

7.5 On 30 November the Council had lent £66m to other local authorities and we are aware that some concern has been expressed about these loans. We do not have explicit information about how individual applicants plan to apply the funds they borrow however each request to borrow or to renew an existing loan is assessed in terms of our own cashflow requirements and within our effective lending policies and procedures. We are also mindful of the perceived financial and reputational risks of this lending.

7.6 During the 8 months the Council also made loans totalling £3.7m to the no use empty loans programme achieving a return of 1.5% which is available to fund general services.

7.7. The Council's investments during the 8 months to the end of November are summarised in the table below and a detailed schedule of investments as at 30 November is in Appendix 1 which is circulated to members of the Treasury Management Advisory Group with the monthly Treasury Management report.

	31/03/2020	2020-21	30/11/2020	30/11/2020	30/11/2020
	Balance	**Movement**	**Balance**	**Income rate of return**	**Average Credit Rating**
	£m	**£m**	**£m**	**%**	
Bank Call Accounts	30.0	+15.5	45.5	0.05	A+
Money Market Funds	56.7	+20.9	77.6	0.03	AA-
Local Authorities	50.0	+16.0	66.0	0.21	AA-
Covered Bonds	84.9	-5.1	79.8	0.65	AAA
DMO Deposits (DMADF)	0.00	+34.4	34.4	0.01	AA-
Icelandic Recoveries o/s	0.4	-0.4	0.0		
No Use Empty Loans		+3.7	3.7	1.50	
Equity	2.1	0.0	2.1		
Internally managed cash	**224.1**	**+85.0**	**309.1**	**0.22**	AA-
Strategic Pooled Funds	**157.3**	**+10.6**	**167.9**	**4.10**	
Total	**381.4**	**+95.6**	**477.0**	**1.51**	

8. Externally managed investments

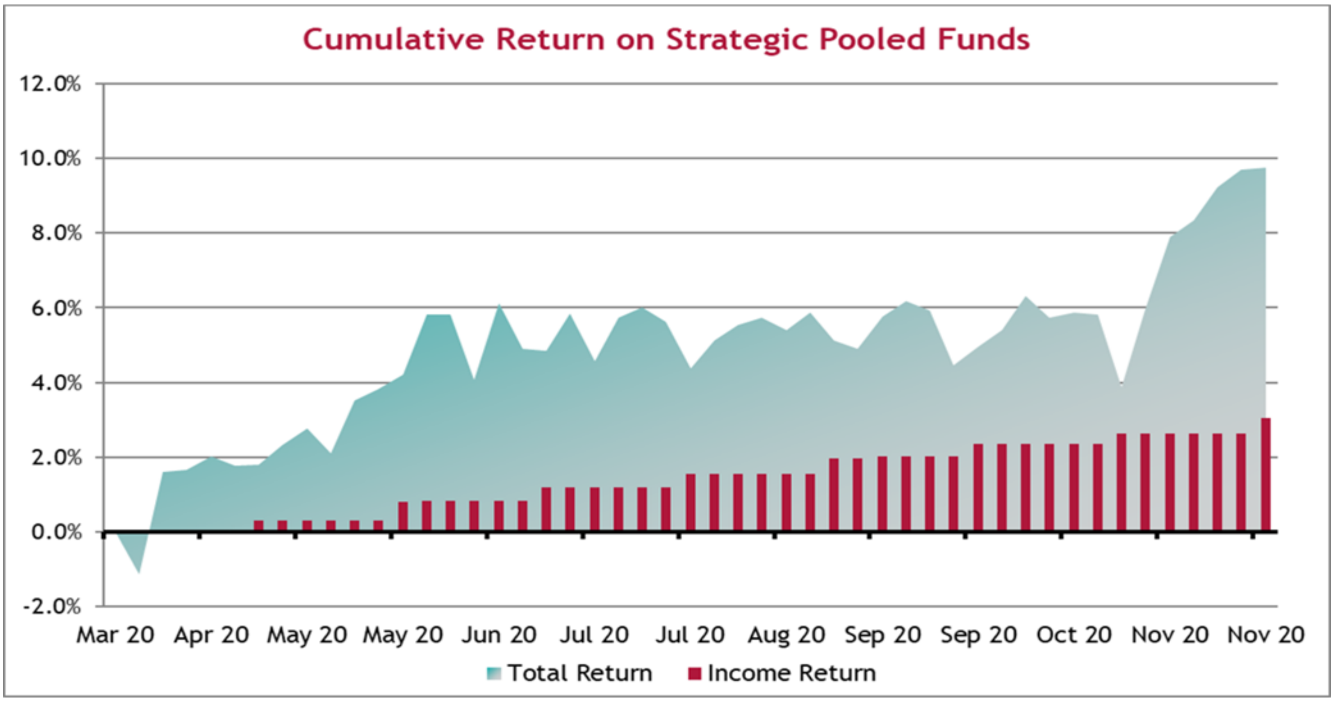
8.1 The Council is invested in equity, multi-asset and property funds. Since March 2020 financial markets have recovered with our holdings increasing in value to £167.9m at the end of November, a gain of £10.6m (6.73%).

8.2 All the equity and multi asset funds show gains. The Schroder Income Maximiser Fund has a value approach and is focussed on FTSE100 investments which saw significant falls in capital values earlier in 2020. Since the end of September these stocks have gained in value and the fund has continued to pay significant dividends.

8.3 The CCLA LAMIT Property Fund continues to lag its 31 March value reflecting the ongoing challenges in real estate. Similar to many other property funds, dealing (i.e. buying or selling units) in the fund was suspended by the fund in March 2020 as valuers could not be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020 and at the same time there was a change to redemption terms for the fund with investors being required to give at least 90 calendar days' notice for redemptions.

8.4 During the 8 month period, we achieved an income return of 3.04% as funds continued to pay dividends albeit at a lower level than before Covid. The following table shows the return for the 8 month period and the chart shows how the funds have fluctuated in value over this period, and income received.

Investment Fund	31/03/2020	2020-21	30/11/2020	30/11/2020	
	Market Value	Movement	Market Value	8 months return	
				Income	Total
	£m	£m	£m	%	%
Aegon (Kames) Diversified Monthly Income Fund	16.9	2.6	19.5	3.29	18.52
CCLA - Diversified Income Fund	4.6	0.4	5.0	2.00	10.72
CCLA – LAMIT Property Fund	57.9	-1.3	55.6	2.71	-1.27
Fidelity Global Multi Asset Income Fund	23.7	1.4	25.1	3.20	8.91
Investec Diversified Income Fund	9.2	0.8	10.0	2.69	11.64
M&G Global Dividend Fund	8.6	3.0	11.6	1.83	37.42
Pyrford Global Total Return Sterling Fund	4.7	0.3	5.0	1.32	6.55
Schroder Income Maximiser Fund	15.8	1.4	17.2	6.12	15.06
Threadneedle Global Equity Income Fund	8.4	1.7	10.1	2.80	22.08
Threadneedle UK Equity Income Fund	7.6	1.4	9.0	1.79	20.34
Total Externally Managed Investments	**157.3**	**10.6**	**167.9**	**3.04**	**9.77**



8.5 Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.

8.6 Strategic pooled fund investments are made in the knowledge that capital values will fluctuate however the Council is invested in these funds for the long term and with the confidence that over a three to five year period total returns will exceed cash interest rates.

9. Investment benchmarking at 30 September 2020

9.1 The Council's treasury advisor, Arlingclose, monitors the risk and return of some 130 local authority investment portfolios. The metrics over the 6 months to 30 September 2020 extracted from their quarterly investment benchmarking, per the table below, show that the risk within the Kent internally managed funds has been consistent throughout the 6 month period while being lower than that of other local authorities. The income return has fallen reflecting reduced rates payable on our cash investments.

Internally managed investments	Credit Score	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days)	Rate of Return %
Kent - 31.03.2020	3.02	AA	39	349	2.42
Kent - 30.09.2020	**3.11**	**AA**	**44**	**259**	**0.33**
Similar LAs	3.87	AA-	49	991	0.57
All LAs	4.16	AA-	64	18	0.27

9.2 The following table shows that overall KCC's investments in strategic pooled funds are achieving a strong income return compared with that of other local authorities. The total return does not take account of the improvement in the financial markets in the final 3 months of 2020.

	Rate of Return – Income only %	Total Rate of Return %
Strategic Funds at 30.09.2020		
Kent	**4.06**	**-6.83**
Similar LAs	3.61	-4.73
All LAs	3.45	-3.92
Total Investments at 30.09.2020		
Kent	**1.79**	**-2.48**
Similar LAs	1.11	-0.37
All LAs	0.90	-0.46

10. Actual and forecast outturn

10.1 Over the 8 months to end November the Council's strategic investments generated an average total return of 9.77%, comprising a 3.04% income return which is used to support services in year, and 6.73% of unrealised capital gains.

10.2 Bank interest rates have moved closer to zero and yields on some short-dated government bonds have turned negative so the returns on our cash deposits have fallen and are expected to remain close to zero for the foreseeable future.

10.3 Our view is that during 2020-21 income from the pooled funds will be lower by between 20% and 50% compared to 2019-20 however still higher than the returns available on cash investments. We are invested for income and while we are seeing falls in dividends paid these funds continue to pay a higher return than our cash investments

10.4 The forecast average rate of debt interest payable in 2020-21 is 4.59%, based on an average debt portfolio of £879.3m.

11. Compliance

11.1 The Corporate Director of Finance reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

12. Treasury Management Indicators

12.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

12.1 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Actual 30/09/2020	Target
Portfolio average credit rating	AA	AA

12.2 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Actual 30/09/2020	Target
Total cash available within 3 months	£140m	£110m

12.3 **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Actual 30/09/2020**	**Upper Limit**
One-year revenue impact of a 1% rise in interest rates	-£200k	£10m
One-year revenue impact of a 1% fall in interest rates	-£900k	-£10m

12.4 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

	Actual 30/09/2020	**Upper limit**	**Lower limit**
Under 12 months	3.25%	100%	0%
12 months and within 5 years	8.59%	50%	0%
5 years and within 10 years	6.66%	50%	0%
10 years and within 20 years	20.84%	50%	0%
20 years and within 40 years	33.59%	50%	0%
40 years and longer	27.07%	50%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

12.5 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	Actual	**Limit**	**Limit**	**Limit**
Price risk indicator	**30/09/2020**	**2020/21**	**2021/22**	**2022/23**
Principal invested beyond year end	£256m	£300m	£300m	£300m

13. Recommendation

Members are asked to endorse this report and recommend that it is submitted to Council.

Alison Mings
Acting Business Partner – Kent Pension Fund Ext: 03000 416488

Appendix 1

Investments as at 30 November 2020

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount £	Interest Rate	End Date
Fixed Deposits	Conwy County Borough Council	5,000,000	0.02%	31/12/20
Fixed Deposits	Conwy County Borough Council	3,000,000	0.30%	31/12/20
Fixed Deposits	Conwy County Borough Council	3,000,000	0.30%	21/12/20
Fixed Deposits	Thurrock Borough Council	10,000,000	0.26%	04/01/21
Fixed Deposits	Thurrock Borough Council	10,000,000	0.35%	04/05/21
Fixed Deposits	Cornwall Council	10,000,000	0.05%	03/12/20
Fixed Deposits	Cheltenham Borough Council	5,000,000	0.12%	17/05/21
Fixed Deposits	London Borough of Waltham Forest	10,000,000	0.22%	04/05/21
Fixed Deposits	Royal Borough of Windsor and Maidenhead	5,000,000	0.03%	19/01/21
Fixed Deposits	Woking Borough Council	5,000,000	0.30%	15/12/20
Total Local Authority Deposits		**66,000,000**		
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	6,400,000	0.01%	07/01/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	25,150,000	0.01%	25/01/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	2,850,000	0.01%	25/01/21
Total DMADF deposits		**34,400,000**		
Call Account	National Westminster Bank plc	14,510,000	0.01%	
Call Account	Santander UK plc	15,000,000	0.12%	
Call Account	Lloyds Bank plc	15,000,000	0.01%	
Total Bank Call Accounts		**44,510,000**		
No Use Empty Loans		**3,993,000**	1.5%	
Registered Provider	**£10m loan facility – non utilisation fee**		0.40%	31/03/23
Money Market Funds	Federated Short-term Sterling Prime Fund GBP KCC	9,984,672	0.50%	
Money Market Funds	SSgA GBP Liquidity Fund (Stable NAV)	2,071	0.01%	
Money Market Funds	HSBC Sterling Liquidity Fund	14,970,441	0.04%	
Money Market Funds	LGIM Sterling Liquidity Fund 4 KCC	2,651,588	0.01%	
Money Market Funds	Insight Liquidity Funds PLC	4,016	0.01%	
Money Market Funds	Aberdeen Liquidity Fund (Lux) KCC	19,998,802	0.42%	
Money Market Funds	Northern Trust Sterling Cash Fund	131	0.01%	
Money Market Funds	Aviva Investors Sterling Liquidity Fund 3 GBP Inc	19,990,624	0.06%	
Money Market Funds	Deutsche Managed Sterling Platinum	9,984,898	0.02%	
Total Money Market Funds		**77,587,242**		
Equity and Loan Notes	Kent PFI (Holdings) Ltd	**2,325,225**		n/a

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal £	Coupon Rate	Maturity Date
Fixed Rate Covered Bond	Bank of Scotland	4,600,813	1.71%	20/12/2024
Fixed Rate Covered Bond	National Australia Bank	4,989,355	1.35%	10/11/2021
Fixed Rate Covered Bond	Leeds Building Society	4,204,166	1.29%	17/04/2023
Fixed Rate Covered Bond	Santander UK	3,133,306	0.65%	14/04/2021
Fixed Rate Covered Bond	Bank of Nova Scotia	4,996,900	0.88%	14/09/2021
Fixed Rate Covered Bond	National Australia Bank	3,000,636	1.10%	10/11/2021
Floating Rate Covered Bond	TSB Bank	2,502,728	0.90%	15/02/2024
Floating Rate Covered Bond	Lloyds	2,501,826	0.35%	27/03/2023
Floating Rate Covered Bond	Lloyds	2,502,437	0.34%	27/03/2023
Floating Rate Covered Bond	Nationwide Building Society	3,997,293	0.78%	10/01/2024
Floating Rate Covered Bond	Lloyds	4,500,000	0.66%	14/01/2022
Floating Rate Covered Bond	Australia and New Zealand Banking group	3,000,000	0.75%	24/01/2022
Floating Rate Covered Bond	Santander UK	2,002,192	0.76%	12/02/2024
Floating Rate Covered Bond	Nationwide Building Society	4,503,014	0.90%	12/04/2023
Floating Rate Covered Bond	Bank of Montreal	5,003,348	0.92%	17/04/2023
Floating Rate Covered Bond	Santander UK	3,750,506	0.88%	13/04/2021
Floating Rate Covered Bond	Lloyds	5,004,304	0.35%	27/03/2023
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce	5,015,206	0.85%	10/01/2022
Floating Rate Covered Bond	Santander UK	5,001,735	0.49%	16/11/2022
Floating Rate Covered Bond	Nationwide Building Society	5,584,019	0.88%	12/04/2023
Total Bonds		**79,793,786**		

Total Internally managed investments	**£ 308,609,253**

2. Externally Managed Investments

Investment Fund	Book Cost	Market Value at 30 November 2020	8 months return to 30 November 2020	
	£	£	Income	Total
Aegon (Kames) Diversified Monthly Income Fund	20,000,000	19,475,706	3.29%	18.52%
CCLA - Diversified Income Fund	5,000,000	4,967,884	2.00%	10.72%
CCLA – LAMIT Property Fund	60,000,000	55,572,247	2.71%	-1.27%
Fidelity Global Multi Asset Income Fund	25,038,637	25,056,025	3.20%	8.91%
Investec Diversified Income	10,000,000	10,021,671	2.69%	11.64%
M&G Global Dividend Fund	10,000,000	11,630,235	1.83%	37.42%
Pyrford Global Total Return Sterling Fund	5,000,000	4,959,357	1.32%	6.55%
Schroder Income Maximiser Fund	25,000,000	17,178,866	6.12%	15.06%

Threadneedle Global Equity Income Fund	10,000,000	10,068,594	2.80%	22.08%
Threadneedle UK Equity Income Fund	10,000,000	8,995,046	1.79%	20.34%
Total External Investments	**180,038,637**	**167,925,632**	**3.04%**	**9.77%**

3. Total Investments

Total Investments	**£476,534,886**

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To: Governance & Audit Committee

From: Mike Hill, Cabinet Member, Community and Regulatory Services
Barbara Cooper, Corporate Director, Growth, Environment & Transport

Date: 13th January 2021

Subject: Report on use of covert investigative techniques surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2019 – 31 March 2020

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) and Investigatory Powers Act (IPA) during the 2019/20 business year.

Recommendations Members are asked to note for assurance the use of covert investigative techniques during the period and endorse the policy in relation to the use of covert investigative techniques.

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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 3rd October 2019.

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 communications data – Local authorities can have 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 or social media account. 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 before undertaking the activity. This decision is logged in detail, with the authorising 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), in relation to surveillance and CHIS, the officer 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 Investigatory Powers Commissioner (IPC). For telecommunications authorisations KCC uses the services of the National Anti-Fraud Network (NAFN) to manage applications and keep our records. Authorisation for communications data requests is now not carried out by KCC managers but, by law, is undertaken by the Office for Communications Data Authorisations. KCC managers are required only to confirm that officers are seeking authorisation in the course of their duties. Any inspection of this type of approval carried out by IPC is conducted at the offices of NAFN.

3 Covert authorisations carried out between 1 April 2019 – 31 March 2020

Total number of authorisations granted for 2019/20 (figure for 2018/19 in brackets):

Surveillance – 4 (5)

Covert human intelligence source (CHIS) – 0 (1)

Access to telecommunications data – 7 (3)

4. Purposes for which covert techniques used

Sales of age restricted goods to children

3 surveillance authorisations were granted for the purpose of investigating allegations of sales of age restricted goods, including alcohol, tobacco and vape liquids to children. Seven investigations resulted from sales during this operation all of which were concluded with formal written warnings.

Fly tipping/theft of waste

1 surveillance authorisation was granted for the purpose of investigating an allegation of fly tipping/theft of waste from a KCC transfer station. Investigation is ongoing.

Fraud/fair trading matters

7 communications data requests were submitted in relation to fraud or fair-trading investigations including investigations into the supply of solar panels, of used vehicles and of internet television streaming devices. Three complex cases are currently in the legal and trial process. Trials have been delayed due to Covid restrictions. One case is still under investigation.

5. 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.

6. KCC Policy

The statutory codes of practice which cover public authority use of covert investigative techniques require that the elected members of a local authority should review the authority’s use of these techniques and set policy at least once per year.

Appendix 1 to this report is KCC’s policy.

No changes have been made to this policy since it was last brought to this committee.

7. Recommendations

Members are asked to note for assurance the use of covert investigative techniques during the period and endorse the policy in relation to the use of covert investigative techniques.

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Kent County Council

Policy in relation to the use of covert investigative techniques

Contents

1. Introduction

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, The Investigatory Powers Act 2016 and the Home Office's Codes of Practice 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

http://www.legislation.gov.uk/ukpga/2016/25/contents

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742042/20180802_CHIS_code_.pdf

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/822817/Communications_Data_Code_of_Practice.pdf

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. The Protection of Freedoms Act and Investigatory Powers Act have refined the system introduced by RIPA.

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 or individual 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 and access communications data when investigating such crimes. 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.

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 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 Investigatory Powers Act (IPA) also requires a 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, for example, telephone or internet subscriber, billing and account information.

1.7 In addition, the IPA put in place the Investigatory Powers Commissioner whose duties include inspection 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 RIPA or the IPA without prior authorisation in the legally prescribed form.

2.2 The Corporate Director of Growth, Environment and Transport has been appointed as the overall Senior Responsible Officer (SRO) with responsibility for the use of covert techniques and, as such, has been given authority to appoint Authorising Officers for the purposes of RIPA (for surveillance and CHIS activities), a Senior Responsible Officer and “Made Aware” Officers for the purposes of the IPA (for access to communications data). The Corporate Director is a member of the corporate leadership team currently called Corporate Management Team.

2.3 The Authorising Officer will not authorise the use of surveillance techniques or CHIS 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 must believe that the surveillance or use of CHIS 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 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 an appropriate authorisation has been granted. On occasions, officers 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 will be provided on request being made to the Corporate Director 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 single 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 Corporate Director will 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), Senior Responsible Officer and “Made Aware” Officer (for the purposes of access to communications data). The Corporate Director will cause to be maintained a register of the names of such officers.

4.2 Where a 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 KCC General Counsel will 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 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 shall be undertaken by the relevant Authorising Officer to assess the need for the surveillance or CHIS 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 or CHIS activity provides access to Confidential Information or involves collateral intrusion, particular attention shall be given to the review for the need for surveillance or activity 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 ceases to have effect and the Authorising Officer considers it necessary for the authorisation 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
- (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 must cancel it if s/he is satisfied that the Directed Surveillance or the use or conduct of the CHIS 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 Corporate Director

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 Corporate Director or a person nominated by them within 5 working days of the date of the application, authorisation, notice, renewal or cancellation.

9.2 The Corporate Director shall:

(a) ensure that a register of the documents referred to in paragraph 9.1 above is kept;
(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 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 IPC 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 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 Corporate Director 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 is 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 Corporate Director 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 Corporate Director and shared with the appropriate Cabinet

Member at such intervals between the annual reports as the Corporate Director sees fit.

13.2 Every two years the KCC General Counsel will review the policy, and also contact the Corporate Directors responsible for all other units and services within Kent County Council to inform them of any changes or alterations. The communication will also seek to highlight the details of the restrictions imposed by RIPA, the IPA 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 KCC General Counsel 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.

"Communications data"*,* in relation to a telecommunications operator, telecommunications service or telecommunication system, means entity data or events data—
(a)which is (or is to be or is capable of being) held or obtained by, or on behalf of, a telecommunications operator and—
(i)is about an entity to which a telecommunications service is provided and relates to the provision of the service,
(ii)is comprised in, included as part of, attached to or logically associated with a communication (whether by the sender or otherwise) for the purposes of a telecommunication system by means of which the communication is being or may be transmitted, or
(iii)does not fall within sub-paragraph (i) or (ii) but does relate to the use of a telecommunications service or a telecommunication system,
(b)which is available directly from a telecommunication system and falls within sub-paragraph (ii) of paragraph (a), or
(c)which—
(i)is (or is to be or is capable of being) held or obtained by, or on behalf of, a telecommunications operator,
(ii)is about the architecture of a telecommunication system, and
(iii)is not about a specific person,
but does not include any content of a communication or anything which, in the absence of subsection (6)(b), would be content of a communication.

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.

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By: David Brazier, Chairman of Governance and Audit Committee
Ben Watts, General Counsel (Monitoring Officer)

To: Governance and Audit Committee – January 21st 2021

Subject: The Future Role of the Governance and Audit Committee

Classification: Unrestricted

Summary: This report provides an overview of the governance challenges facing the local government sector generally and Kent County Council specifically.

It seeks Member views on developing the future role of the Governance and Audit Committee to meet the current and future challenges.

FOR DECISION

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1. In October 2020, Members of Governance and Audit Committee considered and approved the Annual Governance Statement. Whilst the statement specifically considered the financial year 2019/20, it recognised the exceptional operating environment and recognised the need for the organisation to continually and fundamentally review governance.

2. Through the AGS process, activity was identified by the Head of Paid Service, General Counsel and Head of Internal Audit which is reflected in the identified actions within the statement itself and the audit of the process. These reflect the importance of continually reviewing and refreshing the arrangements that are in place to govern the Council.

3. At the October 2020 meeting, Members were once again advised of the key strategic role played by the Governance and Audit Committee and the central importance of the Committee's work to ensuring Kent's residents are best served.

4. Paragraph 17.3 of the Constitution sets out that the purpose of this Committee is to:

   a. ensure the Council's financial affairs are properly and efficiently conducted and;
   b. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

5. Given the importance of the Committee and the significant changes in the Council's operation, it is timely to review the future role of the Committee.

6. In November 2020, the Chairman arranged a meeting with the Independent Member of the Governance and Audit Committee along with the officers who act as professional advisors to the Committee.

7. The meeting discussed how to further develop the effectiveness of the Governance and Audit Committee. Specifically, the Independent Member and the officers were asked to consider their experience of the important financial and governance controls in other Councils and organisations that they had worked.

8. Officers raised the then recently published report by Grant Thornton into the challenges faced by Croydon Council. Whilst there are a great many differences between the two Councils, there are undoubtedly learning opportunities for the Council. The full report is attached at Appendix 1 to this paper.

9. In addition to learning, the recommendations and findings from the report provide a useful starting point for the review of the future role of the Governance and Audit Committee. The Committee is ideally placed to have a strategic view and the purpose set out in the Constitution summarises the unique role the Committee can play and it is timely to review arrangements more fundamentally.

10. It is also necessary to reflect on the training required to support a Governance and Audit Committee in the future. This includes training available through the Local Government Association on Treasury Management. Importantly, it also requires the expertise and commitment of Members who are most suited to serving on Governance and Audit Committee.

11. It is recommended that proposals around the future role of the Committee are brought forward to the April meeting to address:

    a. The key findings and identified actions from the Annual Governance Statement
    b. The current and future likely operating environment of the Council specifically and local government generally
    c. The learning arising from the external auditor report into Croydon Council and other similar reports in recent years
    d. Resetting the expectations of the role of the Governance and Audit Committee as a Corporate Governance Committee and key enabler of positive change
    e. The role, expertise, training and expectations of Members of the Governance and Audit Committee.
    f. The role of the Governance and Audit Committee with other Members of the Council.
    g. The role and expectations of the Committee regarding the key statutory advisors to the Committee.

12. This is a significant undertaking to turn around by the April meeting given existing commitments and challenges but an important one. To assist and facilitate the work and discussion required, it is recommended that officers are tasked with a number of activities set out in the recommendations to expedite matters. This will also ensure that Members of the Committee play a key role in discussing,

challenging and defining the future role whilst receiving the advice needed to do so.

13. These important discussions should be transparently reported to the Committee in April 2021, alongside recommendations for change. It is also recommended that the following activities are rolled into this review and also reported back to transparently in the open session of the April meeting:

    a. The Training Programme for Governance and Audit Members
    b. Annual Review of the Council's Code of Corporate Governance
    c. Annual Review of the Committee's Effectiveness
    d. Review of the Terms of Reference for the Governance and Audit Committee

Recommendation:
The Committee is invited to discuss the paper and:

1. AGREE that the Monitoring Officer shall arrange a workshop to cover the learning arising from the external auditor report into Croydon Council and other similar reports in recent years by no later than 10th February 2021.

2. AGREE that the Chairman of the Committee shall instruct the Monitoring Officer and Head of Internal Audit to survey all Members of the Committee regarding their views on the issues set out at paragraph 11 of this report by no later than 26th February 2021.

3. AGREE that the Monitoring Officer, Section 151 Officer and Head of Internal Audit shall arrange a further workshop to discuss the future role of the Committee by no later than 19th March 2021.

4. AGREE that at the April meeting of the Governance and Audit Committee that the following reports shall be considered:
    a. The Future Role of the Governance and Audit Committee
    b. The Training Programme for Governance and Audit Members
    c. Annual Review of the Council's Code of Corporate Governance
    d. Annual Review of the Committee's Effectiveness
    e. Review of the Terms of Reference for the Governance and Audit Committee
    f. Annual Governance Statement – Update on Actions

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London Borough of Croydon

Report in the Public Interest concerning the Council's financial position and related governance arrangements

London Borough of Croydon

Report in the Public Interest concerning the Council's financial position and related governance arrangements

Summary

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

The London Borough of Croydon (the Council) has experienced deteriorating financial resilience for a number of years with spending pressures within both children's and adult social care and low levels of reserves which created a significant financial challenge in 2020/21. The size of the financial gap in 2020/21 has increased due to the additional financial pressures as a result of the covid-19 pandemic. The Council has reached the view that external support from the Ministry of Housing, Communities and Local Government (MHCLG) is required and a formal request has been made to allow the Council to treat some of the day to day expenditure as capital.

As the Council's external auditor, we identified concerns relating to the financial sustainability criteria of the value for money conclusion in 2017/18 and raised recommendations for improvements. The financial position deteriorated during 2018/19 and we issued an adverse qualification of our value for money conclusion. Our recommendations in 2017/18 and 2018/19 were not implemented and the financial position continued to deteriorate during 2019/20. The spending pressures identified in 2017/18 continued into 2020/21 and we wrote to the former Chief Executive in April 2020 setting out action we considered to be vital. At the end of August 2020, the Council had failed to produce a formal action plan or to respond to our audit recommendations effectively. A formal written response was received on 28 September 2020.

The Council has had an unsustainably low level of reserves for some time. The Council has had the lowest level of all London Boroughs of General Fund and Earmarked General Fund Reserves as a percentage of net service revenue expenditure and the reported level of reserves has continued to decrease in each of the previous three years. We reported the risk with low level of reserves to the Council and external parties such as the CIPFA Financial Resilience Index and the Institute for Fiscal Studies highlighted the risk. The Council has failed to adequately address the low level of reserves.

In the past three years, the Council has reported significant service overspends of £39.2 million within children's and adult social care. The Council used the flexibility granted by Government to apply capital receipts to transformation schemes in both children's and adult social care. Despite applying significant amounts of transformation monies (£73 million) in the past three years the Council continues to experience overspends in both departments and planned significant growth funding in the original 2020/21 budget. There is little evidence that the transformation monies have been used to achieve the Government's intended aims of this capital receipts flexibility, namely, reducing demand, delivering savings or reducing costs. The impact of the overspends has been masked by both the accounting treatment of the Dedicated Schools Grant deficit (which we disagree with) and the use of the flexible capital receipts. The Council has failed to deliver real savings in children's and adults' social care.

The budget monitoring reports during 2019/20 showed significant overspends, which reduced following 'corporate adjustments' of £17.7 million. The reports were accepted by Members without an appropriate level of challenge to continued service overspends, continued Unaccompanied Asylum Seeker Children (UASC) overspends or the validity of adjustments made to improve the outturn position. The Council set the 2020/21 budget in March 2020 prior to the covid-19 pandemic being declared. There was insufficient challenge from Members on the financial risks in the budget, credibility of the planned level of income from third parties and deliverability of the savings plan. The Council's governance over the budget setting and monitoring has not been good enough.

In response to both the growing financial gap and our letter, the Council established a Finance Review Panel in May 2020 and retained a Financial Consultant. The Financial Consultant has reviewed budget setting, monitoring and reporting processes and identified areas for improvement. Initial progress was swift and a budget gap for 2020/21 of £65 million was identified together with £21 million of in-year savings to narrow the gap if the savings were achieved. The position was reported to Cabinet in July 2020 and subject to Scrutiny and Overview Committee call-in in August 2020. Neither meeting referred the significant fact that the budget gap exceeded the available reserves, to Full Council. In our view this was a failure of governance and showed a lack of understanding of the urgency of the financial position. In September 2020, following the departure of the former Chief Executive and progress stalling on identifying deliverable savings, the Section 151 Officer drafted, but did not formally issue, a section 114 report which was discussed with the then Leader, the Deputy Leader, the then Interim Chief Executive and Monitoring Officer who agreed to amendments to the 2020/21 General Fund Budget via Cabinet and Full Council in September 2020.

The Council has increased the level of borrowing significantly in recent years (£545 million in three years) and used the borrowing to invest in companies it established and to purchase investment properties. The strategy for investing in properties was approved at Full Council using guillotine procedures meaning there was insufficient time to discuss and challenge the strategy and the first purchase was made two months prior to approving the strategy. The Council's approach to borrowing and investments has exposed the Council and future generations of taxpayers to significant financial risk. There has not been appropriate governance over the significant capital spending and the strategy to finance that spending.

The Council established a number of companies including wholly owned and part owned companies. The Council's governance and oversight of the companies shows insufficient rigor and control. Despite heavy investment from the Council, the Council has not yet received any significant return.

There has been collective corporate blindness to both the seriousness of the financial position and the urgency with which actions needed to be taken. The Council commissioned a review of its governance arrangements in March 2020 which concluded that improvements were needed to the culture around decision making. We agree with this recommendation and we note that we have not seen an improvement in the culture of decision making as it relates to financial sustainability. For a number of years the Council focused on: improvements in service delivery without sufficient attention to controlling the related overspends; investing in the Place area without addressing whether the investment delivered the intended outcomes; and financial governance was focused on lobbying government for additional funding which was not supported by actions to contain spending within the funding provided which was its statutory duty. Councils are statutory entities which must follow the law. The law is very clear on the legal requirement for councils to set a balanced budget. The Council's fragile financial position and weak underlying arrangements have been ruthlessly exposed by the impact of the Covid-19 pandemic.

Had the Council implemented strong financial governance, responded promptly to our previous recommendations and built up reserves and addressed the overspends in children's and adult social care, it would have been in a stronger position to withstand the financial pressures as a result of the Covid-19 pandemic. The Council needs to urgently address the underlying pressures on service spends and build a more resilient financial position whilst also addressing the long-term financial implications of the capital spending and financing strategy together with the oversight of the Council's group companies.

Recommendations

This report makes a number of recommendations for the Council to address, with the high priority recommendations in bold.

R1. The Executive Directors need to address the underlying causes of social care overspends:

> ***R1a in children's social care and take effective action to manage both the demand and the resulting cost pressures***
>
> ***R1b in adults social care and take effective action to manage both the demand and the resulting cost pressures***

R2. The Council (including Cabinet and Scrutiny and Overview Committee) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.

R3. The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme.

R4. The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.

R5. The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.

R6. The Executive Director (Children's) needs to review the services provided to UASC and to identify options to meet their needs within the grant funding provided by the Home Office.

R7. The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.

R8. The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in year overspends.

***R9. The Council (including Cabinet and Scrutiny and Overview Committee) need to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery**.*

R10. The General Purposes and Audit Committee must challenge officers on the progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.

R11. The s151 officer needs to revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.

R12. The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.

R13. The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.

R14. The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.

R15. The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.

R16. The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.

R17. The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.

R18. The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.

R19. The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report any breaches to Members.

R20. The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.

Introduction

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

Background

The London Borough of Croydon (the Council) has experienced deteriorating financial resilience for a number of years with service overspends being met through one-off actions including the release of reserves. Ofsted assessed children's services in Croydon as inadequate in September 2017 and the Council responded with additional investment in this service area impacting further on the in-year service overspend. The low level of reserves and unresolved spending pressures meant that the Council has struggled to respond to the financial challenges created by the Covid-19 pandemic. As a result of the existing financial position and the financial pressures from the pandemic, the Council has issued an amended budget in September 2020 in an attempt to avoid a section 114 report being served, and has formally engaged with MHCLG as per the CIPFA guidance

Prior to recent events we as the Council's external auditor have expressed concerns and raised recommendations in relation to the Council's financial sustainability and it is necessary to understand the sequence of events. The key points are set out below:

<u>2017/18 value for money conclusion reporting and recommendations</u>

We presented our 2017/18 Audit Findings Report to the General Purposes and Audit Committee in July 2018. Within our Value for Money Conclusion Report we identified concerns relating to the financial sustainability criteria and made recommendations to address the continued overspends within social care, the use of flexible capital receipts to fund transformation expenditure and the low level of reserves.

Our overall conclusion was:

> *Your reserves are now at a very low position and you face a number of clear risks to your continued financial health.*
>
> *You have plans in place to take appropriate action to manage cost pressures, increase income sources and address the level of your reserves. The progress and impact of your actions are vital to enable you to deliver a balanced budget over the medium term.*
>
> *On the basis that you delivered a balanced budget in 2017/18 and can reasonably expect to do so in 2018/19, we concluded that the risk that we identified in respect of your budget position has been sufficiently mitigated and that you have proper arrangements.*

<u>2018/19 value for money conclusion reporting and recommendations</u>

We presented our 2018/19 Value for Money Conclusion to the General Purposes and Audit Committee in October 2019. We identified significant cost pressures from demand led services and specific cost pressures from Unaccompanied Asylum Seeker Children (UASC) together with the reported reserve position remaining low compared to other London Boroughs. We also reported that the overspend on the Dedicated Schools Grant (which had been excluded) should be considered within the reported reserves position as the forecast deficits in both 2019/20 and 2020/21 exceed the available general fund reserves in future years.

Our overall conclusion was:

> *On the basis of the significance of the matters we identified with your levels of reserves and the matters relating to Children's Services raised by OFSTED, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.*

Adverse qualifications of the Value for Money Conclusion are not common within the Local Government sector with only 4 being issued to top tier authorities in 2017/18 (the latest data available).

Our 2018/19 report noted that the recommendations from 2017/18 had not been implemented and we raised two further recommendations on the need to manage the Dedicated Schools Grant within existing budgets and to manage the impact of Unaccompanied Asylum Seeker Children (UASC) costs and look to seek a long-term solution.

2019/20 in-year financial position and 2020/21 budget setting

We continued to review the 2019/20 in-year financial position. The Quarter 2 outturn position (reported in November 2019) forecast an outturn deficit of £10.4 million which accounted for the majority of the existing General Fund reserve at 31 March 2019. We met with the s151 Officer (Director of Finance, Investment and Risk) and the Cabinet Member for Finance and Resources in December 2019 to discuss whether the Council had exhausted its reserve position. We received verbal representations that action was being taken to address the in-year financial position. The Quarter 3 outturn position (reported in January 2020) forecast an outturn deficit of £2.4 million, which was an improvement in the planned position of £8 million in three months. We requested an analysis of the movement between the reported in-year financial position to better understand the Council's financial position.

Based on our concerns regarding the 2019/20 forecast outturn position, we reviewed the 2020/21 budget and identified assumptions that we considered to be optimistic. Our meeting to discuss our concerns in March 2020 was delayed due to officers needing to respond to the pandemic. In early April we raised our concerns in meetings first with the s151 Officer and subsequently with the former Chief Executive, Executive Director of Resources (Monitoring Officer) and s151 Officer. It was evident that the pandemic had changed a number of the original 2020/21 budget assumptions. Based on the discussions of a worsening financial position and a very low reserve position we wrote to the former Chief Executive on 22 April 2020 setting out a number of areas where we wanted a written response.

This report sets out in more detail the areas of auditor concern identified in our letter to the former Chief Executive on 22 April 2020 and subsequent events.

Previous recommendations

As the external auditor we report our findings from our audit work to Those Charged with Governance, the General Purposes and Audit Committee. We raised matters of concern together with recommended action in 2017/18 and 2018/19 with the following recommendations.

1. Address social care overspends in the Children, Families and Education and the Health, Wellbeing and Adult departments

In 2017/18 we recommended that the Council take action to address social care overspends. The budget for both Children's and Adult Social Care included growth items each year however the overspends continued in 2018/19 and 2019/20 and the Quarter 1 report for 2020/21 shows continued pressures on these budgets.

Based on the published outturn reports the net overspends reported were

Area	2016/17 £ million	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 (Q1) £ million
Children's social care	6.4	11	9.5	8.4	16.5
Adult social care	2.2	0	1.7	8.6	30.2
Other departments	1.8	-4.2	-4.2	-13.5	15.1
Non-departmental	-10.45	-8.1	-6.7	-12	7.5
Exceptional	0	6.3	5.1	8.7	3.3
MHCLG funding re COVID					-23.5
Reported overspend	(0.05)	5.0	5.5	0.2	49.1

The challenges of demand led services with both Children's and Adult Social Care impacts across the Local Government sector and the Council is not unique in facing pressures on these budgets. The Council has included growth items in the budgets and applied transformation funding for each area and the overspends continue indicating that any action taken has not addressed either the continuing demand or the cost of meeting that demand. Although the demand pressures differ between Children's and Adult Social Care services, the Council has not demonstrated that it can take effective action to either manage the cost pressures or establish appropriate budgets within Children's and Adult Social Care services.

R1. The Executive Directors need to address the underlying causes of social care overspends:

R1a in children's social care and take effective action to manage both the demand and the resulting cost pressures

R1b in adults social care and take effective action to manage both the demand and the resulting cost pressures

2. Maintain reserves at a sustainable level

The Council has the lowest level of all London Boroughs of General Fund and Earmarked General Fund Reserves (excluding schools) as a percentage of net service revenue expenditure. The reported reserves levels have continued to decrease in recent years in part due to the overspends.

Year	General Fund £ million	Earmarked reserves £ million	Total General Fund and Earmarked Reserves £ million	Change from prior year %
2015/16	10.7	47.5	58.2	
2016/17	10.7	33.4	44.1	24% reduction
2017/18	10.4	18.2	28.6	35% reduction
2018/19	10.4	18.0	28.4	0.7% reduction
2018/19 restated*	10.4	8.8	19.2	32% reduction
2019/20 draft	7.5	9.1	16.6	13% reduction

** In 2018/19 we reported in our Audit Findings Report that the Council had not accounted for its Dedicated Schools Grant deficit correctly. The DSG deficit was £9.2 million but was treated as a debtor which we disagreed with. If the appropriate amendment had been made in 2018/19 the reported reserves position would have dropped to £19.1 million as at 31 March 2019. In the unaudited 2019/20 financial statements the Council has now made this adjustment.*

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report on the robustness of the budget estimates and the adequacy of the planned reserves when the council tax decision is being made by the Council. This forms part of the statutory advice the Section 151 officer to the Council provides together with the advice throughout the year.

The reports to Council setting the Council Tax budget did include a statement from the Section 151 officer setting out the adequacy of the planned reserves together with any concerns. The budget reports set out both the Financial Strategy target level of reserves and the Section 151 Officer's assessment of adequacy.

	2017/18	2018/19	2019/20	2020/21
Level of General Fund balances as % of net operating expenditure	3.8%	4%	3.9%	3.9%
Financial Strategy target	5%	3 – 5%	3 – 5%	3-5%

The report setting the 2018/19 budget reduced the recommended level of reserves to a range without a detailed risk assessment. The budget was approved without evidence of challenge on whether the revised level of reserves was appropriate or whether the history of delivering services within the budget or delivering savings as planned had impacted on setting the appropriate reserves range.

In our reports presented to the General Purposes and Audit Committee in 2017/18 and 2018/19 we highlighted that the Council has the lowest level of reserves of all London Boroughs and gave an adverse qualification based on low reserves in 2018/19. External parties such as the CIPFA Financial Resilience Index and the Institute for Fiscal Studies have highlighted the low level of reserves at the Council. The 2020/21 budget was approved at Cabinet and Full Council without reference to the external auditor's adverse qualification of the value for money conclusion due to the level of reserves. The Section 151 officer included a £5 million contribution to reserves in setting the 2020/21 budget despite some resistance from Members. The Council did not display sufficient understanding of their reserve position relative to the financial challenges faced.

R2. The Council (including Cabinet and Scrutiny and Overview) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.

3. Reduce reliance on use of capital receipts for transformation expenditure

The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. The Direction allowed for expenditure to be treated as capital where conditions are met. The Council must consider the Statutory Guidance issued by the Secretary of State which requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

The guidance provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

> *Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.*

Cabinet in July 2016 agreed the approach for flexibility in the use of capital receipts to support transformation where officers and members believe this to be appropriate. The strategy was presented to Cabinet in December 2017 which set the intended usage of flexible capital receipts during 2017/18.

After the strategy was presented to Cabinet in December 2017 there have been narrative references to confirm that the capital receipts would continue to be used where appropriate to fund transformation schemes in both the 2018/19 and 2019/20 budget papers presented to Cabinet and Full Council. A detailed strategy has not been presented since December 2017.

There is limited evidence of challenge over where transformation funding was being applied or whether outcomes had been achieved. For a scheme that has invested £73 million over three years it is inadequate that the schemes receiving transformation funding were not subject to reporting and challenge by Members including whether the intended outcomes had been achieved.

The intention of the transformation funding was to generate ongoing savings, reduce demand or reduce costs. After three years of transformation funding we would expect to see a reduction in the growth required in the associated budget. The three areas receiving the majority of transformation funding continue to receive additional growth funding in the 2020/21 budget. The substantial budget growth for both children's and adults' social care together with the significant transformation funding indicates that the transformation funding may have been used to meet service overspends rather than to transform the services which is not an appropriate use of transformation funding and does not comply with the Secretary of State's Direction.

Area	Transformation funding 2017/18 to 2019/20 £m	Growth in 2020/21 budget £m
Digital transformation	15	2
Children's social care	28.9	10.1
Adult social care	21.1	21.2

The Council has not shown sufficient understanding of how the transformation funding has been applied or the impact the transformation funding has had in generating ongoing savings, reducing demand or reducing costs. We will need to formally consider whether the application of capital receipts in this manner has formally breached the regulations set by Government.

R3. The Chief Executive should oversee a review of the outcomes achieved from the flexible use of capital receipts for transformation to demonstrate that the funding has been applied in accordance with the Statutory Guidance.

R4. The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.

4. Manage Dedicated Schools Grant (DSG) within existing budgets

Across London and other parts of the country there are increasing demands and pressures on the Dedicated Schools Grant (DSG) and in particular on the High Needs Block which covers children and young people with Special Education Needs. The Council has seen an increase in demand and costs in recent years and has provided additional funding in excess of the government grant to meet local needs. The specific account which the Council needs to maintain of its use of DSG has therefore fallen into deficit.

In 2018/19, the Council chose to account for the deficit amount as a debtor at the end of the financial year which we disagreed with as the Council's approach was based on the view that the Government ought to refund the excess spending rather than any evidence that this would be the case. The accounting treatment of any overspend on DSG has been subject to review with CIPFA and the Department for Education. Our current view is that any overspends against the DSG should be carried forward as a call against the schools' budget in future years and should form part of the un-earmarked general fund reserve.

From 1 April 2020 the Regulations provide local authorities with flexibility in dealing with deficits from prior funding periods when determining the individual schools budget and enables local authorities to deduct all, some or none of the historic deficit in determining schools' budgets. The Council's estimated DSG deficit exceeds the available school balances and therefore impacts on the un-earmarked general fund.

	2017/18	2018/19	2019/20
DSG deficit in year	0.9	8.3	5.3
Cumulative position	0.9	9.2	14.5

The Council has submitted a recovery plan to the Department for Education over a five-year period. MHCLG has drafted regulations to enable a statutory override for DSG deficits for three financial years from 1 April 2020. If approved the Council will have three years to recover the DSG deficit. The actions to manage expenditure within the existing budget envelope and recover the deficit and progress on delivery of the recovery plan should be reported to Members for challenge as the current deficit reduces further the unearmarked general fund reserves or will do in 2023/24 if the draft regulation is passed.

R5. The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.

5. Manage the impact of Unaccompanied Asylum Seeker Children (UASC) expenditure and look to seek a long-term solution

The Home Office building located within Croydon results in the Council being a gateway authority for Unaccompanied Asylum Seeker Children (UASC). There is a national transfer scheme for UASC however this scheme does not appear to have worked as intended as the number of UASC children that remain the Council's responsibility has increased in the past three years.

The Home Office provides funding however the Council has not been able to contain expenditure on UASC within the funding provided and therefore additional overspends have been incurred.

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 (Q1) £ million
Home Office funding received for UASC	15	19.2	16.9	
UASC costs in excess of Home Office funding – Croydon	2.9	10.6	8.7	3.3

The funding is received on the basis of an amount per child per night. The Council is not able to control the numbers of children it is responsible for. The Council, with other similarly impacted authorities, has lobbied for an increase in the rate per child. The latest rate was increased in June 2020 to £143 per child per night. The focus of the Council's effort has been on increasing the daily rate.

The daily cost of the services provided by the Council exceeds the daily rate received. There is a need for the Council to review how services can be delivered within the funding provided. The overspends from meeting UASC needs beyond the funding provided by the Home Office have contributed to the reduction in reserves.

As the number of UASC continues to increase the Council needs to consider where the capacity threshold is at which the service can no longer deliver safe care.

R6. The Executive Director (Children's) needs to review the services provided to UASC expenditure and to identify options to meet their needs within the grant funding provided by the Home Office.

R7. The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.

2019/20 outturn

The 2019/20 forecast position has been reported to the Cabinet throughout the year and this highlighted continued in-year overspends. The reduction in the forecast outturn overspend of £8 million between quarter 2 and quarter 3 is unusual and based on Cabinet minutes the explanation provided that this related to one-off initiatives was accepted without challenge. In an environment of financial pressures with low reserve levels, the Council did not display sufficient understanding of the urgency of the financial position during the financial year.

Area	Quarter 1 Forecast Variance £ million	Quarter 2 Forecast Variance £ million	Quarter 3 Forecast Variance £ million	Outturn Variance £ million
Children's, families and education	0.1	1.1	0.9	8.4
Health, Wellbeing and Adults	5	9.1	9.9	8.5
Place	0	0	-2.5	-4.8
Gateway, Strategy and Engagement	1.2	0.2	1	0.5
Resources	1	0	-4.5	-9.4
Corporate items	-7.3	-8.6	-10.6	-12.1
UASC	9.4	8.6	8.2	8.7
Total overspend	9.4	10.4	2.4	0.2

The key elements of the overspend (Children and adult social care plus UASC) total £25.6 million in 2019/20. All three areas were subject to previous auditor recommendations however insufficient action was taken to prevent the overspends continuing.

The change in the forecast overspend between quarter 2, 3 and the outturn report indicates either there were errors in the forecast or that action has been taken. The movement between reports was accepted at Cabinet without challenge. The outturn report presented to the Finance Review Panel highlighted £17.7 million of one-off corporate adjustments were made to be able to report the outturn as a £0.2 million overspend.

The one-off corporate adjustments are a matter of management judgement and as such carry a degree of risk. The presence of one-off corporate adjustments was not easily identifiable in the report to Cabinet making it more difficult for Members to challenge the validity of the one-off corporate adjustments.

We will be challenging the adjustments during the audit and the table below sets out the corporate adjustment with the initial auditor commentary.

Area	Amount £ million	Auditor Commentary
Covid-19 grant	-0.6	One off nature
Reject carry forward requests	-0.8	Routine approach to budgetary management
Release of earmarked reserves	-2.9	Routine approach to managing an overspend with auditor expectation that this should have been clearly identified in the outturn report
MRP review	-0.2	Subject to auditor challenge regarding treatment of Brick by Brick borrowing in respect of MRP
Housing benefit bad debt provision released	-7.6	Subject to auditor challenge as auditor expectation is that the bad debt provision would increase in an economic downturn
Allocation of transformation funding	-5.6	Subject to auditor challenge on whether this meets the definition of transformation funding
Total	17.7	

Our work on the auditor challenge of corporate adjustments will be completed following receipt of the draft financial statements on 16 October 2020 (these were due on 31 August 2020) and we will report our findings in the Audit Findings Report. Where the auditor challenge is not satisfied there is a risk that the reported overspend may increase with a resulting reduction in reserves.

R8. The Cabinet reports on the financial position need to improve the transparency of any remedial action taken to address in year overspends

2020/21 original budget setting

The original budget was presented to Cabinet in February 2020 and our review of the budget identified that the total amount of savings and additional income planned had doubled from the previous year to £65 million (£41 million savings with £24 million increased income). In assessing the credibility of any savings plan we consider the previous track record together with a more detailed review of the schemes.

The growth and savings identified each year are reported as part of the budget setting process. Thereafter the in-year financial reporting focuses on the outturn against budget. There is no reporting of the progress against individual savings schemes or the extent to which savings have been delivered overall. As a balanced budget is set, any overspend we have considered to be a notional shortfall in the savings plan. Based on our notional assessment of savings delivered the Council has an annual track record of achieving between £10 and £15 million of savings. A full year savings and additional income plan of £65 million was therefore not credible.

As part of approving the budget, we would expect challenge from Members on whether a significant savings plan was deliverable. The in-year financial reports do not identify progress against the savings plans agreed as part of the budget setting process and it is difficult to determine how Members reached the view that the savings plan within the budget being approved was achievable. We do not consider the Council's governance over the setting of the original 2020/21 budget to be good enough.

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 £ million
Growth items	16.4	18.8	28.8	65.1
Savings and income items	-19.5	-17.5	-27.9	-65.1
Outturn for the year	5	5.5	0.1	
Notional savings delivered (savings less overspend)	14.5	12	10.1*	

*after £17.7 million of adjustments

The savings plan in February 2020 included additional income sources that were in our view optimistic including £3 million dividend from Brick by Brick, a company the Council has already lent almost £200 million to and for which the Council has yet to receive any dividend or any interest owing on loans; additional income from property investments of £4 million and additional income from car parking and enforcement of £3.7 million. These items were included within the papers presented to Cabinet and Full Council as part of budget setting however there is limited evidence of challenge. We believe that once again, in financial matters, the Council was found wanting and has not protected council taxpayers funds to the standards expected of local authorities.

R9. The Council (including Cabinet and Scrutiny and Overview Committee) needs to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.

2020/21 financial position to date

The Covid-19 pandemic changed the underlying assumptions of the 2020/21 budget with increased expenditure requirements, reduced ability to achieve income and a need to focus operational capacity on responding to the pandemic at the expense of delivering savings programmes. The pressures the Council face are not unique to Croydon however the scale of the pressure is exacerbated by both the optimism shown in the original budget setting and the low level of reserves.

Our initial concerns on the 2020/21 budget setting led us to consider issuing statutory recommendations which would require consideration at a public meeting. Following our discussions with the then Chief Executive, Monitoring Officer and S151 Officer in April 2020 we paused the statutory process as in our view issuing statutory recommendations in April 2020 during a peak of Covid-19 related deaths was not appropriate. There were actions we considered vital for the Council to take and we wrote to the former Chief Executive on 22 April 2020. Whilst a formal written response was not received from the former Chief Executive, a number of actions were taken and regular verbal updates on progress were provided to us. A formal written response was received from the Interim Chief Executive on 28 September 2020.

The actions taken included appointing a Financial Consultant and establishing a Finance Review Panel. The Financial Consultant was an experienced ex local government finance director and the Finance Review Panel (the Panel) membership included the Executive Leadership Team, two Cabinet members and three external professionals: a Director of Finance from another London Borough; a Chief Executive from another London Borough; and the Chief Executive of the local NHS Trust.

Initial progress was swift with the first meeting of the Panel on 21 May 2020 where the infrastructure to provide governance was established over the proposed actions to address the financial position. The size of the financial gap was identified as £65 million, which exceeds both the Council's level of reserves and the Council's track record of delivering in-year financial savings.

	£ million
Additional expenditure	26.3
Unachieved savings	31.7
Lost income	27.3
Total gap in 2020/21	**85.3**
Funding from government	19.9
Remaining budget gap for 2020/21	**65.4**

The Panel received reports on the broad areas for savings in May 2020 and by the June meetings had quantified savings of £21 million from actions during 2020/21 to narrow the gap. The most significant elements were:

- £2 million on staffing from a recruitment freeze, reduction of agency staff and review of layers and spans of control which was in the original 2020/21 budget to provide £1.7 million of savings
- £2.6 million from applying further transformation funding
- £2 million reduced revenue costs from reducing additional borrowing and avoiding further debt servicing costs
- £7.6 million from partnership working with the NHS of which £2.5 million is recurring. The original 2020/21 budget included £6 million of savings from this partnership
- £3 million from review of contracts

The July 2020 Cabinet paper 'Responding to the Local Government Challenge' set out the scale of the financial gap, high level actions being taken and statements from the former Head of Paid Service, Section 151 Officer and the Monitoring Officer. The Section 151 Officer highlighted that if the planned actions were not delivered then a section 114 report would be required. The written and verbal presentations to Cabinet did not refer to the concerns raised by the external auditor or to the Panel decision on 2 July 2020 to make an informal request to MHCLG to allow the Council to treat some of the day to day expenditure as capital.

During July and August 2020, the actions being taken within the Council did not increase the quantified savings being reported to the Panel: with some variation the expected savings remained between £21 and £23 million. The Scrutiny and Overview Committee on 25 August 2020 called in the Cabinet reports 'Responding to the Local Government Funding Challenge' and 'July Financial Review' and raised a number of pertinent questions. In response to member questions the Section 151 Officer confirmed that she could not guarantee that a section 114 report would be avoided. Members of the Scrutiny and Overview Committee accepted the responses received and did not refer the matter to Full Council. In our view this did not demonstrate an understanding of the urgency of the financial position.

The Panel on the 27 August 2020 highlighted that progress had stalled in July and August 2020. Renewed focus was observed during the meeting including a change in focus for the risk ratings for savings plans from being based on whether programme management documents were in place to being based on confidence in the delivery of the saving. There was also clarity that senior officers were focused on solutions with 'business as usual' activities being delegated within appropriate teams.

Following the former Chief Executive's departure in late August and the latest update to the Panel showing only £11 million of the identified £20 million savings were assessed as deliverable, the Section 151 Officer drafted her section 114 report. The draft section 114 report was discussed with the then Leader, the Deputy Leader, the then Interim Chief Executive, the Monitoring Officer and external auditor on 1 September 2020. In response the Cabinet arranged an amended budget meeting on 21 September 2020 with the intention of taking amended budget proposals to Full Council in October 2020. Cabinet identified a number of actions to close the gap in year and the Section 151 Officer agreed to reconsider her draft section 114 report dependent on the outcome of the 21 September Cabinet meeting on the emergency budget.

The pace of the actions in September and October 2020 was significantly more focused than during July and August and early indications suggest that the underlying cause of the continued overspend in both children's and adults social care is now being addressed. In our view the Council missed opportunities to take substantive action earlier to address the in-year budget gap indicating a lack of understanding of the urgency of the financial situation.

The Head of Internal Audit indicated at the 17 March 2020 General Purposes and Audit Committee that he was proposing a limited assurance opinion for 2019/20 indicating concerns on the operation of internal controls. The Financial Consultant's brief included a review of the underlying budget setting process, budget monitoring and reporting process together with proposals for an improved medium-term financial planning process. The Financial Consultant's report presented to the Panel concluded that the financial governance is currently inadequate in relation to some areas of financial planning, budget setting and budget monitoring and identified 75 recommendations for change. During the drafting period of this report the Financial Consultant's report and the Head of Internal Audit's Limited Assurance Opinion were reported formally to the General Purposes and Audit Committee on 7 October 2020. The Head of Internal Audit's report was subject to detailed questioning by Members and a dedicated meeting scheduled for 20 October 2020 to discuss the Financial Consultant's report in more detail. The progress in October 2020 indicates a more robust approach is being taken to matters of concern raised to the General Purposes and Audit Committee.

During the drafting of this report the Council has taken a number of actions including

- Agreeing an in-year savings plan of £27.9 million
- Formally seeking support from MHCLG to balance both the in-year budget and to transition to a sustainable budget over the next three years
- In-year review of the capital programme
- A strategic review of Council owned companies

R10. The General Purposes and Audit Committee must challenge management on progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.

Other auditor concerns

As part of the audit we have also identified further areas of concern which impact on the Council's financial sustainability.

Treasury management

Local authorities may borrow monies for any purpose relevant to its functions or for the purpose of the prudent management of financial affairs. The Prudential Code and Treasury Management Code set out requirements for local authorities including the need to prepare a Treasury Management Strategy. Looking at the Council's Treasury Management Strategies, the amount of borrowing has increased in recent years with further borrowing planned for future years.

	2016/17 actual £ million	2017/18 actual £ million	2018/19 actual £ million	2019/20 forecast £ million	2020/21 estimate £ million	2021/22 estimate £ million	2022/23 estimate £ million
Borrowings	968	987	1,357	1,513	1,791	1,989	2,035
Increase in borrowing		19	370	156	278	198	46
% change on previous year		2%	37%	11%	18%	11%	2%

The large increase in borrowings was for four purposes: Revolving Investment Fund; Growth Zone; Asset Investment Strategy; and General Capital Programme. The Growth Zone borrowing is estimated to be £121 million by the end of 2020/21 and the underlying assumptions and actions will need revisiting following the impact of the pandemic.

Revolving Investment Fund

The Revolving Investment Fund (RIF) aims to support the delivery of the Council's strategic aims specifically for housing and other developments. The RIF is the mechanism by which the Council lends money to developments and the RIF is funded by Council borrowing. The RIF lending is shown below:

Revolving investment fund	2017/18 £ million	2018/19 £ million	2019/20 £ million estimate	2020/21 to 2022/23 £ million Estimate
Total – RIF	45.7	119.7	218.7	223.2

The significant elements of the RIF have been invested in three schemes: Brick by Brick; Croydon Affordable Homes; and Taberner House. All three schemes involve complex commercial transactions and individual business cases have been taken to Cabinet however there is little evidence of challenge by Members in meetings (Full Council or Cabinet) on the deliverability of the schemes or the impact of each scheme on the long-term financial position of the Council. Increased borrowing to the schemes within the RIF is reported however there is no evidence of challenge on whether previous borrowing to the scheme has delivered the intended benefits or whether the third parties' financial position remains sound before agreeing further borrowing. A scheme of the value of the RIF should have a risk assessment which is updated regularly to reflect changes in market conditions. No such risk assessment has been undertaken. In our view this is another example of a lack of financial rigour being exercised by Members. The risk management of the RIF needs to be considered before agreeing further loans.

The principle of the RIF was to lend on at commercial rates whilst borrowing at lower rates with the net returns contributing to the Council's financial position. The interest receivable amounts continue to increase however the outstanding debtors indicate that Brick by Brick has not made any interest payments with £5 million owing at 31 March 2019.

Asset Investment Strategy

The Medium-Term Financial Strategy for Croydon 2018 – 2022 established an Asset Acquisition Fund of £100 million to invest in property to generate an ongoing income stream for the Council.

> *'The Council has an aspiration to secure medium to long term revenue returns from sound property investment principally within the Borough. If chosen carefully the revenue returns should be consistent and less prone to fluctuation due to the protection within the lease agreements. These returns will be key to future revenue income and enable expenditure on services.*
>
> *The Council will be looking at the opportunity that property investment offers to help generate a secure revenue stream over the medium - to long-term. However, less secure assets that offer future revenue potential with higher returns that also unlock the development of strategic sites will also be considered. These may typically be part vacant properties in district centres that requiring some degree of refurbishment or additional development to secure their full letting potential. Each opportunity will be assessed against a matrix. The matrix will have scoring against each of the key elements and categorise into Excellent, Fair, Good and Marginal investments.'*

The original Asset Investment Strategy set out the criteria for assessing each proposed investment property and was approved by Full Council in October 2018. The meeting had reached the time specified in the constitution for it to conclude before there was discussion of the medium-term financial strategy to establish the £100 million asset acquisition fund or the Asset Investment Strategy. The guillotine procedure was therefore used to close the meeting and the reports were approved without further discussion. This procedure is in line with the Council's constitution however a significant strategy such as the medium term financial strategy and asset investment strategy should have been re-considered at a time where Members had sufficient time to challenge whether the risk assessment and management within the strategy was sufficient and again indicates a lack of urgency in understanding the Council's financial position. It also indicates again the level of scrutiny and challenge by Members in respect of significant expenditure was not good enough in terms of challenging decisions that were high risk in the context of the Council's financial position.

During 2018/19 two purchases were made using the Asset Investment Strategy: The Colonnades with an asset value of £46 million in November 2018 and the Croydon Park Hotel with an asset value of £30 million in August 2018. The Croydon Park Hotel was purchased by Leader decision in August 2018 under delegated powers agreed at the July 2018 Cabinet meeting and reported to the September 2018 Cabinet meeting. The decision was subject to Scrutiny and Overview Committee call-in during September 2018 and the strategy covering the purchase was approved in October 2018.

Minutes of the Scrutiny Committee *noted that the paper (explaining the Council's proposed decision-making matrices) was produced after the first bid had been lodged and with this paper it would not have been possible to judge the soundness of the acquisition.* Whilst opportunities can arise at short notice, good governance would require the strategy to be approved prior to the first purchase.

The Covid-19 pandemic restrictions reduced the income from these investments as The Colonnades (a retail park) was closed and in June 2020 the Croydon Park Hotel operator went into administration.

The minutes also show that the Scrutiny and Overview Committee raised queries and received assurances which were accepted. From the Autumn 2020 perspective some of the queries raised at the Scrutiny and Overview Committee appear pertinent and the Council should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen the due diligence undertaken for any future purchases. The investments in The Colonnades and Croydon Park Hotel were not grounded in a sufficient understanding of the retail and leisure market and have again illustrated that the Council's strategy to invest its way out of financial challenge rather than pay attention to controlling expenditure on core services was inherently flawed.

Affordability

The Treasury Management Strategy is presented at Cabinet prior to being approved at Full Council. The strategy includes Prudential Indicators which enable officers and elected members to make decisions on the affordability of the proposed strategy. There is little evidence of Members challenging the safe use of borrowing powers when approving the Treasury Management Strategy reports in particular:

- The Capital Financing Requirement (CFR) continued to increase, and was breached in 2017/18, 2018/19 and the outturn CFR presented in the 2020/21 Treasury Management strategy indicates that £10 million more borrowing was taken out than required
- The Authorised Borrowing Limit indicator was breached by £2 million in 2018/19
- The General Fund impact of Prudential Borrowing on Band D Council tax levels shows the cumulative impact of increased borrowing between 2017/18 and 2020/21 being an increase of £124.35 on a Band D council tax.

The key prudential indicators show an increasing level of debt that is at or just above the levels considered prudent. This is a complex area and the lack of challenge from Members may indicate that specific training in this area is needed to enable Members to provide an appropriate level of challenge on the affordability of the Treasury Management Strategy.

The Council is required by statute to make a prudent provision for the repayment of its debt and to have regard to MHCLG guidance in calculating the Minimum Revenue Provision (MRP) and to publish its policy annually. (Statutory guidance issued under section 21 (1A) of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003). The Council made changes to its 2019/20 MRP policy in respect of how much MRP is charged for borrowing related to loans to third parties and loans to purchase investment properties. The policy indicates that loan repayments from third parties and income from investment properties leads to no MRP being set aside. Earlier we noted that there were significant loans to Brick by Brick which have not been repaid and to date the Council has not received any dividends from Brick by Brick and we noted that the Croydon Park Hotel had entered administration resulting in a significant reduction in investment income and increased costs. Taken together it is difficult to see how the Council's approach of no MRP for loans to third parties and for investment properties is prudent.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£ million	£ million	£ million	£ million	£ million
Interest payments	36.8	37.0	40.2	37	43
MRP	7.4	8.0	8.9	10	11

R11. The s151 officer should revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.

R12. The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.

R13. The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.

R14. The Cabinet and Council needs to re-consider the Treasury Management Strategy for the ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.

R15. The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.

R16. The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.

Subsidiary companies

In recent years the Local Government sector has seen a number of subsidiary companies being established. The Council has established a number of subsidiary companies with the aim of generating additional income. The governance of the subsidiaries, whether wholly or partially owned by the Council, is vital to both understand whether the arrangement is delivering the intended benefits and to safeguard the Council's interests held by the subsidiary. The Council has established a complex group structure and we found little evidence that the complexity and associated risk to the Council's financial position is understood by members or officers based on two specific examples.

Brick by Brick Croydon Limited

Brick by Brick Croydon Limited (Brick by Brick) was set up as a limited company with the Council being the sole shareholder to deliver housing development aiming to address the shortage of housing and the initial business case was presented to Cabinet in September 2014 with the governance arrangements being reported to Cabinet in June 2016. By the 2020/21 Budget, the governance arrangements had been strengthened through the Shareholder Investment Board and a Client Monitoring Group.

As the sole shareholder of Brick by Brick the Cabinet receives the annual business plan from Brick by Brick which based on a review of the Cabinet minutes is subject to a limited level of challenge. We would expect the Council to have clear governance arrangements on how its interests (as sole shareholder) are safeguarded and the extent to which the original aims of the business plan are being achieved. We would also expect a formal reporting mechanism from the Council nominated Directors back to the Council. Examples where the Council has not shown sufficient scrutiny of its wholly owned company include:

- The initial intention was for a proportion of the houses developed to be affordable housing through Shared Ownership. In January 2020, when potential purchasers were unable to obtain mortgages for the properties, the Council became aware that Brick by Brick had not registered Brick by Brick as a Shared Ownership Provider. This failure indicates a lack of understanding of the requirements and how the regulatory context developed over time.
- The original business case approved by Cabinet in March 2015 included the recommendation that the key legal and structural components of the company will not be more than 50% financed by the Council. By the 2017/18 business plan, the funding mechanism was 75% borrowing and 25% equity. The ongoing financial rationale for the Council to provide 25% equity should be reviewed from the perspective of the Council's financial position.
- The annual business plans continue to extend the time that Brick by Brick will be able to utilise receipts against future funding requirements or will repay the loans. The delay in the company being self-financing and repaying loans should be reviewed to determine whether the Council can continue to afford its investment in Brick by Brick

Business Plan year	Year Brick by Brick will cover funding from receipts	Year Brick by Brick will repay loans
2018/19	2019/20	2020/21
2019/20	2021/22	2021/22
2020/21	2022/23	2024/25

- The Council agrees individual loan agreements for each scheme with Brick by Brick which include loan covenants. Based on the loan agreements, we have reviewed a number of loans where covenants have not been met. The Council should be monitoring compliance with loan covenants and reporting breaches to Members. For example
    - a covenant requiring audited accounts within 90 days of the year end. At the end of August 2020 (153 days after the year-end) the audited accounts for Brick by Brick were not available.
    - a covenant requiring loan interest to be paid at the completion of the scheme. At 31 March 2020, the Council is yet to receive loan interest payments from Brick by Brick of £14.4 million of which £5 million was outstanding at 31 March 2019.
    - The loan agreement sets out the loan repayment date. At 31 March 2019 of the £221 million loan agreements between the Council and Brick by Brick, £99 million had been drawn down with a further £94 million drawn down in 2019/20. Based on our review of the loan agreements, £110 million of those loans were due for repayment by the date of this report and had not yet been received by the Council. Repayment dates can be varied by written consent however we have been unable to obtain confirmation from the Council that written consent was formally requested or provided to vary the loan agreement repayment date. Brick by Brick's annual business plan updates the expected date when all loans will be repaid and the Cabinet approval of the annual business plan has been considered by Brick by Brick to imply consent. As the loan agreements are legal documents it would be reasonable to expect any variation to be formalized. The Council has confirmed that its opinion is that any variation of the loan repayment date would require formal documentation. The Council should take action to clarify the existing loan repayment position with Brick by Brick and agree formal processes for any future variation in loan repayment date.
- The initial business case approved by the Council expected Brick by Brick would build and sell properties and pay dividends to the Council from the profit generated. The slippage in progress in building and selling properties has delayed Brick by Brick making a profit and no dividends were received by the Council adding further pressure to the Council's financial position.
- Brick by Brick set up its own internal trading arm, Common Ground Architecture. The first reference to this is in Brick by Brick's business plan for 2018/19 presented to Cabinet in February 2018. By February 2019, the 2019/20 Business Plan refers to the trading arm taking on external clients. We have found no evidence that the Council, sole shareholder of Brick by Brick, considered the impact on the Council's interests or the risks inherent in establishing a trading arm that takes on external clients or whether the trading arm is in line with the Council's strategic intention for Brick by Brick.

- At the Cabinet in July 2020, the Council made a decision to incur an additional £30 million of borrowing to purchase properties from Brick by Brick to increase the affordable housing supply available. This is not in line with the original business case for Brick by Brick approved by Members in March 2015. The most recent business plan presented to Cabinet states Brick by Brick *'will offer first refusal on all of our homes to the local authority in order to help address local housing need'*. The underlying financial case from the Council's perspective for the purchase of these properties did not address the circular nature of the Council taking out borrowing to lend to Brick by Brick to build the properties and then the Council taking out additional borrowing to purchase properties from Brick by Brick. This should be urgently reviewed.

The continuing financial business case from the Council's perspective for Brick by Brick should be urgently reviewed before agreeing any further borrowing.

London Borough of Croydon Holdings LLP

As part of the Revolving Investment Fund, the Council has lent money to schemes designed to support the supply of housing. Two of the schemes that had £55.1 million of loans outstanding at 31 March 2019 were Croydon Affordable Homes LLP and Taberner House LLP. The Council has a 10% holding in each company and the Council's holding is held by a company, Croydon Holdings LLP, which itself is wholly owned by the Council.

The increasing complexity of the group structures, the interaction between different subsidiaries, the longer-term financial impact for the Council and how to safeguard the Council's interests is not clearly understood. The subsidiaries are covered by Companies Act legislation and there is a knowledge and experience gap which puts the Council at risk of unintended consequences. For example, the Council does not have direct access to Croydon Affordable Homes LLP despite providing significant loans and the Council's representation is through London Borough of Croydon Holdings LLP. In December 2019, London Borough of Croydon Holdings LLP was dissolved by compulsory strike off by Companies House for a failure to comply with filing financial accounts and the assets of this company were transferred to the Crown. The Council is taking action to recover the company and associated assets but was unable to quantify the assets and liabilities of this company (£100) until late October 2020.

Having a company dissolved by compulsory strike off is a failure of governance and we have not identified evidence that the dissolution of London Borough of Croydon Holdings LLP has been reported to Cabinet or the General Purposes and Audit Committee. The Council has failed to establish adequate arrangements to govern its interests in subsidiaries and there is therefore not an appropriate mechanism for members to challenge either the arrangements or the continued extension of establishing additional companies.

R17. The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.

R18. The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.

R19. The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report breaches to Members.

R20. The Cabinet and Council should review the arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.

During the drafting of this report the Council has engaged with the matters raised and has taken a number of actions including

- Engaged external consultants to undertake a strategic review of the Council's group of companies and entities
- Commissioned external support to prepare accounts for all seven companies that form part of the Croydon Affordable Housing company structure including preparing a set of financial statements to enable London Borough of Croydon Holdings LLP's registration to be reinstated

Governance

The Council commissioned a Governance Review Panel to review governance arrangements and the final report was presented to Full Council in March 2020. The Introduction to the report states:

> *'it is clear that there is nothing fundamentally wrong with how Croydon takes its decisions… But there was nevertheless considerable dissatisfaction with the present arrangements.'*
>
> *'The Panel does not believe that the answer lies in structural change to governance… but rather lies in improving the current culture around decision making.'*

It is clear that there are improvements needed in the culture of decision making as it relates to financial sustainability. The Council's Financial Position has deteriorated to the level where external support from MHCLG is required. Whilst the covid-19 pandemic has created significant financial pressures for local government, the depth of the issues facing Croydon existed prior to the pandemic. The Council has shown collective corporate blindness in missing opportunities to tackle its financial position across three key areas:

- 70% of the Council's spend is on demand led services (children's and adult social care) where the focus has been on improvements in service delivery without sufficient focus on controlling the related costs
- The 'Place' area of Croydon became an area of high focus with significant financial resources invested to deliver the Council's vision but this was not supported by good governance and assessment of risk on how the resources were invested to deliver the intended outcomes
- Financial governance during the austerity period was focused on lobbying government which of itself is for the Council to decide, the Council should have taken actions to contain spending within the funding provided.

There have been opportunities in recent years where the Council could and should have taken action to mitigate the financial pressures that have led to the 2020/21 in-year pressures exceeding the Council's reserve position. Examples include:

- The Council failed to address the underlying causes of service overspends which during 2017/18, 2018/19 and 2019/20 had a combined overspend of £59.3 million. The overspends were reported in budget monitoring reports but there is little evidence of Member challenge or holding officers to account for the underlying reasons for the overspends or for taking action to address and mitigate the impact in future years.
- When UASC service costs were seen to exceed the funding available, the Council's response was to lobby government for increased funding. Whilst of itself this is appropriate action, the lobbying should have been combined with action to contain service delivery costs within the funding available. The financial pressure created by large numbers of UASC was clearly understood and reported however there is little evidence of challenge by Members of the appropriateness of the costs being incurred either at the budget setting or budget monitoring stage.
- Auditor concerns on the low level of reserves were reported to officers and Members of the General Purposes and Audit Committee in July 2018. The resulting recommendations remained outstanding at the end of August 2020 indicating a lack of urgency.
- The adverse qualification of the value for money conclusion was reported by the external Auditors to the General Purposes and Audit Committee in October 2019. Adverse qualifications are not common in local government and there was limited challenge of the auditor or officers at the meeting and no evidence that meaningful action was taken to address auditor concerns or to escalate the significance of the auditor concerns to the wider members of the Council.
- The 2019/20 Quarter 2 financial position reported to Cabinet in November 2019 showed an in-year overspend of £10.4 million. There was no indication that Members understood the implication of using the remaining general fund reserve on in-year pressures and this in our view contributed to the lack of urgency.
- The 2019/20 Quarter 3 financial position reported to Cabinet in January 2020 reduced the in year overspend by £8 million. This is an unusual movement and there was limited explanation in the report and no evidence of challenge to understand the validity of the adjustments to achieve the revised position.

- The outturn report for 2019/20 was reported to Cabinet in July 2020 and showed movements from the position reported previously. There was no evidence of Members challenging the movements. The outturn report presented to the Financial Review Panel in June 2020 highlighted service overspends that indicated poor budget management and set out corporate adjustments of £17.7 million to reach the outturn position. None of the officers or Members present at both the Financial Review Panel and the Cabinet drew attention to the significant in-year corporate adjustments. The challenge of the outturn figures was limited and, in our view, contributed to the lack of urgency in addressing the financial position.
- The outturn report did include a statement from the Section 151 officer that referred to the challenges identified in the budget together with commentary that if the proposed actions were not sufficient a section 114 report would be required. Given the size of the financial gap, the Scrutiny and Overview Committee reviewed the report on 25 August 2020 where in response to a question the Section 151 officer confirmed she was not confident that a section 114 report could be avoided. The Committee raised pertinent questions in relation to the financial position but chose not to refer the reports back to Full Council. The seriousness of the financial position would in our view have warranted a Full Council discussion.
- The 2020/21 budget was presented at both Cabinet and Full Council in early 2020. The budget included a larger savings target than previously delivered and some optimistic income assumptions. From a review of the minutes there was limited challenge on the credibility of the budget and no evidence that members who were aware of the adverse auditor qualification brought this knowledge to challenge the proposed reserves position indicating a lack of understanding of the financial position.
- The Treasury Management Strategy aimed to deliver the Council's ambitious vision and involved a significant increase in borrowing with increasing risk to the Council. The longer-term risk to the financial position associated with the borrowing was not clearly set out nor was there challenge to the reported prudential indicators which show that the Council's approach to borrowing was at or above prudent levels.
- The Medium Term Financial Strategy for Croydon 2018-2022 established the Asset Acquisition Fund and the Asset Investment Strategy. The first purchase under the strategy was Croydon Park Hotel in August 2018 which was before the strategy was approved by Full Council in October 2018 using guillotine procedures. Good governance would require a strategy to be approved prior to the first purchase indicating a lack of transparency in the decision-making process.
- The Treasury Management strategy included the approach for the Council to borrow to fund the Revolving Investment Fund where significant amounts are invested through groups and subsidiaries. There was a lack of understanding of the complexity of the arrangements, the risk associated with the arrangements, how to safeguard the Council's investments, whether the increased borrowing achieved the intended outcomes or the impact of increased borrowing on the Council's future revenue position. The continued approval of the expansion of the Revolving Investment Fund showed a collective corporate blindness to the risks the Council is exposed to.
- London Borough of Croydon Holdings LLP was dissolved by compulsory strike off due to a failure to file accounts. The facts or progress in remedying the situation have not been reported to Members or subject to scrutiny.

The missed opportunities represent deficiencies in financial planning, financial management, risk assessment, communication between officers and Members and challenge from Members before approving the strategies and plans that have led the Council needing in-year external financial support. Action must be taken to restore the Council to a sound financial position supported by effective governance.

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Nottingham City Council

Report in the Public Interest concerning the Council's governance arrangements for Robin Hood Energy Ltd

Nottingham City Council

Report concerning the Council's governance arrangements for Robin Hood Energy Ltd

Summary

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish this report as soon as practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

The Council set up Robin Hood Energy (RHE) in 2015 as a wholly owned not-for-profit subsidiary, in order to tackle fuel poverty in the City of Nottingham and provide a realistic alternative to the 'big 6' energy suppliers. As part of this, it aimed to provide better terms to users of pre-payment meters, who are more likely to be below the poverty line and cannot access the variety of discount arrangements offered to other customers of the big six suppliers. As expected, the Company made losses in its early years but reported a small profit of £202,000 in 2017/18 (although this was subsequently amended to a loss of £1.6m as a result of a prior period adjustment as part of the 2018/19 audit). In 2018/19, it made a large loss of £23.1m, giving it cumulative losses to 31 March 2019 of £34.4m. These losses were caused by a number of factors including:

- Volatility in wholesale energy markets which impacted on all energy retailers
- Price cap changes by the regulator, Ofgem
- The need to increase the provision for doubtful debts by £2.6m (more than trebling it) following an increase in debtors, implementation of a new accounting standard and continuing difficulties in collecting old debt in the year, which was partly due to insourcing a previously outsourced debt management service.

Despite having concerns about the quality of the financial information being produced by the Company, its deteriorating financial performance and therefore its ability to make repayments, the Council decided to make significant additional loans to the Company on several occasions during 2018/19 and 2019/20. Had it not done so, the Company would have immediately failed, and the Council would have lost most of the value of its existing stake in it, with £47.4m at risk at the time when the largest loan was requested in October 2019. The Council faced a choice between two highly undesirable alternatives, a scenario brought about in large part by its own inadequacies in holding the Company to account.

This position stemmed from a range of factors:

- The setting up and operation of an energy company is hugely ambitious, given the highly complex, highly competitive and highly regulated markets in which energy companies operate, and the impact which external global factors can have on pricing. Some aspects of RHE – particularly its focus on low tariffs and poorer customers – further increased these risks.
- The governance arrangements which the Council has had in place were not strong enough, particularly given the nature of the Company and its markets:
    - There was an insufficient appreciation within the Council (as a corporate body) of the huge risks involved in ownership of, and investment in, RHE
    - There was insufficient understanding within the Council of RHE's financial position, partly due to delays in the provision of information by RHE and the quality and accuracy of that information
    - There was insufficient sector (or general commercial) expertise at non-executive Board level

- There was a lack of clarity in relation to roles within the governance structure
- The arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased and the financial position deteriorated.

- Overall, the governance arrangements were overshadowed by the Council's determination that the Company should be a success, and this led to institutional blindness within the Council as whole to the escalating risks involved, which were ultimately very significant risks to public money. Where concerns were raised by some individuals, these concerns were downplayed and the resulting actions insufficient.

Improvements have been made to the governance arrangements over the past year, but have been too late to protect the Council's finances. These have included the setting up of an internal RHE Steering Group, chaired by the Council's Chief Executive, an officer Shareholder Board and more recently the bi-monthly Companies Governance Sub-Committee, chaired by the Leader of the Council, with the latter two developments covering all the Council's companies.

Because of the poor financial performance and prospects of RHE, and hence the reduced likelihood of loans being repaid and any future realisation of the value of its £7.5m shareholding, the Council has had to impair (reduce the value of) these loans and the shareholding in its accounts. It has also had to increase the value of the liability disclosed in its accounts for the Parent Company Guarantees, totalling £15m, which it has entered into with RHE's suppliers, because the risk of them being 'called in' has increased.

The Council has now amended its 2018/19 accounts to reflect what amounts to a 'loss' of £24.4m This will have a direct impact on the Council's financial reserves and leave it with a need for more challenging savings plans. A further loss of over £8m will be incurred in the 2019/20 accounts, while depending on decisions which have yet to be taken about the future of the Company, it is likely that a further significant loss will be incurred in 2020/21. Despite the escalating situation, the Council's Leadership has only very recently reacted vigorously to the situation and moved away from what had felt to be a determination to continue at any cost. This is not how local authorities should look after large amounts of public money.

The Council has a controlling interest in a range of companies and other organisations. While it has been working to improve the governance arrangements across these companies, and make them more consistent, this progress has been very slow and its benefits are not yet being reflected. The Council needs to ensure that lessons are learned from the experience of RHE and further improvements made across all the Group. Some of these companies are successful and appear well-run, but this does not eliminate the need for strong governance arrangements within the Council.

The Council also needs to reflect on the RHE experience in relation to its overall governance arrangements, and ensure that sufficient effective safeguards are built into these to ensure that policy initiatives are appropriately challenged and risks properly understood and managed, in the context of the Council's overall strong ambitions for the City of Nottingham.

Recommendations

This report makes a number of recommendations for the Council to address. A Strategic Review is already underway to determine the future of RHE, and the most important steps for the Council to take now involve applying the lessons from RHE across the wider group. In this regard, we would particularly highlight recommendations 2 and 3 in relation to the composition of company boards, recommendation 8 in relation to further strengthening monitoring arrangements and recommendation 12 in relation to applying the lessons to the Council's overall governance.

R1. Using the current Strategic Review and other appropriate advice to assist with decision-making, the Council should urgently determine the future of RHE, with options properly evaluated and risks properly assessed. This assessment should also take into account the context of the Council's current financial position.

R2. The Council should review its overall approach to using councillors on the boards of its subsidiary companies and other similar organisations. This should be informed by a full understanding of the role of and legal requirements for company Board members.

*R3.	Where it continues to use councillors in such roles, it should ensure that the non-executives (including councillors) on the relevant board have, in aggregate, the required knowledge and experience to challenge management. This is of particular importance where the company is operating in a specialised sector which is outside the normal experience of councillors.*

*R4.	Where councillors are used in such roles, the Council should ensure that the councillors are provided with sufficient and appropriate training which is updated periodically.*

*R5	The Council should ensure that all elements of its governance structure, including the shareholder role, are properly defined and that those definitions are effectively communicated to the necessary individuals.*

*R6.	When allocating roles on Council-owned organisations to individual councillors, the Council should ensure that the scope for conflicts of interest is minimised, with a clear divide between those in such roles and those responsible for holding them to account or overseeing them.*

*R7.	The Council should ensure that risks relating to its companies are considered for inclusion in its overall risk management processes, with appropriate escalation and reporting, rather than being seen in isolation.*

*R8.	As the new arrangements for monitoring companies are rolled out alongside the Companies Governance Sub-Committee, the Council should ensure that financial information is provided in accordance with its requirements and is fully understood by the Sub-Committee and others involved in holding the companies to account, and that robust action, with the oversight of the s151 officer, is taken if suitable information is not provided.*

*R9	Within the new arrangements involving the Companies Governance Sub-committee, the Council needs to ensure that responsibilities for scrutiny and risk management are given sufficient prominence, including giving the Audit Committee explicit responsibility for scrutiny of governance and risk management across the group.*

R10. In addition to those referred to in recommendations above, the Council should apply the lessons from RHE in a further review of its company governance arrangements, in particular to ensure that risks are appropriately flagged and managed, as well as successfully implementing the more robust monitoring agreed by the Companies Governance Executive Sub-Committee.

R11. As part of this review, the Council should consider the appropriateness of the definition of the shareholder role adopted in the 2019 report and give it an emphasis on protection of the Council's financial interests alongside other elements.

R12. The Council should use the experience of owning RHE to consider whether there are any lessons for its wider governance, particularly in relation to the 'checks and balances' which need to be in place, including the need for a stronger monitoring and scrutiny function and moving to a culture in which challenge of political priorities and how they are being implemented is seen as a positive.

*R13.	The Council should ensure that it reflects the financial pressures arising from RHE alongside those from covid-19, demand-led services and other areas to produce balanced and achievable financial plans for the current year and for the medium-term, without disproportionate, unsustainable reliance on one-off measures.*

Introduction

We are issuing this report as a Report in the Public Interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to publish the report as soon as is practicable, consider it at a meeting held in public within one month of the date of publication and provide a publicly available written response to us.

Background

The Council set up Robin Hood Energy (RHE) in 2015 as a wholly owned not-for-profit subsidiary, in order to tackle fuel poverty in the City of Nottingham and provide a realistic alternative to the 'big 6' energy suppliers. As part of this, it aimed to provide better terms to users of pre-payment meters, who are more likely to be in poverty but do not receive a good deal from the regular commercial suppliers.

The original business case which led to the setting up of RHE stated that the company would require an investment of £8.1m and would stand cumulated losses of £3.8m before moving into profit in year 4 (2018/19). It envisaged that the Company would need to attract significant external investment as it grew.

While the policy focus was primarily on serving the people of Nottingham, we understand it was always clear that in order to be competitive, and to provide a realistic alternative to the 'big 6', the Company would need to operate on a more national basis. In early 2017, RHE entered into a partnership with EBICO, another not-for-profit energy supplier operating across the country with similar aims to RHE, while it has also entered into deals with various 'white label' companies, many of which are linked to specific local authorities. RHE also grew its customer base by focusing on 'void switchers' (arranging supplier switches in vacant properties), both directly and through the white label companies.

As a result, RHE has grown at a rapid rate in terms of turnover and meter points served (Table 1) but has been far less successful in terms of its profit and loss position, with cumulative losses of £34.4m to 31 March 2019, the most recent date for which audited accounts are available.

Table 1
Robin Hood Energy financial results

	2015/16	2016/17	2017/18*	2018/19
Turnover	£4.6m	£25.9m	£69.0m	£97.9m
Profit/(loss)	(£2.5m)	(£7.2m)	(£1.6m)	(£23.1m)
Meter points			168,000	220,000

* The accounts for 2017/18 were restated following the 2018/19 audit, converting the previously reported profit of £202k to a £1.6m loss.

Table 2 below demonstrates how the Council's financial commitments to RHE have grown since its inception, with the gross liability at 31 March 2020, including guarantees, being £59.6m. In effect, the Council had invested £43m of public funds into RHE, and risked a further £16.5m in the form of guarantees.

Table 2
Council liabilities in respect of RHE (gross values, £m)

	31/3/16	31/3/17	31/3/18	31/3/19	31/3/20
Shareholding	0**	0**	7.5	7.5	7.5
Loans	2.3	9.5	11.7	20.2	31.8
Prepayments	0	0	0	3.9	3.9
Parent company guarantees	0	7.0	12.0	12.0	16.5
Pensions guarantee	0	0.7	0.7	0.7	0
Total*	2.3	17.2	31.9	44.3	59.6

* In addition, the Council provided uncapped letters of comfort in respect of 31 March 2016 to 2018, and a letter capped at £12.5m for 31 March 2019.
** The Council held a single £1 share on 31/3/16 and 31/3/17.

Scope

The events described in this report are complex and involve a wide range of individuals in various roles across the Council and the Company. While we have legal powers to comment on RHE as a 'connected entity' of the Council, our focus has been primarily on the Council and its own governance arrangements in relation to RHE. The Company became operational in 2015, well before we were appointed as the Council's external auditors, and we have not sought to assess the original decisions to set the Company up, including the compilation of the business case. Inevitably, though, some of the risks that we comment on were inherent to the original decision-making.

Summary of events

While our findings are focused particularly on the Council's governance arrangements, in order to understand our concerns about governance, it is necessary to understand the sequence of events in the Council's relationship with the Company over the past two years, and the key points are set out below.

We were appointed as the Council's external auditors with effect from April 2018. Shortly after that, the Company celebrated its first profit, having made a reported surplus of £202k in 2017/18 (although this was subsequently amended to a loss of £1.6m as a result of a prior period restatement agreed in the 2018/19 audit). The Company was securing growth through the acquisition of 'white label' companies, often linked to other local authorities, through which it sold energy in various parts of the country. To finance this growth, RHE negotiated with the Council to convert £7.5m of debt to equity shareholding in January 2018, giving it a more favourable balance sheet position and meaning that it no longer had to pay principle and interest on the debt, but taking it beyond the assumptions set out in the original business plan.

Since that time, the relationship between the Council and RHE has been under increasing strain, due to:

- the Council not authorising RHE to proceed with two proposed acquisitions in January 2018 and January 2019, which the Company maintained would have helped to cushion the impact of market pressures and hence to improve its financial position but for which Council officers maintain they were not provided with adequate formal proposals and business cases, and in the context of the Company not having provided the Council with up-to-date and reliable management accounts
- an at times rapid and unpredicted deterioration in the Company's financial position in terms of both profit and loss and cash. We appreciate that 2018/19 was a particularly difficult year for all energy suppliers due to market and regulatory

changes, but the Council was not properly sighted on the impact of this on RHE's performance or the security of its own loans and investments.

- issues arising from the audit of the Company's 2018/19 accounts, which led to tension over the request by RHE for an uncapped 'letter of comfort' from the Council as well as significantly delaying the production of the Council's final Statement of Accounts for 2018/19, which have necessitated a large number of amendments in respect of accounting for its relationship with RHE.

Additional loan – Dec 2018

In late 2018, RHE approached the Council for an additional £5m loan, in two tranches, to assist with its cash position over the winter. This was discussed at a meeting between RHE executives and relevant Council officers on 11 December 2018. At that time, the Council had the preliminary findings from PwC from a review of RHE's finances, and these flagged up significant concerns with the Company's financial performance in the first 6 months of 2018/19, its underlying cash position and the quality of its financial forecasts. The notes of the meeting record that the PwC views were discussed and recognised as early feedback, with a need for more input from RHE officers. They also record that the loan was agreed, subject to the need for a formal Council decision. The Strategic Director of Finance expressed concerns at that time about the risks involved in making the loan and the inadequacy of information provided by the Company. She was also clear that the normal level of assurance could not be provided from due diligence work because of the short timescales necessary and the continuing difficulties encountered in obtaining the necessary information from RHE. These concerns are well-documented in the decision-making report.

The notes also refer to the Council's concerns about the governance of RHE, and an action is noted for the Council's Director of Legal and Governance to carry out a review of it. It is not clear that this requirement was ever communicated to the Director of Legal and Governance and no specific review of RHE governance was carried out, although he was already involved in work to review company governance across the Council (as described later in this report). It would appear, though, that the fact that an RHE-specific review was not carried out at this stage was one of several missed opportunities to address the significant issues.

Overdraft facility – Jan 2019

In addition to the need for the new loan outlined above, the Company was seeking to agree an overdraft facility with its bank, but negotiations collapsed because the Council could not provide a copy of a particular document to be shared with the bank: as part of its due diligence process, the bank requested a copy of the record of the portfolio-holder decision to enter into parent company guarantees. As the report and the decisions made were exempt from publication by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972, disclosure of those reports to Lloyds and their legal advisors would have given them more information than warranted to enable Lloyds to make a decision over a £3m overdraft. In that context the bank's legal advisors were offered a redacted version of the report. That was not acceptable to the bank.

Instead, the Council agreed to provide a short-term additional loan of £3m, due originally to be repaid within 3 months, although this expectation was not formally documented and appears not to have been communicated to RHE executives. In the event, this loan has not been repaid, and was converted to a long-term loan as a result of a decision of the Council's Executive Board in December 2019.

Proposed acquisition – Jan 2019

RHE entered into negotiations to acquire Our Power, an energy supplier with around 31,000 customers which collapsed in January 2019. RHE negotiated a purchase price of £1 but in order to be able to forward purchase energy for the increased customer base, RHE sought an additional Parent Company Guarantee (PCG) of £3m from the Council. The Council initially approved the acquisition, but subsequently, on the advice of the Strategic Director of Finance, rejected it because it believed that insufficient justification had been provided for the acquisition – indeed no formal written proposal was ever presented to the Council - and that the associated risks were too high. Our Power therefore went into the Supplier of Last Resort (SoLR) process instead.

This was the second occasion on which the Council had not authorised an acquisition which the Board of RHE supported, with the first having been a smaller opportunity in January 2018. The fact that the Our Power proposal was the second such example significantly worsened the relationship between the Council and RHE, putting strain on the governance arrangements. We understand that there were also disagreements in relation to proposals to secure additional external investment.

RHE 2018/19 audit – May 2019 onwards

The next significant events were related to the audit of RHE's 2018/19 accounts. The Company was due to produce draft accounts in May 2019 to form the basis of the Council's group accounts, with the audit of RHE then due to be completed in time for the final version of the Council's accounts, due to be signed off by us by 31 July 2019. Draft accounts were duly produced, showing a loss of £11.4m. RHE executives made clear to us and to Council officers that they did not wish this loss to be overtly referenced in the Council's accounts, because they did not want the market to be aware until later in the calendar year when, they hoped, the Company's performance would have improved. The Company would still be able to meet its own statutory deadline for filing its accounts of 31 December 2019. While we understand the reasoning, this discussion provides a good example of the potential conflicts between the commercial imperatives of running a company in a highly competitive market and the accountability requirements from being owned and funded by a public body.

In the event, difficulties in the audit process meant that the audit of RHE took around 10 months to complete, and to avoid being fined for late filing of its accounts at Companies House, RHE took a decision on 24 December 2019 to shorten its accounting period by one day, which automatically gave it another 3 months from that date to file its accounts.

During the lengthy period of the audit (May 2019 to March 2020), the relationship between the Company and the Council deteriorated, with the Company's request to the Council for an uncapped 'letter of comfort' being the main focus of the conflict. Where companies' auditors have concerns about whether a company has sufficient cash to meet its ongoing liabilities (ie about whether or not it is a 'going concern'), it is normal for them to ask the company to obtain some form of letter of comfort or even Deed of Guarantee from a parent organisation, in order for the directors to be able to prepare the accounts on a going concern basis, with this judgement having a significant impact on the valuation of the company's balance sheet. The Council had provided the Company with an uncapped letter in previous years, meaning that the Council was in effect agreeing to meet any liabilities the Company incurred. We expressed concerns about whether this was appropriate, especially given the Company's deteriorating cashflow position, and there was a process of negotiation between the Council and the Company about what level of financial support would be sufficient to allow the Company to be signed off as a going concern, and also whether the letter of comfort could be issued as a legally binding Deed of Guarantee.

Throughout this time, the Company was accusing the Council of delaying the audit by not providing the letter of comfort while the Council was not prepared to provide a letter of comfort because the Company had not provided it with appropriate cashflow forecasts to enable the Council to properly consider the level of financial support requested. In turn, the Company asked for a copy of the PwC report to feed into its considerations, and there were delays in this being provided to the Company. Amongst other occasions, this disagreement was demonstrated in successive meetings of the Council's Audit Committee in the Autumn of 2019, including a meeting at which the Committee had requested the Chief Executive and Managing Director of RHE to attend and explain the reasons for the delay in the finalisation of RHE's accounts.

In reality, issues concerning the letter of comfort did not lead to the delays in the audit – BDO made clear to us that there were a range of outstanding audit queries throughout this time waiting to be resolved between themselves and the Company.

BDO also had their own concerns about the robustness of the Company's cashflow forecasts, and took the unusual step of writing personally to each individual member of the Board on 2 December 2019 setting out their requirements in relation to the assessment of going concern and expressing concern about the delays in providing the information requested. The letter concluded by reminding each director of their statutory responsibilities as a director and suggested that they should take legal advice. This action by the auditor is very rare in the context of a local authority company and reflects poorly on the Company's governance and in turn on the Council's governance arrangements for the company.

Renewables Obligation – October 2019

A very significant cashflow crisis occurred in October 2019. As part of the regulatory regime established by Ofgem, energy companies which do not obtain green energy directly have to either trade their obligations with a green energy supplier or pass on to Ofgem, for redistribution, the premium which customers pay to them as part of their tariffs. This arrangement is known as ROCs (Renewable Energy Obligation Certificate) and for 2018/19 for RHE amounted to £9.5m.

ROCs payments had to be made to Ofgem within 6 months of RHE's financial year end. RHE's management were aware over the summer of 2019 that, although the majority of the cash for paying the ROCs had already been received from customers, it had been absorbed into the Company's wider cash position and was not available to make the payment. The need to make the significant payment was discussed by the Board, and hence known by councillors and the shareholder representative, but the Board was told by RHE executives that they intended to negotiate an instalment payment plan with Ofgem, and provided assurances that there was no cause for concern. This view was based on informal discussions with Ofgem and an understanding that other suppliers had been granted payment arrangements. Despite its potential magnitude, there is no evidence that this issue was flagged as a major concern within the Council by the shareholder representative or anyone else.

In the event, Ofgem were not willing to accept a payment plan and issued a statutory notice on 1 October threatening RHE ultimately with the loss of its licence if the ROCs payment was not made in full within 30 days. At this point, RHE approached the Council to ask for an urgent loan of £9.5m to enable it to make the payment.

This sudden request put Council officers in a very difficult position, and we had a number of discussions with officers at the time as to whether or not making the additional loan was sufficiently rational as to be lawful. At the time, the Council had not received management accounts from RHE for several months, the 2018/19 audit of RHE was still in progress and a number of significant issues were coming out of it about the company's finances. There was a significant risk that the Council was simply investing more public money into a failing company, but there was insufficient time to carry out meaningful due diligence research into RHE's finances.

However, the alternative was that, if the ROCs payment were not made, suppliers and customers would lose faith in RHE, with the result that rapid failure of the company could follow, and the Council would lose the value of its holdings in RHE and have to pay out on the Parent Company Guarantees, with a total potential loss highlighted by the Strategic Director of Finance of £47.4m.

As part of discussions, RHE provided the Council with an update on its financial position, in order to provide assurance that the risk of making the further loan was limited. This presentation stated that RHE was expected to make a profit of £3m in 2019/20 and provided a cashflow forecast which suggested that the £9.5m could be repaid in full by 31 March 2020, although this was the base case and there was a 'worst case' included which did not include repayments in this timescale.

In the event, officers determined that the loan could be made lawfully, because minimising the risk of immediate failure of the company was a reasonable, if unfortunate, justification. We did not disagree with this view. The additional £9.5m was provided to RHE at a market rate of interest, with payment of principal due to be made in its entirety by 31 March 2020. In the event, no principal repayments were made by that date because the Company did not have the cash available, and the forecast profit for 2019/20 has since become a £12m loss.

As part of the discussions on this crisis, the Council's Strategic Director of Finance commissioned PwC to carry out further investigations into RHE's finances. To strengthen governance arrangements within the Company, the Council arranged for one of its own solicitors to take up the Company Secretary role for RHE, and for its own Committee Services team to start minuting Board meetings. The shareholder representative was removed from the role by the Chief Executive and the role was given instead to the Corporate Director of Development and Growth.

It was because of this crisis that we took our initial formal audit action as set out in the Annex to this report, resulting in us making formal recommendations to the Council and discussing our concerns with the Council's Executive Board on 17 December 2019. Even at this stage, it did not appear that the Council fully recognised the magnitude of the risks that it was facing.

Additional loan request Nov/Dec 2019

Having categorically assured the Council in negotiations in October 2019 that there would not be any need for further cash injections, the Company again approached the Council on 12 November 2019, only three weeks after the Executive Board had granted the ROCs loan, with a further urgent request for an additional loan of £4.5m. This raised the same issues in terms of lawfulness as did the previous request, but by this time the Council had received PwC's report commissioned as a result of the previous loan request. This concluded that:

- RHE would require further cash support from the Council in future;
- the Company's cashflow forecasts had a number of assumptions and sensitivities within it totalling between £18 and 22m, amounting to around 20% of RHE's annual turnover;
- a detailed review of the debt position of the Company was required;
- a shortfall in income collection following the insourcing of the previously outsourced debt collection function had led to the deteriorating cash flow position of the Company;
- the current quality of financial planning and reporting and control at RHE was not giving the Council adequate foresight of underperformance in relation to financial results.

Following further discussions, it was determined that the immediate need for the loan could be avoided if the Council agreed to increase the percentage coverage of losses under the Parent Company Guarantees from 80% to 100%, thus increasing the Council's maximum exposure by £3m (from £12m to £15m). However, due to the uncertainties felt to be within RHE's cashflow forecasts, the Strategic Director of Finance obtained delegated authority from Executive Board on 17 December for an additional loan of £2.7m, to be drawn down if needed. This loan was provided to the Company in February 2020, in addition to the increased PCG coverage.

Recent events

In December 2019, the Board of RHE decided to suspend the Company's Chief Executive and its Managing Director of Finance. The Board, with assistance from the Council, secured an interim Chief Executive and an interim Director of Finance, initially for a period of three months but this has been extended. At the same time, the Council secured the services of a specialist energy consultant – who has held senior positions in major energy suppliers – to act as a retained advisor.

The audit of RHE's 2018/19 accounts was eventually finalised on 24 March 2020, with the loss of £11.4m reported in the initial draft accounts in May 2019 (and used in the draft of the Council's accounts) having increased to £23.1m. The original draft was predicated on a positive outcome to discussions on a number of accounting issues totalling £7m in value. The Council provided a letter of comfort capped to a value of £12.5m, based on the expected ROCs payment due in September 2020, and taking into account the cashflow forecasts prepared by the new interim management, which Council officers considered to be more robust and understandable.

The audit report included a 'material uncertainty' on going concern, drawing the reader's attention to the disclosure notes in the accounts around the existence of the 'letter of comfort' and the fact that RHE is only a going concern because of the Council's financial support.

Following the confirmation of RHE's financial results for 2018/19, the Council commissioned different consultants to explore options for the future of the Company, including seeking bids from the market. This process is still in progress: the Council is not committed to disposal, but obtaining information as to the current value of the Company in the market is clearly helpful in discussions about its future.

As we have previously made clear, the Council is entitled to make the policy choices that it has made in relation to RHE, and it is not for us as auditors to substitute our judgement for that of elected councillors. However, as with all the legal powers which local authorities are given, the power to invest in companies needs to be exercised reasonably, balancing the costs and risks against the benefits to local people and the local area. While we appreciate that the policy objectives of RHE, particularly those around tackling fuel poverty, are laudable, we question whether the costs already incurred and the continuing risks of the Council's involvement in RHE can now be seen as reasonable.

R1. Using the current Strategic Review and other appropriate advice to assist with decision-making, the Council should urgently determine the future of RHE, with options properly evaluated and risks properly assessed. This assessment should also take into account the context of the Council's current financial position.

The Council's governance arrangements for RHE

While we acknowledge the clear improvements made over the past year or so, overall, the Council's governance arrangements for RHE were not strong enough, especially given the specialist nature of the Company and the challenging and highly regulated markets in which it operated. In particular:

- There was an insufficient appreciation within the Council (as a corporate body) of the huge risks involved in ownership of, and investment in, RHE
- There was insufficient understanding within the Council of RHE's financial position, due to delays in provision and the quality and comprehensibility of the information provided
- There was insufficient sector (or general commercial) expertise at non-executive Board level
- There was a lack of clarity in relation to roles within the governance structure
- The arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased.

Overall, the governance arrangements were overshadowed by the Council's determination that the Company had to be a success, and this led to institutional blindness in the Council as a whole to the escalating risks involved and to very significant risks to Nottingham taxpayers' money. The Strategic Director of Finance gave formal advice on numerous occasions, but this was not sufficiently heeded.

Roles and responsibilities

RHE Board

The governance arrangements for RHE were not dissimilar to those in operation in the Council's other companies. The Board of RHE was set up to be chaired by a councillor and with other councillors on the Board ensuring a councillor majority, but with no opposition councillors. Indeed for a fair proportion of its life, councillors have been the only non-executive Board members. For some of RHE's existence, but not recently, the Council's former portfolio holders for energy have been on the Board and the portfolio holder was chair until 2017. The Leader of the Council was also on the board from May 2016 to December 2018.

Between October 2017 and July 2019, the Chief Executive of EBICO also sat on RHE's Board, bringing additional expertise independent of the executive directors. Since he left the Board, there has been no-one with energy expertise to challenge the executives, although as noted above, a special advisor was brought in from December 2019 onwards, but is not a Board member. Longer ago, there was also a different special advisor in place between July 2016 and July 2017.

Overall, we do not think that the composition of RHE's Board has been conducive to good governance. A company operating in a highly competitive, highly regulated market needs non-executive members who understand that environment. It is clear that councillors who have been on the Board of RHE have taken their roles seriously and sought to understand that environment, but this is no substitute for having gained direct experience in that or a similar environment. While they were equipped to challenge the executives on more generic issues, it was not reasonable, given their backgrounds, to rely on them to be able to provide sufficient scrutiny of the operation of the Company, or to understand its finances. The availability of special advisors during 2016/17 did help to mitigate this, as has that since December 2019.

There were also risks in having the Chief Executive of EBICO on the Board, given that EBICO are in effect a customer of RHE, and at times the interests of RHE and EBICO would not be the same, although we have no evidence that this led to any specific issues.

The previous inclusion of the Council's successive executive councillors with the energy portfolio on the Board brought advantages in that the portfolio holder would be expected to understand more than other members about energy-related issues, and it provided a direct link from the leading group of members into RHE, as did the inclusion at certain times of the Leader and/or Deputy Leader of the Council. This helped ensure that the Council's policy priorities were being pursued and that the Company's aims were congruent with those of the Council. However, the strength of this linkage may also be a contributory factor in why governance and financial risks appeared to be given less of an emphasis. The Company became a de-facto extension of the Council.

More generally, it is not seen as good practice for councillors to be on the boards of local authority companies, with other mechanisms used to ensure that the company meets the Council's policy objectives. This reflects the above issues in relation to the expertise and experience of many councillors, and the potential for conflicts of interest between the councillors' commitment to the interests of the company, which has to override other interests when they are on company 'business', and their wider responsibilities as councillors. Having councillors on company boards can lead to a failure to properly separate the two sets of interest – of the company and of the Council – and it appears that this occurred in relation to the expectation that the Council would continue to fund RHE indefinitely.

While there is no evidence of such conflicts leading to any impropriety in relation to those councillors on the RHE Board, the difficult relationship between the Council and the Company, and the decisions faced in respect of increased council fnding for the company during 2019, put the councillors into difficult situations.

As a minimum, the Council needs to consider the appropriateness of being as reliant as it is on councillors sitting on the boards of its companies and ensure that the boards have an appropriate level of sector-specific and commercial knowledge and experience; there may be some companies for which a higher proportion of councillors can still achieve this, although such arrangements still present risks around potential conflicts of interest. For a Company operating in a very specialised and regulated market like RHE, the proportion of outsiders with experience clearly needs to be higher.

The Council has offered training to its members who serve on the boards of its companies, but we were told that further training was needed. Overall, the Council needs to be aware that being on the board of a company, and especially one operating in a complex and highly-regulated market, with a turnover of around £100m and outside the Council's normal course of business, is a significant role which requires particular skills, experience and training.

R2. The Council should review its overall approach to using councillors on the boards of its subsidiary companies and other similar organisations. This should be informed by a full understanding of the role of and legal requirements for company Board members.

R3. Where it continues to use councillors in such roles, it should ensure that the non-executives (including councillors) on the relevant board have, in aggregate, the required knowledge and experience to challenge management. This is of particular importance where the company is operating in a specialised sector which is outside the normal experience of councillors.

R4. Where councillors are used in such roles, the Council should ensure that the councillors are provided with sufficient and appropriate training which is updated periodically.

Shareholder representative

For each company, the Council designated one of its senior officers as 'shareholder representative', with the intention that this individual ensured that the Council's (as shareholder) best interests were served and protected. For RHE, the shareholder representative was the Corporate Director Commercial and Operations, until October 2019 when he was replaced by the Corporate Director for Development and Growth. The role of the shareholder representative was not formally defined but was understood to require a balance between ensuring that the Council's policy aims were being achieved through the Company and also ensuring that the Council's financial stake in the Company was secure. It required effective two-way communication, and in relation to protection of the Council's interests required concerns to be raised with other senior Council officers, such as the Executive Director for Finance and the Council's Director of Law and Governance.

In practice, the shareholder representative role does not appear to have operated as the focus of the relationship between the Council and the Company. For example, when requests for financial assistance were made, these were made through an approach from RHE executives to the Council's Strategic Director of Finance, who then brought in other officers as appropriate – we would have expected the shareholder representative to be the primary focus for such requests and for him to discuss them with other Council officers. Conversely, we would have expected the shareholder representative to be the one applying pressure to the Company to provide appropriate financial information to the Council, but the Strategic Director of Finance in practice took the lead on this.

On the face of it, this may not appear to have significant practical consequences. However, not having a shareholder representative acting as a clear focal point for the relationship it is part of an overall situation in which the distinction between the Council and the Company was very blurred, with multiple communication channels (including those between councillors on the Board and the Council leadership, company MD to Council Strategic Director of Finance etc) and no clear overall mechanism for holding the Company to account. A properly defined shareholder representative role should have been the focus for that relationship and the channel through which the Company was held to account.

As the focus of the relationship, the shareholder representative role is ideally placed to be the Council's 'eyes and ears' in the strategic management of the Company, and in particular to highlight emerging risks (to the Council), referring these to other appropriate Council officers such as the Strategic Director of Finance and the Monitoring Officer, and ensuring that the Company is addressing these risks. The scale of the financial risks which emerged in relation to RHE, and the speed at which they emerged, suggests that the shareholder representative role did not fulfil this purpose.

Irrespective of the lack of clear definition of the shareholder representative role, we would expect any senior local government officer to recognise the very significant risks to public money which RHE came to represent, and to ensure that they were highlighted and to champion mitigation of those risks. We are not suggesting that the shareholder representative failed to identify the risks at all, but he appears to have not attached sufficient seriousness to them and to have prioritised instead the element of the role which was aimed at ensuring the success of the Company in accordance with political priorities. Arguably, this may be part of a more general tendency, which we ask the Council to reflect on later in this report, for legitimate challenge of political priorities to be viewed as inappropriate.

R5 The Council should ensure that all elements of its governance structure for companies, including the shareholder role, are properly defined and that those definitions are effectively communicated to the necessary individuals and are adhered to.

Shareholder meetings

In addition to RHE Board meetings, shareholder meetings were also held. These comprised a mix of Council officers and RHE Board members and were intended to ensure that a wider range of Council officers and members were aware of the issues being faced by RHE and the associated decisions. However, these meetings ceased formally in March 2019 in anticipation of the new arrangements being put in place following a review of company governance across the Council – but in the event the replacement member forum was not put into place properly for around 9 months. This should, however, have been mitigated by the existence of the shareholder role and the fortnightly meetings of the Steering Group.

Linkages between the Company and leading councillors and senior officers also existed through less formal means, with a range of ad hoc meetings taking place. These were strengthened in February 2019, when the Council's Chief Executive started leading a more frequent RHE steering group. When Cllr Mellen became Leader in May 2019, he and the Chief Executive agreed these meeting should be continued and they would alternate fortnightly meetings of officers and then member meetings with the Leader chairing the latter. Over time these meetings have merged into one the RHE Steering Group, solely chaired by the Leader.

For many councils, shareholder meetings are the key means through which subsidiary companies are monitored and overseen, particularly given that, as noted above, the inclusion of councillors directly on the boards of companies is not seen as good practice.

Audit Committee

We had specific concerns about the role of the Council's Audit Committee in relation to RHE, during 2019 in particular. As the member body responsible for oversight of governance, it should have been better sighted on the developing issues in relation to RHE. The Committee had previously identified the need to improve arrangements for the governance of companies in general, leading to the developments later in this report, and we are aware that some of its members did have concerns about RHE. However, the Committee did not pursue those concerns until we started reporting the emerging outcomes from our 2018/19 audit and the delays in RHE's audit.

An additional complication was that the then Chair of the Board of RHE was also the Chair of the Audit Committee from May 2019, leading to a very clear conflict of interest which took some time to resolve. With the Audit Committee in effect being part of the mechanism for holding RHE to account, at least in relation to governance, it was inappropriate for the Chair of the Board to also be Chair of that Committee. This was dealt with by the individual declaring an interest in the relevant items at Audit Committee, and handing the chair over to his deputy, although shortly after this, he ceased to be chair of the RHE Board. We are not suggesting that there was any actual impropriety on the part of the individual concerned but the arrangement potentially put him in a difficult position.

R6. When allocating roles on Council-owned organisations to individual councillors, the Council should ensure that the scope for conflicts of interest is minimised, with a clear divide between those in such roles and those responsible for holding them to account or overseeing them.

Overall governance

A successful relationship between a local authority and its subsidiary companies relies on achieving an appropriate balance between the authority on the one hand being sufficiently involved to hold the company to account and on the other hand giving it freedom to manage itself. Where the balance lies will vary between companies and over time, depending on the nature of the company and its performance, but this has to be in a clear framework and to be linked to the governance roles and structures that are put in place. Ordinarily, a council would set the overall aims of a company and approve its business plan and significant variations from it, and then monitor performance against this business plan by means of an agreed framework.

As part of an overall review of company governance arrangements (see later section of this report) instituted at the request of the Audit Committee in July 2017, the Council established a set of governance principles, reported 18 months later in February 2019, which sought to establish the framework for achieving this balance. The length of time taken to undertake this review and implement the improvements represents an important missed opportunity to address the governance of both RHE and other Council companies.

In the case of RHE, there had always been a closer relationship between the Council and the Company, given the composition of the latter's Board and the transfer of existing Council employees to the Company. Inclusion of councillors as the main non-executives on RHE's board mitigated against the healthy levels of separation which are normally seen between authorities and their companies. In turn, the lack of separation meant that more consistent strategic performance management arrangements were not put in place. This lack of an overall framework was a key omission in the Council's governance arrangements for the Company, and the delays in putting the framework in place reflect the low priority given to achieving healthy governance arrangements at that time.

During 2019, the performance of RHE in any case meant that more direct Council involvement was justified. This was achieved to an extent through the Chief Executive's Steering Group, supported by an increased number of ad hoc meetings. Some efforts were made to 'reset' the relationship between the Council and the Company but these were not sustained, partly because of delays in RHE providing information on its financial performance, tension around the 'letter of comfort' and the very significant urgent additional funding requirements in October and November 2019.

Overall, many aspects of the governance arrangements which the Council put in place were not dissimilar to those put in place for many local-authority controlled companies both in Nottingham and elsewhere, but there were crucial differences:

- the number of councillors on RHE's board (all from the ruling group)
- the lack of an established overall monitoring framework

- the limited clarity and robustness of the shareholder role.

The key point in relation to RHE, though, is that its complex nature meant that it needed much stronger governance arrangements. Many local authority companies are set up simply to do through a different vehicle things which the Council already does – for example grounds maintenance or, in Nottingham's case, processing benefits claims. The skills to provide such services already exist in house and the markets for the services are, generally, far less complex and less competitive. It is not difficult for such companies to co-exist alongside a local authority with its public accountability and arrangements for safeguarding public money.

This cannot, however, be said for an energy company with a turnover of £100m. The next section of this report considers the risks that were inherent in the operation of RHE and the Council's arrangements for managing them.

Management of risk

From a Council perspective, there have always existed a wide range of risks in relation to RHE, from the point of view of both achievement of its policy aims and also protection of the Council's stake in the Company. It was always a high-risk project, in that it:

- sought to compete against established suppliers in a highly competitive market which was also susceptible to significant impacts arising from global economic and political events
- was conceived as offering low prices, thus requiring very tight control of costs and highly-effective purchasing of energy, in a complex market involving significant hedging, if it was ever to break even
- again because of its policy aims, had an inbuilt tension in relation to debt collection, with the normal debt collection policies of energy companies being seen as inappropriate as a means of tackling fuel poverty – but thus putting RHE at a competitive disadvantage. Similar competitive disadvantages arose because of the policy decision to implement the Warm Homes discount early.
- its target customer group were typically people who may need telephone support rather than web, and who were also more likely to be pre-payment meters or paying on receipt of a bill (rather than through regular direct debit), so that the 'costs to serve' were harder to keep low, and debt harder to control.
- was operating in a highly regulated market, where the energy regulator Ofgem has significant powers to revoke licences, set price caps and administer fines for breaches
- was set up as an 'offshoot' of the Council, using some key former Council staff, which meant it was culturally different to its competitors – perhaps an advantage in terms of its policy aims but a disadvantage in terms of effective competition. There were also related issues regarding the grading of posts within the Company.
- continued, as a local authority controlled company, to be bound be the additional governance and accountability requirements which rightly apply where public money is used, which may again have placed it at a disadvantage against its competitors.

Given these risks, it was vital that RHE had effective risk management arrangements in place and that, in turn, the Council had assurance that risks were being managed and that it managed the risks it faced itself as a result of owning the Company. Managing these risks was in itself made more difficult by the fact that RHE was operating in an environment of which local government officers had little knowledge and could not be expected to have such knowledge and experience. The level of the risks faced by the Council only increased as RHE expanded and the Council's stake in it increased. A key additional factor in managing these risks is that the financial risks ultimately fall on the people of the City of Nottingham, but RHE's customer base was national, albeit with preferential tariffs or discounts for Nottingham residents.

Overall, it appears that these risks have not been widely understood and managed within the Council as a whole, so that it did not perceive any prior warning of the significant deterioration in RHE's financial performance in 2019. Some of this deterioration was due to external factors, such as changes to the price cap regime and fluctuations in wholesale energy markets, but such risks should always have been identified and mitigated or planned for as far as reasonably possible. Other factors, such as the deteriorating debt position, and hence cashflow, should also have been a major focus of attention for those holding RHE to account, as well as to its management. While such issues have been discussed by RHE's Board, it is not clear that the Company's management were adequately challenged and held to account in that forum.

One specific opportunity which occurred for the Council to understand better, and mitigate, the risks it was taking occurred in the summer of 2018. Consultants, with significant energy sector experience, were commissioned by the Corporate Director Commercial and Operations on behalf of RHE, Bristol Energy, Nottingham City Council and Bristol City Council. This work was to assess the benefits which could be gained from closer working, and possible merger, between RHE and Bristol Energy, another local-authority owned energy supplier operating on a smaller scale than RHE. The report was considered largely by the shareholder representative and officers from Bristol City Council. However, other senior council officers were completely unaware of the report or indeed of the possible merger, and none of the messages within the report were shared among other Council officers, including with the Strategic Director of Finance.

This is significant because the report, produced by industry specialists, included findings which echo our views. Overall, it concluded that 'RHE's business model leaves it exposed to high costs and bad debt. Although the costs are being well managed and service levels are typical for the industry, the bad debt provision should be regularly reviewed, and the company needs to be confident around its appraisal of the risk related to its debt position.' It went on to suggest that RHE needed to:

- review its debt position and reassess the adequacy of the related provision
- tighten up financial reporting, including recognition of revenue
- increase the amount of energy expertise within RHE

In relation to RHE's future prospects, the report noted that:

'RHE has developed expertise in the low income and Social Housing Market. There are 5 million homes in social housing in Britain so there is plenty of market to win yet. This Business Model does have higher costs and although RHE have successfully broken even quite quickly, increased regulatory burdens from Smart, Price Caps, WHD (Warm Homes Discount) and ECO (Energy Company Obligation) will all add pressures to the business'.

It did also comment that RHE's basic operating model can be profitable and can deliver its objectives.

While the report resulted from an initial exploratory assignment and its conclusions should not be overplayed, we remain of the view, shared with current senior management of the Council, that this report was one of a number of missed opportunities to highlight risks identified in relation to RHE which subsequently had significant consequences.

R7. The Council should ensure that risks relating to its companies are considered for inclusion in its overall risk management processes, with appropriate escalation and reporting, rather than being seen in isolation.

Financial information

It has been a persistent concern for the Council's Strategic Director of Finance that the Council has not been provided with adequate financial information, and the information it has had has not been prompt. This was in part because the information, in the form of management accounts, was not being produced within the Company either, we understand due to staffing issues. We are aware that the Strategic Director of Finance raised her concerns over the lack of financial information persistently, but did not feel supported by the shareholder representative.

The low quality of financial information was also highlighted to the Council in at least two consultancy reports:

- As noted above, in the summer of 2018, one energy specialist consultancy reported as part of their report on a possible merger between RHE and Bristol Energy (another local authority owned energy company) that financial reporting needed to be improved, alongside a series of other improvements to RHE.
- In the autumns of 2018 and 2019, PwC reported as part of their assignments commissioned by the Strategic Director of Finance that the current quality of financial planning and reporting and control at RHE was not giving the Council adequate foresight of underperformance in relation to financial results.

This reflects the views of the Strategic Director of Finance and our experience of observing the unreliability and apparent 'optimism bias' within RHE's financial reporting and forecasts. While we recognise that recent years, and particularly 2018/19, have been difficult for all energy companies, the rapid deterioration in RHE's profit and loss and cashflow positions and the huge differences between predictions and outturn have been notable. Examples include:

- Within three weeks of being granted the additional £9.5m loan, RHE had to approach the Council again to request a further loan, despite having provided assurance that no further lending would be needed.
- The expected £3m profit for 2019/20 which RHE included in its presentation to the Council in October 2019 had become an expected £10.5m loss by late January 2020 (with the interim management in place)
- The cashflow forecast from October 2019 which predicted that the £9.5m loan could be repaid in full by 31 March 2020 was overoptimistic, as no principle repayments could actually be afforded within that timescale, although we note that the latter was foreseen in the 'worst case'.
- The Company said in November 2019 that it would not need any additional loans for the foreseeable future if the extended PCG coverage was agreed, yet the £2.7m loan which was approved at the time as a contingency (in effect without being requested by the Company) did have to be drawn down in February 2020 as the cash position deteriorated.

While the production of financial forecasts is a matter for the company and not the Council, it is vital for the Council's management of risks that the Council is presented with forecasts which it can understand and can rely on in order to advise members on appropriate action. This is the point which PwC were making in their report. The Council's governance arrangements, with their lack of clarity about roles and responsibilities and reporting lines, did not ensure that financial forecasts were appropriately challenged and understood. Such challenge appears to have been seen as a challenge of the legitimate policy objectives behind the company, rather than part of a healthy culture and governance systems in which challenge is welcomed and due regard is given the safeguarding public money, in this case that of Nottingham taxpayers.

The new arrangements being implemented by the Companies Governance Sub-Committee require the routine provision of financial information by all the Council's companies and are a positive development. What matters is not only that this information is provided, but that it is of an appropriate quality and is properly understood by Sub-Committee members and others charged with holding them to account, and that where information is not provided or is not understandable, robust action is taken to remedy the situation. We understand that this is starting to happen.

R8. As the new arrangements for monitoring companies are rolled out alongside the Companies Governance Sub-Committee, the Council should ensure that financial information is provided in accordance with its requirements and is fully understood by the Sub-Committee and others involved in holding the companies to account, and that robust action is taken, with the oversight of the s151 officer, if suitable information is not provided.

The council's governance arrangements for its other companies

In addition to RHE, the Council has controlling interests in a number of other companies and other organisations, giving it a much more complex group structure than most local authorities. The reasons for holding these companies vary, as does their lifespan. Nottingham City Transport has, for example, been a Council-controlled company for many years, having previously been part of the Council. Others have been set up more recently for specific purposes, including, in some cases, income-generation as part of the Council's 'commercialisation' agenda. The Council acquired an additional group company, Thomas Bow City Asphalt, in December 2019, and is considering setting up more.

Some of these companies are successful and appear well run, but this does not remove the need to the Council to have effective governance arrangements in place for them or to ensure that the lessons from RHE are applied more widely.

In July 2017, the Audit Committee recognised that improvement was needed in the Council's overall governance arrangements for its companies, and requested that officers should to identify best practice in local authority company governance with a view to proposing a framework for City Council owned companies. The scope of this work was confirmed in September 2017 and the outcome was reported in April 2018. It highlighted areas of good practice which were absent in Nottingham's arrangements. The Council recognised that it needed to strengthen the governance arrangements in place across its companies and further work was then undertaken and reported in February 2019. As a result:

- **A set of Company Governance Principles were agreed.**
- The principles set out that the companies would be provided with the necessary freedoms to achieve their commercial and operational objectives, while the Council would retain controls to enable it to protect its investment and ensure that objectives were met. It included expectations on information flow between the bodies and the need to enforce protocols so that decisions taken were for the benefit of the company and the Council group.
- **A new committee was proposed to provide member oversight**
- The Executive Board Companies and Commercial Committee was proposed. The board would have the following functions.
    - To give direction to the Shareholder Board on the vision and ambition of the Council with reference to its commercial activities
    - To review the implementation of the Council's commercial approach including its group companies in relation to development of the companies and the group
    - To evaluate the impact of group companies and commercial activities on the achievement of the Council's strategic objectives
    - To approve the Shareholder Board work programme
    - To approve group company structure proposals and other formal structures to protect the legal and commercial interests of the Council as shareholder
    - To review, by exception, outcomes achieved and delivered against the company governance principles and approve measures taken by the Shareholder Board to enable any deficiencies identified to be remedied.
- **A new officer board was also proposed**
- The Shareholder Board would include the Chief Executive, the Strategic Director of Finance, the Monitoring Officer and the Corporate Director of Commercial and Operations. The role of this board is to ensure that the Council's strategic objectives are met across the group and support the development of the group in line with the Council's regulations and ambitions.

However, progress in implementing the new arrangements has been mixed, with a significant delay in particular to the setting up of the new member forum.

The first meeting of the new officer Shareholder Board occurred in May 2019 and this has continued to meet on a monthly basis. The anticipated Companies and Commercial Committee has been replaced by a sub-Committee of Executive Board, the Companies Governance Executive Sub-Committee, which eventually had its first scene-setting meeting in January 2020 and its second meeting in May 2020 (with the delay being mainly due to Covid-19). The terms of reference of this sub-Committee, while focussing on the achievement of the Council's strategic objectives for its group, include responsibility:

- *'To approve group company structure proposals and other formal structures to protect the legal and commercial interests of the Council as shareholder….*
- *To review, by exception, outcomes achieved and delivery against the Nottingham City council company governance principles and approve measures taken to enable any deficiencies identified to be remedied.'*

While it is early days in the operation of the Sub-Committee, and we see it as a positive step, we are concerned that, like other aspects of the governance arrangements, its effectiveness may suffer as a result of playing a dual role – as an executive function driving forward policy initiatives trough the companies and as a scrutiny or monitoring function in safeguarding the Council's interests. It is vital that this latter part of the role receives due emphasis.

We understand that the original proposals for the sub-Committee envisaged the inclusion of a suitably experienced and skilled independent member but no-one was appointed. Such an appointment could have greatly strengthened to operation of the Sub-Committee by bringing in particular skills and experience.

The review of the Council's company governance arrangements proposed (in April 2019) for the first time a definition of the shareholder role:

'Their role will be to engage monthly (or more frequently as required) with the Company to ensure that it meets the Council's strategic objectives and

- receives from the group and
- provides to the group support towards development in line with the Council's policies and ambitions.'

It is noticeable that this definition does not include any element of safeguarding the Council's interests, but in other authorities with subsidiary companies this is a key element of the shareholder role. Given the example of RHE, where arrangements clearly did not ensure the Council's interests were adequately protected, the Council needs to consider whether the shareholder role should, going forward, be clearly seen to encompass first-line protection of the Council's investment in the relevant Company.

We have not assessed the governance arrangements for all of the Council's companies as part of our work, although we did assess them for a sample of organisations as part of our 2018/19 'value for money' work. For those we considered, we found that the governance arrangements were loose, with key information apparently not held by the Council and lack of evidence of effective monitoring of the companies. Recent proposals to the Executive Sub-Committee however, suggest that much more rigorous monitoring is starting to emerge, and this needs driving through.

We also noted that, of the seven group companies, only two posted an operating profit during 2018/19, and these were small, and more companies have been given significant additional loans by the Council, the ones other than RHE being:

- Nottingham City Homes £19.8m in 2018/19 – also £6.6m in 2019.20
- Enviroenergy £12m in 2018/19, nil in 2019/20
- Nottingham Ice Centre nil in 2018/19, £4.5m in 2019/20

In the light of our findings in respect of RHE, and the financial pressures which the Council is currently experiencing which mean it cannot afford any repetition of the RHE scenario, and recognising our view that some of the circumstances around RHE are unique, the Council needs to re-review its overall company governance arrangements robustly, ensure that the improved monitoring proposed to the sub-Committee is implemented and embedded and that other aspects of the arrangements are strengthened where appropriate.

R9 Within the new arrangements involving the Companies Governance Sub-committee, the Council needs to ensure that responsibilities for scrutiny and risk management are given sufficient prominence, including giving the Audit Committee explicit responsibility for scrutiny of governance and risk management across the group.

R10. In addition to those referred to in recommendations above, the Council should formally establish the lessons from its involvement with RHE and ensure these are addressed in a further review of its company governance arrangements, in particular to ensure that risks are appropriately flagged and managed, as well as successfully implementing the more robust monitoring agreed by the Companies Governance Executive Sub-Committee.

R11. As part of this review, the Council should consider the appropriateness of the definition of the shareholder role adopted in the 2019 report and give it an emphasis on protection of the Council's financial interests alongside other elements.

Wider governance issues

The Council's overall governance arrangements have not been within the scope of our work. Based on the situation we have described in relation to RHE, however, we would suggest that the Council needs to reflect on its overall governance arrangements, which are based on the 'strong leader and cabinet' model set out in the Local Government Act 2000, as amended, and associated guidance. The period during which RHE has existed has been characterised by very strong (in its general sense) and ambitious leadership within the Council, and this has enabled many successful policy initiatives to be driven through. However, in such a leadership model, it is vital that there are also sufficient checks and balances in place and in particular that risks are appropriately recognised and managed, that there is an effective scrutiny function and that challenge of political priorities by both members and officers is seen as a positive. This has not been the case in relation to RHE. We suggest therefore that the Council uses this opportunity to consider whether its overall governance arrangements continue to serve it well.

R12: The Council should use the experience of owning RHE to consider whether there are any lessons for its wider governance, particularly in relation to the 'checks and balances' which need to be in place, including the need for a stronger monitoring and scrutiny function and moving to a culture where challenge of policy priorities and how they are being implemented is seen as a positive.

Impact on the Council's financial position

RHE has impacted on the Council's financial position in two ways:

- Through lending large and increasing amounts of cash to RHE, the Council has had less cash available to it for other purposes, or alternatively has had to borrow more – although this has had only limited impact as the Council has ready access to additional PWLB borrowing where prudent
- Much more significantly, the impairments which the Council has now had to make to the values in its balance sheet relating to its equity investment, loans and other interests in RHE mean that it has significantly depleted its useable reserves, which means that those reserves are no longer available to be used to support Council services. The need to make significant savings in the running of services, either through service cuts or increased efficiencies, has thus been significantly increased directly as a result of the financial performance of RHE.

Accounting standards, which the Council is legally obliged to follow, require that the Council values assets such as loans made and equity investments taking into account not the original costs of the assets but the likelihood of them being repaid. Following the finalisation of the audit of RHE's 2018/19 accounts, which disclosed a loss of £23.1m for the year, almost 25% of turnover, and taking into account RHE's updated forecasts for 2019/20, the Council has reassessed the likelihood of repayment in accordance with appropriate accounting guidance and as a result its own revised accounts now include impairments of £10.5m on the £20.2m of loans and £7.5m on the £7.5m equity. This has effectively reduced the Council's reserves by £18m. At the same time, the Council has increased the liability value in respect of the Parent Company Guarantees which it has provided in respect of RHE, because there is an increasing likelihood of these being 'called in' by suppliers, and this has reduced the Council's reserves by a further £6.4m.

A further impairment of £7.9m has been required in 2019/20 to reflect the continuing deterioration in RHE's finances. It is also likely that there will be a further cost in 2020/21 once the future direction of the Company has been determined.

This has occurred at a time when the Council's finances are already under pressure as a result of the additional costs and lost income due to Covid-19. The Council has some hard choices to make and cannot afford to become involved in further risky initiatives without very robust risk management arrangements in place.

R13. The Council should ensure that it reflects the financial pressures arising from RHE alongside those from covid-19, demand-led services and other areas to produce balanced and achievable financial plans for the current year and for the medium-term, without disproportionate, unsustainable reliance on one-off measures.

Annex - Previous audit action

We were appointed as the Council's auditors with effect from April 2018. Towards the end of 2018 and throughout 2019, we had a range of concerns about the arrangements the Council had put in place in relation to its interests in RHE and, specifically, in the arrangements for managing the significant financial risks which the Council was taking though that involvement. As noted above, our audit of the Council's 2018/19 accounts was significantly delayed because RHE's own auditors, BDO, were unable to give their opinion on the Company's accounts, which are consolidated into the Council's accounts and therefore impact on our audit responsibilities.

We expressed our concerns in the latter half of 2019 to senior officers and to the Council's Audit Committee, but these discussions were not in public because we were concerned that any public discussion of our views on the levels of risk that the Council was taking, linked to the Company's financial position, could in itself lead to a rapid deterioration of the Company's position (eg through trade credit facilities being withdrawn, loss of customers and even possible regulator action), which could have led to an uncontrolled collapse of the company and rapid crystallisation of the Council's financial risks.

Following the provision of the urgent additional financing to RHE in October to enable it to make its Renewable Energy Commitments payment to Ofgem, we decided that it was appropriate for us to make formal recommendations to the Council to draw attention to the level of risk faced and encourage it to take further action to manage those risks. Ordinarily, we would have made Statutory Recommendations under Section 24 (check) and Schedule 7 of the Local Audit and Accountability Act 2014, which have to be considered by the Council in a public meeting and to which a public response is required from the Council. We determined, however, that it was not in the public interest at that time for such consideration to be made public, and we therefore agreed with the Council that it would treat our recommendations as if they were Statutory Recommendations with the exception of meeting the publicity requirements.

In a letter to the Leader of the Council dated 2 December 2019, we stated that:

As your external auditors, we have become increasingly concerned about the overall increase in the level of risk to which the Council is exposed and the rationality, and therefore lawfulness, of decisions to provide additional financial support. These decisions have had to be made in short timescales and in the absence of a sound understanding of the Company's financial performance and forecasts. This has meant that the only justification for providing the additional support has been in order to prevent an uncontrolled failure of the Company and hence to protect the Council's existing loans and guarantees. If the Council is to provide any further support to the Company, it needs to do so not just to protect the existing investment but also in the light of a rounded assessment of the Council's policy objectives for the Company, the prospects for the Company and the level of risk which the Council believes is appropriate to take in the light of the policy objectives. Continuing with the sole aim of protecting the Council's existing loans and guarantees is not a rational position other than in the very short term.

And made the following recommendation:

The Council should, taking account of all relevant information including the analysis provided by PwC, determine a clear direction for its future relationship with Robin Hood Energy, including:

- *reconsidering or reaffirming the Council's policy objectives in relation to its interests in RHE*
- *ensuring that the level of financial risk the Council is carrying is consistent with the policy objectives and with the Council's fiduciary duty to local taxpayers*
- *implementing, in the light of these decisions on policy and risk, measures to reduce the level of risk to the Council, which could range from retaining the current level of financial involvement with the company but with much stronger monitoring and governance arrangements through to full disposal of the Council's interests or a controlled winding up of the Company.*

The Council considered the recommendation at the private meeting of Executive Board on 17 December 2019. We were not provided with a formal written response to the recommendations, but the minutes of the meeting record that it was resolved to:

(1) Note the recommendations made by the NCC external auditor.

(2) Note the position of RHE's external auditor

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(7) To approve the necessary actions to respond to NCC's External Auditor recommendation;

(8) To approve a full options appraisal regarding the future structure of the Company;

By:	Richard Long, Cabinet Member Education and Skills Matt Dunkley, Corporate Director of Children, Young People and Education
To:	Governance and Audit Committee – 21 January 2021
Subject:	SCHOOLS AUDIT ANNUAL REPORT
Classification:	Unrestricted

Summary: The Annual Report summarises the Schools Financial Services (SFS) compliance programme and other activities undertaken during 2019-20 which enables the Chief Finance Officer (CFO) 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

1.1 The DfE requires that the CFO, (i.e. the Corporate Director of Finance), 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.

1.2 The Department for Education recognised the prohibitive environment caused by Covid 19 and reduced the burden of Local Authorities (LA) data collection activities, this included cancelling the submission of the School Financial Value Standard (SFVS) CFO statement for 2019-20. At a local level all 324 LA schools submitted their SFVS returns for the period 2019-20

2. Approach

2.1 Under normal circumstances (not subject to Covid 19 conditions) the CFO would sign off the 2019-20 DfE Schools Financial Value Standard (SFVS) Assurance Statement. The following work strands underpin the validity of this statement and have been carried out during the period April 2019 to March 2020:

Compliance programme – this is now the eighth year of the compliance programme. Internal Audit have agreed the approach in line with audit methodology that meets the definition of an “adequate system of audit”. As part of this rolling programme 83 primary, 7 secondary, 7 special schools and 2 Pru’s were visited during 2019-20. Every school and PRU has at least one visit every four years. 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.

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 school's 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 2019-20 with two areas for improvement. The first area is graded as low and an appropriate administration process is now in place to address this. The second is graded as medium and is the need for an escalation process to address where schools have not followed up compliance recommendations and a suitable framework is being configured for implementation.

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 is referenced within the report against any recommendations made.

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 34% of schools have purchased a regular contract in 2019-20 where experienced SFS staff work with the schools, generally on the school site. 99% of schools have purchased a core finance package offering phone and email support in all aspects of budgeting, financial controls and procedures.

Training – There is a comprehensive finance training programme for Headteachers, senior leaders, bursars and governors and Finance Information Groups for bursars and other finance staff. During 2019-20 there were around 70 training courses and 12 Finance Information Groups attended by over 1200 delegates from Kent maintained schools and academies.

Themed audits undertaken by Internal Audit – There were no financial themed audits carried out by KCC's Internal Audit team in 2019-20.

3. Summary of Findings

3.1 Alongside the compliance programme, the 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.

3.2 The compliance programme consists of 102 questions covering governance and leadership, financial planning and monitoring, payroll, procurement, corporate cards, bank accounts, petty cash, income, assets, data protection, school development plan and health and safety.

3.3 The attached appendix 1 details the number of critical and requires action recommendations within each category of the compliance programme for 2018-19 and 2019-20 for maintained schools.

4. Opinion

4.1 It is considered that the comprehensive compliance programme and themed audits (when undertaken) the statutory information analysed, training programme, traded work completed in schools and the schools' own self assessments provide suitable assurance for the SFVS Statement to be signed.

5. Recommendations

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

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Schools Financial Services Compliance Comparison 2018-19 to 2019-20

	Total 2018-19	Total 2019-20	
Total schools tested:	100	99	One Compliance not carried out due to Covid-19
Total questions within each compliance visit	99	102	
<u>If process/procedure not in place:</u>			
Total number of Critical recommendations	56	54	
Total number of Requires Action recommendations	43	48	
Total number of processes/procedures tested in all schools	9,900	10,098	
Total number of processes/procedures not in place for all schools tested	977	846	
% processes/procedures NOT in place	9.87%	8.38%	

Critical recommendations by Category	Total Questions Per School	Total Questions	Processes Not in Place	%	Total Questions Per School	Total Questions	Processes Not in Place	%	% Variance 18-19 to 19-20	Changes Year on Year: Moved to Requires Action	Changes Year on Year: Removed	Changes Year on Year: New
Governance & Leadership	8	800	75	9.38%	6	594	74	12.46%	3.08%	1.03e & 1.04c		
School Development Plan	2	200	0	0.00%	1	99	0	0.00%	0.00%	2.05b		
Financial Planning and Monitoring	8	800	18	2.25%	7	693	33	4.76%	2.51%	2.04b		
Payroll	5	500	29	5.80%	5	495	40	8.08%	2.28%			
Procurement	6	600	56	9.33%	6	594	49	8.25%	-1.08%			
Corporate Cards	3	300	52	17.33%	3	297	52	17.51%	0.18%			
Bank Account and Petty Cash	8	800	43	5.38%	9	891	52	5.84%	0.46%			2.06a
Income	6	600	29	4.83%	5	495	12	2.42%	-2.41%		3.05e	
Assets and Loans	3	300	4	1.33%	3	297	9	3.03%	1.70%			
Data Protection & Security	7	700	6	0.86%	9	891	9	1.01%	0.15%			3.02c & 3.07g
Health & Safety	0	0	0	0.00%	0	0	0	0.00%	0.00%			
	56	5,600	312	5.57%	54	5,346	330	6.17%	0.60%			

Requires Action recommendations by category	Total Questions Per School	Total Questions	Processes Not in Place	%	Total Questions Per School	Total Questions	Processes Not in Place	%	% Variance 18-19 to 19-20	Moved to Requires Action	Removed	New
Governance & Leadership	10	1,000	150	15.00%	13	1,287	126	9.79%	-5.21%	1.03e & 1.04c		1.05e
School Development Plan	1	100	42	42.00%	2	198	31	15.66%	-26.34%	2.05b		
Financial Planning and Monitoring	4	400	39	9.75%	5	495	25	5.05%	-4.70%	2.04b		
Payroll	1	100	68	68.00%	1	99	43	43.43%	-24.57%			
Procurement	8	800	147	18.38%	8	792	95	11.99%	-6.38%			
Corporate Cards	1	100	28	28.00%	1	99	22	22.22%	-5.78%			
Bank Account and Petty Cash	2	200	55	27.50%	2	198	60	30.30%	2.80%			
Income	3	300	11	3.67%	3	297	13	4.38%	0.71%			
Assets and Loans	5	500	86	17.20%	5	495	66	13.33%	-3.87%			
Data Protection & Security	5	500	12	2.40%	5	495	13	2.63%	0.23%			
Health & Safety	3	300	27	9.00%	3	297	22	7.41%	-1.59%			
	43	4,300	665	15.47%	48	4,752	516	10.86%	-4.61%			
Overall Total		9,900	977	9.87%		10,098	846	8.38%	-1.49%			

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By:	Jonathan Idle – Head of Internal Audit
To:	Governance and Audit Committee – 21st January 2021
Subject:	**INTERNAL AUDIT PROGRESS REPORT**
Classification:	Unrestricted

Summary:

This Progress Report details summaries of completed Audit reports between for the period October to December 2020.

Recommendation:

The Governance and Audit Committee note the Internal Audit Progress Report for the period October to December 2020.

FOR ASSURANCE

1. Introduction

1.1 Public Sector Internal Audit Standards (PSIAS) require that periodic reports on the work of Internal Audit should be prepared and submitted to those charged with governance.

1.2 This Progress Report provides the Governance and Audit Committee with an accumulative summary view of the work undertaken by Internal Audit in the period of 29th September 2020 to 31st December 2020, together with the resulting conclusions, where appropriate.

2. Recommendation

2.1 Members are requested to note the Internal Audit Progress Report for the period October to December 2020.

3. Background Documents

Internal Audit Progress Report.

Jonathan Idle, Head of Internal Audit

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T: 03000 417840
January 2021

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Improving Outcomes
Creating Value

INTERNAL AUDIT PROGRESS REPORT

GOVERNANCE AND AUDIT COMMITTEE

21st January 2021

1. Introduction

1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The work of the Internal Audit team should be targeted towards those areas within the Council that are most at risk of impacting on the Council's ability to achieve its objectives.

1.2 Upon completion of an audit, an assurance opinion is given on the soundness of the controls in place. The results of the entire programme of work are then summarised in an opinion in the Annual Internal Audit Report on the effectiveness of internal control within the organisation.

1.3 This activity report provides Members of the Governance and Audit Committee and Management with 18 summaries of completed work since the previous Committee in October 2020.

1.4 The following areas, usually covered within a Progress Report, are detailed within the Internal Audit Annual Report in a separate agenda item:

- Analysis of Assurances issued;
- Plan Status and Delivery;
- Grant Certification
- Issue Implementation; and
- Internal Audit Resources, as required by the Public Sector Internal Audit Standards (PSIAS).

2. Key Messages

- Planned work remains below target at the end of quarter 3, however delivery pace has increased, and a substantial amount of work is in progress;
- 36 grants/ certifications have been certified to date;
- The analysis of issue implementation has been updated, highlighting a decline in implementation.
- A summary of matters arising for 18 of the completed audit assignments has been provided at Appendix B.

3. Updates

3.1 Internal Audit Plan Status:

Since the previous Committee, delivery has accelerated with 23 planned reviews completed to either draft or final reporting stage. A further 29 reviews are either in progress or at planning stage with 13 audits to commence. Although a substantial proportion of the Audit Plan remains to be completed, it is anticipated that coverage will be sufficient for the Annual Head of Internal Audit Opinion.

The Internal Audit service has undertaken a review of the factors that are impacting upon the delivery of its audit coverage prior to the end of 2020. The principal reasons for the delays across all stakeholders and clients to be drawn to the attention of the Committee are summarised below:

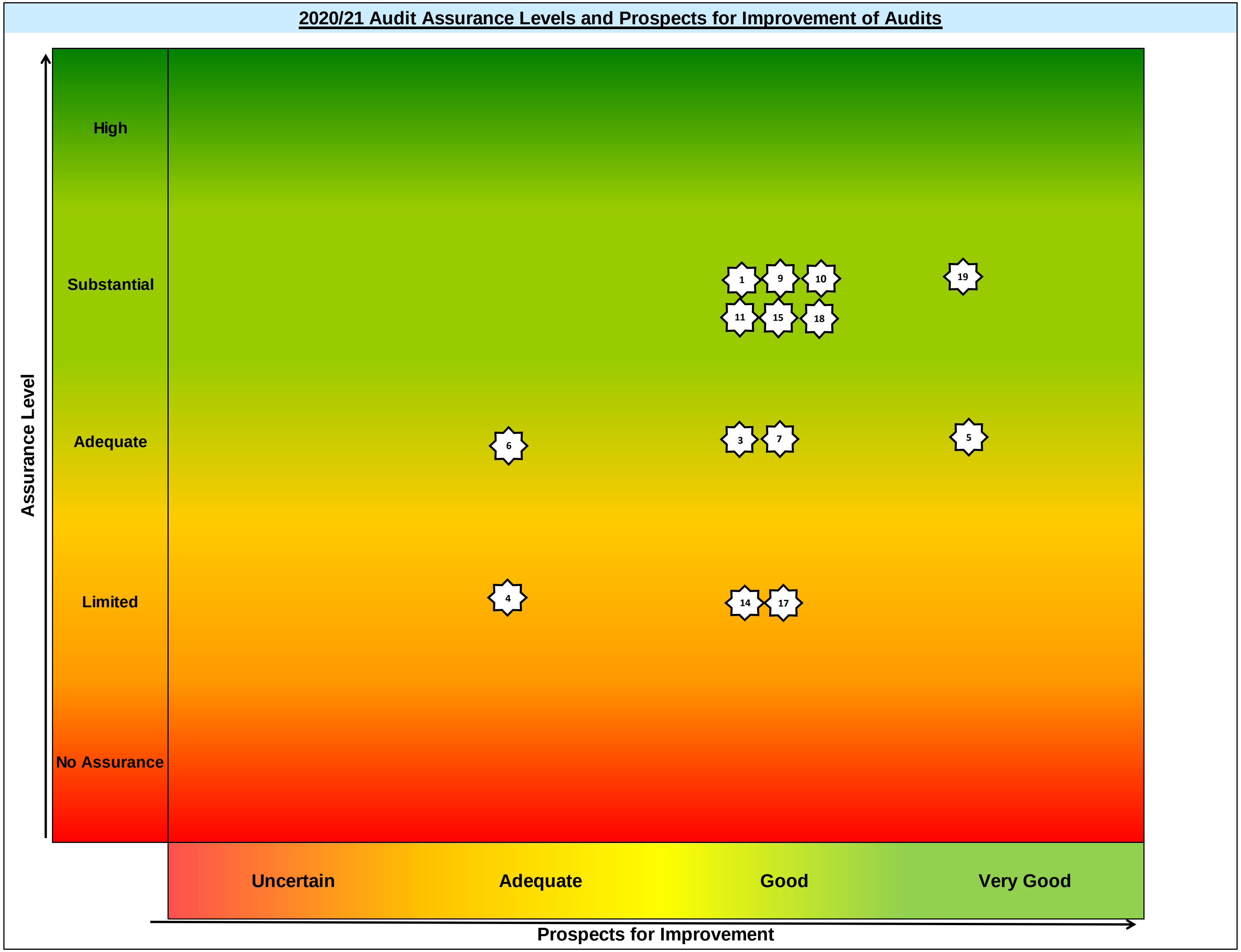
- Resistance from management to audit commencing.
- Delays in responses to information requests.
- Arranged meetings being cancelled.
- Audit closure meetings difficult to arrange.
- Delays in post audit meetings to discuss draft reports.
- Delays in management providing responses to final audit reports.

Additionally, several factors relating to Internal Audit processes have been identified to be undertaken in a more lean and effective manner. These factors are reflective of the many varied and significant challenges that all stakeholders and managers, with whom Internal Audit work with to undertake audit assignments, are facing. A series of actions to manage and monitor these factors has been initiated.

This period has again required significant resources to be assigned to Grant Certification (see 3.2) and, additionally, resources are now being directed towards preparations for the External Quality Assessment of the service. Audit an grant certification work for the remainder of 20-21 may be impacted dependent upon the period in which a member if the team is effectively seconded to support EU Transition and also the speed of seeking a replacement for a colleague who is leaving the service.

Full details of the status of planned work, for the period to 31st December 2020 are provided at Appendix A of this report. A summary of the completed reports is shown in Table 1 below:

Table 1: Summary of Assurance Levels to Date



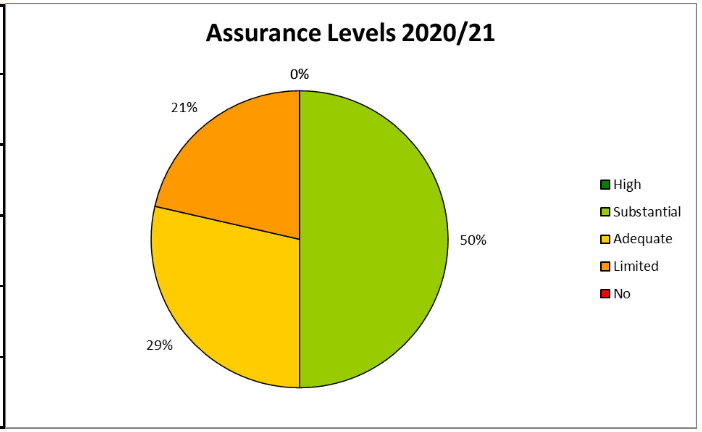
Audit Opinion October G&A Committee

No	Audit	Assurance	Prospects for Improvement
1	PPE	Substantial	Good
2	Supplier Relief Payments	N/A	N/A
3	Change for Kent Children	Adequate	Good
4	ICT Asset Control (COVID-19 IMPACT)	Limited	Adequate
5	AGS 2019/20	Adequate	Very Good

Audit Opinion January G&A Committee

No	Audit	Assurance	Prospects for Improvement
6	DoLS	Adequate	Adequate
7	ASCH Covid-19 Response Plan	Adequate	Good
8	Succession Planning (Mgt Letter)	N/A	N/A
9	Review of COVID-19 Expenditure	Substantial	Good
10	Purchase to Pay (P2P)	Substantial	Good
11	Charging Arrangements	Substantial	Good
12	CYPE Assurance Map - Safeguarding	N/A	N/A
13	Provider Data Protection Themed Report	N/A	N/A
14	Urgent CHAPS Payments	Limited	Good
15	Blue Badge Applciation Process	Substantial	Good
16	Kent Pension Fund Investment Governance Follow-Up	N/A	N/A
17	Adult Social Care Client Billing	Limited	Good
18	ICT Access Controls / User Accounts for DSPT Assurance	Substantial	Good
19	Respite Overpayment Follow-Up	Substantial	Very Good
20	Winter Pressures (Mgt Pressures)	N/A	N/A
21	Op Fennell (EU Transition) (Mgt Letter)	N/A	N/A
22	ASCH Assurance Map - Safeguarding	N/A	N/A
23	Highways (HTSCP)	N/A	N/A

Assurance Level	No	%
High	0	0%
Substantial	7	50%
Adequate	4	29%
Limited	3	21%
No	0	0%



3.2 Grant Certification Work:

To date in 2020-21, the team has audited and certified 36 grant claims and work is currently in progress for several other certifications. Details of all certifications can be seen at Appendix A. Internal Audit work on grant certification provides an essential service for the Council, although it is not audit opinion work. The Audit team's schedule to grant certification work is an increasing commitment of Internal Audit resources and it is apparent that one aspect of changed working arrangements has been the increasing challenges of completing such work, which requires adherence to strict timescales for the submission of grant certifications.

It is also highlighted that the service will be undertaking further new, complex and comparatively high-profile grant certifications in the next year, including the Test and Trace Support Grant, for which £6.3m has been allocated to the Council.

3.3 Internal Audit Resources:

In accordance with the Public Sector Internal Audit Standards, members of the Committee need to be appraised of relevant matters relating to the resourcing of the Internal Audit function.

As stated at previous Committees, the positive expansion in recent years of the provision of Internal Audit and Counter Fraud services to in excess of 20 external clients and bodies has not been accompanied by corresponding resources to deliver the very wide range of assurance and governance matters it is engaged in. Furthermore, the Internal Audit Plan for 2020-21, agreed at the July Governance and Audit Committee, noted a shortfall in resources to deliver the planned work.

With the appointment of the Head of Internal Audit in September 2020, the review of options to address the resource and skills requirements of the section has commenced albeit still at early stages. Consequently, short-term resource shortfalls will continue to be addressed by a combination of fixed-term and agency resource and other options are currently being considered. Any proposed changes to the resourcing of Internal Audit will initially be drawn to the attention of the Chair of the Committee and the s.151 Officer.

3.4 Revision of Audit Plan:

The Internal Audit Plan must be flexible to ensure that it remains relevant to risks facing the Council throughout the year. The Audit Plan, therefore, needs to be amended to reflect changing risk circumstances and requests from senior management. The following audit plan amendments are drawn to the attention of the Committee:

Additional work

- Operation Fennel (EU Transition - replaces planned audit work, plus additional resources provided)
- Data Analytics Development – Procurement Card Usage
- Strategic Reset Programme – Programme Governance

20-21 planned audits removed or deferred:

- Strategic Delivery Plan (CA08)
- Non-residential care payments through Finestra (CS03 - deferred to 21-22)
- Data Analytics Development – Payroll (RB06)
- Revised Equality Impact Assessment (EQIA) process (RB01 -deferred to 21-22)
- Capital Investment in Good Day Program (RB17)
- Establishments Themed Review (RB 31 - deferred to 21-22)
- Resilience and Emergency Planning Service (RB32 – resource utilise to support Operation Fennel)

During the course of 2020-21, Internal Audit has increased operating in an agile manner to assist the Council in significant areas and its coverage to deploy and/or redirect resources to the areas of high risk facing the Council. This has included specific audits related to risks highlighted by Covid-19 and also being a critical friend to advise within the Council. One of the most important examples of this is the current deployment of a Principal Auditor to provide critical friend support and advice in relation to the Council's role in EU Transition.

3.5 Issue Implementation

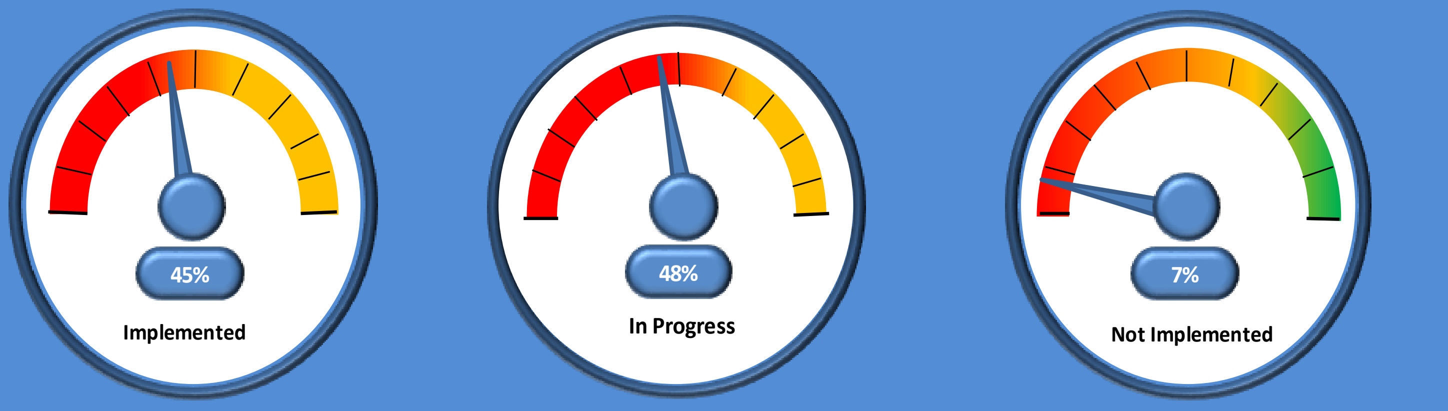
3.5.1 Details of the current position on the implementation of actions from Internal Audit reports is set out at Appendix C. This details the implementation status of 58 actions categorised by the assurance level assigned to the original report.

3.5.2 The status of implementation of implementation in Appendix C is summarised in Table 2:

Table 2 Summary of Action Implementation

	Total Number due for Implementation		Implemented		In Progress		Not Implemented	
	High	Medium	High	Medium	High	Medium	High	Medium
Total	12	46	3	23	8	20	1	3
Total %			25%	50%	67%	43%	8%	7%

Overall Implementation of Agreed Management Actions



3.5.3 Table 2, therefore, highlights the following key points:

- 98% of high and medium ranked actions have either been implemented or are in progress;
- 92% of high ranked actions have either been implemented or are in progress;
- 93% of medium ranked actions have either been implemented or are in progress;
- 25% of high ranked actions had been implemented;
- 50% of medium ranked actions had been implemented;
- 75% of both high and medium ranked actions had been implemented;
- 67% of high ranked actions were in progress and not fully implemented;
- 43% of medium ranked actions were in progress and not fully implemented; and
- 38% of both high and medium ranked actions were in progress and not fully implemented.

3.5.4 This level of implementation is compared to 2019-20 and 2020-21 in Table 3:

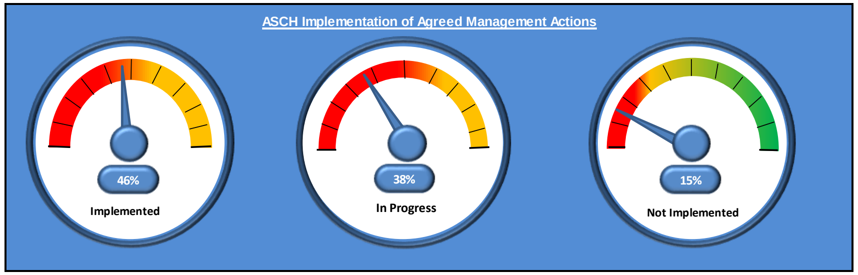
Table 3: Summary of Implementation of Actions 2019-20 to 2020-21

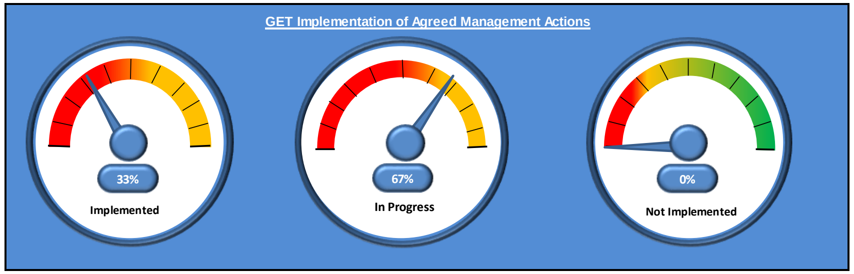
Indicator	20-21 to date	19-20	Change
High and medium ranked actions have either been implemented or are in progress	**98%**	**98%**	
High ranked actions have either been implemented or are in progress	**92%**	**100%**	↓
Medium ranked actions have either been implemented or are in progress	**93%**	**97%**	↓
High ranked actions had been implemented	**25%**	**62%**	↓
Medium ranked actions had been implemented	**50%**	**62%**	↓
High and medium ranked actions had been implemented	**75%**	**60%**	↑
High ranked actions were in progress and not fully implemented	**67%**	**38%**	↑
Medium ranked actions were in progress and not fully implemented	**43%**	**35%**	↑
High and medium ranked actions were in progress and not fully implemented	**38%**	**36%**	↑

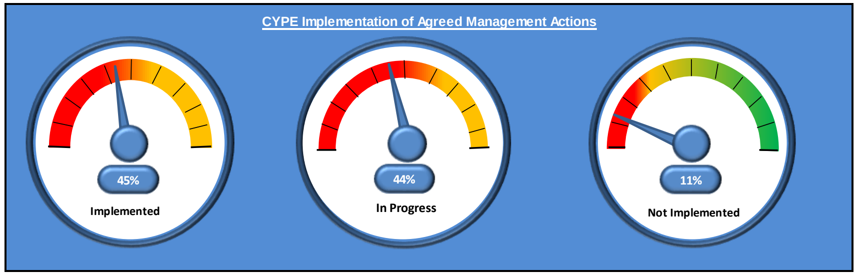
3.5.5 The analysis of the implementation of actions to address internal control and risk management actions following Internal Audit reports, therefore, highlights a decline in implementation indicators compared to 2019-20. Approximately 17% of actions cited as "In Progress" reported that delays had been caused due to Covid-19 pressures which in part accounts for the shift in position.

3.5.6 It is important that the implementation of agreed actions gains momentum to ensure that full implementation rates increase moving forward.

3.5.7 Internal Audit maintain analysis of outstanding recommendations to all Corporate Directorates and Directorate Management Teams and this is utilised in the monitoring and promotion of action implementation.


ASCH Implementation of Agreed Management Actions
46%
Implemented
38%
In Progress
15%
Not Implemented


GET Implementation of Agreed Management Actions
33%
Implemented
67%
In Progress
0%
Not Implemented


CYPE Implementation of Agreed Management Actions
45%
Implemented
44%
In Progress
11%
Not Implemented


ST Implementation of Agreed Management Actions
44%
Implemented
50%
In Progress
6%
Not Implemented

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4. Under the Spotlight!

With each Progress report, Internal Audit turns the spotlight on the audit reviews, providing the Governance and Audit Committee with a summary of the objectives of the review, the key findings, conclusions and recommendations; thereby giving the Committee the opportunity to explore the areas further, should it wish to do so.

In this period, the following report summaries are provided at Appendix B, for the Committee's information and discussion.

A Cross Directorate:

1. Respite Overpayment Follow Up (CYPE / ST)
2. Covid-19 risk – Covid-19 Expenditure
3. Winter Pressures Commissioning (ASCH / ST and in Exempt Session)

B Adult Social Care and Health:

1. Deprivation of Liberties- Progressing with Addressing Backlog
2. Social Care Client Billing
3. Covid-19 risk - Charging Arrangements
4. Adults Safeguarding – Assurance Map
5. Blue Badge Application Process
6. Covid-19 risk - ASCH Covid-19 Response Plan

C Children, Young People and Education:

1. CYPE Assurance Map - Safeguarding

D Strategic and Corporate Services:

1. Strategic Commissioning – Purchase to Pay Process
2. Kent Pension Fund Investment Governance Follow Up
3. Finance - Urgent Payments Process (In Exempt Session)
4. Succession Planning
5. IT Access Controls / User Accounts
6. Provider Data Protection Compliance

E Growth, Environment and Transport:

1. EU Transition Planning Support
2. Highways Term Services Commissioning Project (HTSCP and in Exempt Session)

Appendix A – Internal Audit Plan 20120-21 – Status and Assurance Summary

Ref	Audit	Status as at 31.12.20	Assurance
CA01	Annual Governance Statement Assurance Statement Process 2019-20	Final report	Adequate – GAC Oct 20
CA02	Corporate Governance	Planning	
CA03	Records Management	In Progress	
CA04	Risk Management	In Progress	
CA05	Information Governance - DSP Toolkit Annual Audit	Planning	
CA06	Information Governance - Advisory/ Attendance at IG Steering Group.	Ongoing	
CA07	Information Governance – Remote working	In Progress	
CA08	Strategic Delivery Plan	Removed from Plan – replaced by Strategic Reset coverage	
CA09	Office Cleaning Arrangements	In Progress	
CS01	Imprest Accounts Follow-up	In Progress	
CS02	Social Care Client Billing	Final Report	Limited – GAC Jan 21
CS03	Non-residential care payments through Finestra	Deferred to 21-22	
CS04	Respite Overpayment - Follow up	Final Report	Substantial - GAC Jan 21
CS05	Schools Financial Services (TEP)	To Commence	
CS06	Capital Planning and Prioritisation	Planning	
CS07	Kent Pension Fund Investment Governance - Follow up audit	Final Report	N/A/ - Follow Up Report
CS08	ACCESS Pool	Planning	
CS09	Payment Project	Ongoing	
CS10	Finance - Urgent Payments Process	Final Report	Limited – GAC Jan 21
CS11	Covid-19 risk - Supplier Distress Payments - Part 1	Complete	N/A - Management Letter – GAC Oct 20
CS11(a)	Covid-19 risk - Supplier Distress Payments - Part 2	Planning	
CS12	Covid-19 expenditure	Final Report	Substantial - GAC Jan 21
RB01	Revised Equality Impact Assessment (EQIA) process	Deferred to 21-22	
RB02	Strategic Commissioning Follow-up	To Commence	
RB03	Replacement of Oracle (Enterprise Business Capabilities Project)	In Progress	
RB04	Health and Wellbeing Strategy	To Commence	

Ref	Audit	Status as at 31.12.20	Assurance
RB05	Succession Planning	Complete	N/A - Management Letter – GAC Jan 21
RB06	Data Analytics Development - Payroll	Removed from Plan	
RB07	Future of Sessions HQ (Project)	Planning	
RB08	Property Infrastructure - Functions and Processes Transferred to KCC from Gen2	To Commence	
RB09	Covid-19 risk - Asset Control of Laptops and Other Equipment	Final Report	Limited – GAC Oct 20
RB10	Covid-19 risk - Procurement and Contracts	Planning	
RB11	Adults Safeguarding - Assurance Map	Complete	N/A - Management Letter – GAC Jan 21
RB12	Shaping the Market	To Commence	
RB13	Quality Assurance Framework	To Commence	
RB14	Partnership Working – NHS	To Commence	
RB15	Mosaic - Post Implementation	To Commence	
RB16	Workforce – Recruitment & Retention of Staff	Planning	
RB17	Capital Investment in Good Day Program	Removed from Plan	
RB18	ASCH Covid-19 Response Plan	Final report	Adequate – GAC Jan 21
RB19	Covid-19 risk - PPE Distribution and Stock Control	Final Report	Substantial - GAC Oct 20
RB20	Project KARA - ASCH Digital Assistive Technology Project Board	Ongoing	
RB21	Charging Arrangements	Final Report	Substantial - GAC Jan 21
RB22	ASCH Contingency		
RB23	Accommodation for Young People/ Care Leavers	Planning	
RB24	Schools Themed Review (Cyber Security)	In Progress	
RB25	Children Missing Education	In Progress	
RB26	Delivery of Statutory Services – Contract Management - TEP	To Commence	
RB27	Adoption	To Commence	
RB28	Change for Kent Children (see also 19-20 c/fwd)	Ongoing	
RB29	CYPE Assurance Map - Safeguarding	Complete	N/A - Management Letter – GAC Jan 21
RB30	Provision of Laptops to service users	In Progress	
RB31	Establishments Themed Review	Deferred to 21-22	
RB32	Resilience and Emergency Planning Service	Removed from Plan & Resource combined with RB35	

Ref	Audit	Status as at 31.12.20	Assurance
RB33	Gypsy and Traveller Service - Pitch Allocation and Charging	Planning	
RB34	Kent Scientific Service	Planning	
RB35	Operation Fennel (EU Transition) - previously called EU Transition Planning	In Progress and Ongoing	N/A - Management Letter – GAC Jan 21
RB36	KCC support to Kent businesses - e.g., Kent and Medway Business Fund	To Commence	
RB37	Blue Badge Applications Process	Final Report	Substantial - GAC Jan 21
RB38	Highways Term Services Commissioning Project (HTSCP)	Final Report	N/A - Management Letter – GAC Jan 21
ICT01	IT Cloud Strategy, Security and Data migration	To Commence	
ICT02	IT Access Controls/ User Accounts – for DSP Toolkit	Final Report	Substantial - GAC Jan 21
ICT03	Cyber Security - Management of Backups for Applications, Data and active Network Devices.	Planning	
ICT04	Cyber Security - Management of Firewall rulesets/ Anti-virus and Anti-Malware Software	Planning	

B. Work Carried Forward From 2019-20:

Ref	Audit	Status as at 31.12.20	Assurance
1	Strategic Commissioning (Purchase to Pay Process)	Final Report	Substantial - GAC Jan 21
2	Deprivation of Liberties - Progress with Addressing Backlog	Final Report	Adequate - GAC Jan 21
3	ASCH – Winter Pressures	Complete	Management Letter – GAC Jan 21
4	Change for Kent Children	Final Report	Adequate – GAC Oct 20

C. Additions:

Ref	Audit	Status as at 31.12.2020	Assurance
1	Strategic Reset Programme – Programme Governance	Planning	
2	Data Analytics – Procurement Card Usage (In Counter Fraud Plan)	To Commence	
3	Operation Fennel (EU Transition)	Ongoing	

D. Grant Certifications completed since 1.4.2020:

No.	Grant	Description	Status as at 31.12.20
	EU Interreg - Aspire	A holistic approach to lowering obesity and unemployment rates in identified communities where the two issues are linked.	2 Claims Completed
	EU Interreg - BEGIN	An approach to climate resilience for cities that mimics nature's potential to deal with flooding.	2 Claims Completed
	EU Interreg - BHC21	To contribute to the development of more efficient and effective vocational training services for low-skilled people and develop a generic 21st century training model to reduce unemployment rates amongst low-skilled people.	1 Claim Completed
	EU Interreg – C5A	Aims to deliver a whole system approach to water and flood risk management in response to current and future risks from climate change.	1 Claim Completed
	EU Interreg – DWELL	Empowerment programme enabling patients with type 2 diabetes to access tailored support giving them mechanisms to control their condition and improve their wellbeing.	1 Claim Completed
	EU Interreg - Empower Care	To create resilient communities and reduce individual frailty and loneliness, addressing issues facing the care of our aging population	1 Claim Completed
	EU Interreg - Ensure	Making use of the community peer to peer support, which will allow societies to become proactive in addressing circumstances which create vulnerability across Kent.	1 Claim Completed
	EU Interreg - Experience	To provide the tools and infrastructure to capitalise on the emerging trend for personalised and local tourism experiences which provide reasons to visit at any time of the year.	2 Claims Completed
	EU Interreg - FRAMES	Assess the impact of and build resilience to flooding and climate change across the health and social care sector in Kent.	1 Claim Completed
	EU Interreg - H20	Overcoming barriers to integrated water and ecosystem management in lowland areas adapting to climate change.	1 Claim Completed
	EU Interreg - ICAReS	Developing a cross border innovation cluster to create the necessary conditions for innovation in the field of remote sensing & advanced data communication & processing	1 Claim Completed
	EU Interreg - Inn2Power	Supporting Kent based companies in the offshore wind sector with internationalisation & market entry in mainland Europe	2 Claims Completed
	EU Interreg - ISE	Supporting Kent business from several priority sectors innovate & internationalise through partnering & collaborating with new contacts in France, Belgium & the Netherlands	1 Claim Completed
	EU Interreg - PATH2	Enabling women, families and healthcare professionals to prevent, diagnose and successfully manage mild and moderate perinatal mental health issues.	1 Claim Completed
	EU Interreg - Prowater	Contributing to climate adaptation by restoring the water storage of the landscape via ecosystem-based adaptation measures.	1 Claim Completed
	EU Interreg - SCAPE	Developing landscape-led design solutions for water management that make costal landscapes better adapted and more resilient to climate change.	1 Claim Completed
	EU Interreg - SHIFT	Engaging with people over 45 years of age to develop a tailored sexual health and wellbeing model.	1 Claim Completed
	EU Interreg - SIE	Evaluating and improving business support services for SMEs specifically related to exporting and internationalisation.	1 Claim and On-the-Spot check Completed
	EU Interreg – STAR2Cs	Overcoming the implementation gap faced by local government adapting to climate change.	1 Claim Completed

	EU Interreg - TICC	Implementing an integrated community team at a pilot site to work with the principles of Buurtzorg (A Dutch home-care model known for innovative use of independent nursing teams in delivering relatively low-cost care).	1 Claim Completed
	EU Interreg - Triple A	Supporting homeowners to adopt different low-carbon technologies in their homes.	1 Claim Completed
	EU Interreg - Triple C	Implementing a set of cost-effective actions to reduce flooding and erosion.	1 Claim Completed
	EU Interreg - Upcycle your waste	The programme will run over three years and aims to support SMEs in reducing their running costs by handling and transforming their waste into new resources for the community.	1 Claim Completed
	Department for Transport - Capital Funding Grant	Capital Block Funding (Integrated Transport and Highway Maintenance)	Completed
	Department for Transport - Capital Funding Grant	Capital Block Funding (Integrated Transport and Highway Maintenance) (Live Lab Trials)	Completed
	Department for Transport - Capital Funding Grant	Local Transport Capital Block Funding (National Productivity Investment Fund)	Completed
	Connecting Europe Facility	A2-M2 works	Completed
	Department for Transport - Capital and Revenue Funding Grant	Kent Traffic Management System: (Operation Brock) grant	Completed
	Department for Transport - Capital Funding Grant	Network Requirements for Additional Work at Manston	Completed
	Department for Transport - Capital Funding Grant	Ashford Truck Stop Works and Ashford Borough Council	Completed
	Department for Transport – Bus Service Revenue Grant	Kent County Council Bus Service Operators Grant	Completed

Appendix B – Summaries of Completed Audit Reviews

A1 - Respite Overpayment Follow-Up

Audit Opinion	**Substantial**
Prospects for Improvement	**Very Good**

The follow-up audit highlighted that there has been significant progress since the original audit, including completion of all management action plans for the 2 high and 1 medium priority issues that were raised. As a result of the follow up audit 1 further low priority issue was raised.

Key Strengths

- Data Validation on the system is present and exception reports are now live and distributed to the Operational teams on a regular basis.
- Pre-payment checks have not been incorporated into the contract with Cantium and happen every 4 weeks prior to the payment run being actioned.
- Operational teams have sign off the payment run and the facility of a back- up run to process any amendments to services on the system.
- Creditors are checked regularly to ensure any overpayments or outstanding credits are reclaimed in a timely way.

Areas for Development

- There are no set timescales for the recommissioning of specific providers that have variable unit costs and therefore do not align with standard inputting procedures on the LAS/Controcc.

Prospects for Improvement

Our overall opinion of **Very Good** for Prospects for Improvement is based on the following factors:

- There is now clarity in the roles and responsibilities between KCC teams and Cantium, which will allow for better identification of issues and further process improvement.
- Tools and processes are now in place to identify erroneous payments before they are made.

Summary of Progress

Issue	Priority Level	Conclusion from testing
Exception Reporting	High	Implemented
Pre-Payment Checks	High	Implemented
Roles and Responsibilities (end to end process)	Medium	Implemented

A2 - Review of Covid-19 Expenditure

Audit Opinion	**Substantial**
Prospects for Improvement	**Good**

'Covid-19 logs' are maintained and continue to be developed by Finance and these provide an adequate mechanism to monitor and scrutinise the financial pressures attributed to Covid-19. Sample testing covering the period April 2020 to July 2020 and totalling £830k of expenditure, revealed that all transactions tested were related to the pandemic.

Guidance has been produced and circulated by email to support relevant Finance Officers and Budget Managers. However, 5 of the 19 (26%) Officers interviewed during the audit were not aware of the guidance available. The sample reviewed covered all four Directorates.

Key Strengths

- Guidance is available to support Budget Managers and relevant Finance Officers.
- Covid-19 logs have been developed and continue to evolve as new reporting requirements become evident.
- All transactions sampled totalling £830k were found to be linked to Covid-19.
- Internal Audit was were informed that costs associated with Covid-19 are under constant review and challenge.
- The financial impact of Covid-19 is closely monitored and is reported to various committees and MCHLG on a regular basis.
- A consistent approach has been developed and applied across each Directorate to provide oversight of Covid-19 financial pressures.
- Any potential gaps in the level of Covid-19 expenditure and income loss against the funding provided are monitored and understood.

Areas for Development

- Although, as detailed above, guidance is available and had been circulated to Budget Managers and relevant finance staff, it was not available on Knet and 6 out of 20 (30%) staff interviewed were not aware of the guidance.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- There is a good understanding of financial pressures caused by Covid-19 whilst there is also robust monitoring in place with the ability to evidence spend where required.
- Management actions have been developed for all issues raised.

Summary of Management Responses

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	NA
Medium Risk	0	0	NA
Low Risk	1	1	NA

B1 – Deprivation of Liberties – Progress with Addressing Backlog

Audit Opinion	**Adequate**
Prospects for Improvement	**Adequate**

Audit testing found that since the previous audit in 2017 there has been a marked improvement in the efficiency of the processing of Deprivation of Liberties (DoLS) applications and the caseload monitoring and review process. Internal Audit sample testing found the quality of assessments to be of a consistent high standard. However, capacity of the team is an ongoing challenge, resulting in delays in completing cases and the statutory deadlines not being consistently achieved.

The issues raised in the 2017-18 audit were followed up as part of this review. Of the two issues raised; the high-risk issue relating to inconsistent administration practices was no longer relevant following the implementation of Mosaic and the medium risk issue regarding risk management had been implemented.

Furthermore, since the previous review, new client pathways have been introduced in order to create efficiencies and models of sustainability, yet the team continues to see an increase in applications presented to them and demand continues to outstrip the available resource.

Areas for Development

- The backlog of cases highlighted in the 2017 audit persists despite management actions to improve efficiency and team capacity. In addition, a Supreme Court Decision in 2014 has led to a further increase in the number of assessments required to be carried out by local authorities. As a result, backlogs remain and statutory deadlines for completion of DoLS assessments are not consistently being achieved.

Key Strengths

- The assessment process was found to be effective and efficient.
- Applications reviewed were found to have been correctly assessed and prioritised using ADASS (triage). There was uniformity of approach and execution of forms.
- All assessments had been signed off and authorised.
- The introduction of the new service user pathways within the process (Equivalent Assessment - EQiA) has generated a cost saving for KCC of £430 per assessment. This represents an improvement in the DoLS process and a service improvement for the client. This also facilitates the management of the number of applications that go into the backlog.
- The Introduction of data validation by admin business support on a timetabled basis continues to make checks on pending applications and whether they are still necessary. This maintains the control on what was backlog, with cases building up and also ensures that if the client's circumstances have changed there is an opportunity for the case to be re-prioritised with the client being seen.
- Management are closely monitoring the available capacity of the existing team redirecting and allocating the resource as forecasting of demand necessitates.
- On a monthly basis the management team monitor all activity in order to ensure there is a clear position statement on the number of clients that have not been seen and take action accordingly.
- There are robust manual caseload monitoring and reporting arrangements in place covering both the progress of current cases and the volume of new applications.
- Any processing issues are escalated and management are proactive in investigating any peaks and troughs in demand.
- Feedback from service user's next of kin is routinely requested by the service. The analysis of feedback performed in August 2020 found that the vast majority of respondents were extremely satisified with the service received.

Prospects for Improvement

Our overall opinion of Adequate for Prospects for Improvement is based on the following factors:

- Reporting from Mosaic requires improvement. Dashboards are in development which will assist in the provision of monitoring information and facilitate trend analysis (currently a significant amount of management time is spent manually monitoring service provision).
- The team's capacity is a heightened issue because the volume of applications is increasing. This is an ongoing issue and there is heavy reliance on additional contracted staff which is costly and potentially unsustainable.
- In July 2018, the government published a Mental Capacity (Amendment) Bill, which passed into law in May 2019. It replaces the Deprivation of Liberty Safeguards (DoLS) with a scheme known as the Liberty Protection Safeguards. The original target date for implementation of October 2020 has been postponed until April 2022. Prior to then, a revised MCA Code of Practice will be published, which, the sector trusts will bring clarity to some outstanding questions about how Liberty Protection Safeguards will work in practice. KCC need to consider and plan to determine how this will be resourced.
- The service has experienced an increase in the number of safeguarding referrals following a coroner's inquest. These are currently being managed via paying staff overtime. The lack of existing capacity to manage this has been raised at DMT level.
- The REA (Returning Equivalent Assessment) Pathway is currently in development to facilitate the performance of non-practice tasks by administrators and to enable tasks to be delegated and to provide a training opportunity for student social workers.

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

B2 – Adult Social Care Client Billing

Audit Opinion	**Limited**
Prospects for Improvement	**Good**

The adult social care client billing processes are complex, the areas examined within this audit were well documented and included the use of checklists to ensure all tasks are completed prior to moving to the next stage of the process. There are also regular reconciliations and exception reports produced to highlight items which need attention/ investigation prior to the client invoices being generated.

One element of planned audit testing included with the audit scope could not be completed. Despite numerous requests to BetterGov (an agency supporting KCC with the implementation of Mosaic), Internal Audit were unable to obtain any reports of amendments made via the Mosaic Provider Portal (MPP). Therefore, Internal Audit have been unable to conclude on the adequacy of controls over amendments to care records through the MPP. However, Internal Audit were able to test the controls related to the weekly reconciliation between MPP to the expected provisions on Mosaic and the associated exception reporting of invoices above the 10% tolerance or where there is no provision on Mosaic.

A number of concerns have been raised regarding the lack of verification and reporting available within MPP to identify client's whose bills are within the tolerance level but could have variances which are significant to the client. This lack of information means that it is not possible to identify potential issues before a client receives their bill and Internal Audit are unable to quantify the extent and potential impact on clients and the reputation of the service of this issue.

Key Strengths

- Testing of a sample of residential and non-residential client invoices from billing runs in the period April to September 2020 found:
    - Client contributions are accurately calculated based on the financial assessment and did not exceed the cost of care.
    - Invoice values in Oracle were accurate.
    - Any payments made had been deducted prior to the next payment run.
- Oracle is aligned with Mosaic through a daily interface of amendments and new clients from Mosaic into Oracle.
- There are several processes in place to identify and investigate discrepancies in the billing run. Audit testing confirmed that all planned reports are run, and the exceptions highlighted are actioned prior to moving on to the next stage of the billing run.
- The total value and volumes of invoices from Mosaic is loaded into Oracle and validated. Testing confirmed that the Mosaic control report and validation from Oracle matched both in terms of values and volumes.
- Testing of a sample of billing runs found that timescales were met for each element of the billing run and evidence was available to support this.
- Invoices were produced and issued in line with agreed timescales and direct debits are taken on the date stated on the Kentcare invoice.

Areas for Development

- MPP links directly to client billing and where a provider invoices less than expected or within the 10% tolerance level this is automatically applied to client bills for those who pay the full cost of their care. However, there is no way to identify these amendments or to inform the client prior to them receiving their invoice.
- Providers may raise zero invoices in MPP in error resulting in the client not being charged for care at the time and when errors are rectified by the provider client invoices will fluctuate.
- Both providers and the KCC Purchasing Team within Adult Social Care & Health can apply suspensions to a provision. However, when this happens there is no link to the financial assessment and therefore the full cost of the care and the client contribution is refunded back to the client in error.
- There is no reconciliation carried out between the number of invoices expected to be printed and the number of invoices actually printed.
- There was no investigation into the differences highlighted by the reconciliation between invoice amounts and Oracle transactions. These have now been investigated and needs further action to resolve them.
- The process for setting up residential codes in Mosaic could be enhanced to reduce the number of coding errors to be investigated during the billing run.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- At the time of the audit, checklists are used by several teams involved in the billing run process but there was no overarching checklist to monitor progress against timescales for the full billing and invoicing process. From November 2020, a new document was introduced which can be accessed by all relevant contributors so they can indicate the time & date their actions were completed to show progress at any point in time.
- The purchasing team now review any invoices showing zero and these are not paid until resolved. They are also asking providers not to submit zero invoices.
- The BDU systems team are looking into the variation recording process with the support of the purchasing team.
- It is proposed that MPP will be rolled out to additional providers which, without the necessary reporting, could increase the number of potential issues with client invoices. However, a task and finish subgroup has been established which includes representatives from various teams to examine the whole process including MPPs link with client billing.

Summary of Management Responses

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	1	1	N/A
Medium Risk	2	2	N/A
Low Risk	1	1	N/A

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B3 – Covid-19 Risk - Charging Arrangements

Audit Opinion	**Substantial**
Prospects for Improvement	**Good**

As part of the 2020/21 Audit Plan, it was agreed that Internal Audit would undertake a review of the Hospital Discharge arrangements put in place as a result of the Covid-19 pandemic. This specifically reviewed the charging of clients and reclaiming of cost against the government fund.

The aim of the audit was to provide assurance that systems have been implemented to deliver against the Hospital Discharge guidance, that Service Users have not being incorrectly charged and monitoring was in place to reclaim money and undertake financial assessments when services under the arrangements ended.

The delay in receiving and understanding the guidance for the Covid-19 Hospital arrangements meant that systems or processes were not in place to accurately determine eligible Service Users.

Reasonable manual work arounds were developed. Although some Service Users appear not to have been identified, the assumptions and method used meant that these were exceptions rather, than a systemic failing. The inception of a working group in May to tackle the implementation of the guidance and the capture of data, both manually and on the system, has improved the process.

Although further isolated errors have been identified through the audit, the introduction of a system solution to capture clients not to be charged would further improve these controls for any future repeat of these arrangements.

Monitoring of Service Users identified under the arrangements is good and there is a central source shared with all stakeholders. Information to support applying for money from the covid-19 fund is accurate, although claims have yet to be made.

Key Strengths

- The referral process remains unchanged although the timing means the referral is post discharge, and therefore obtaining the actual date of discharge has not been possible for all Service Users.
- Hospital Trackers have been in place since the start of the arrangements but were not easy to extract the desired data. These were refreshed, improved and standardised at the start of June.
- From June, data captured by the operational teams was effectively used to identify eligible Service Users.
- The process and assumptions used to retrospectively identify Service Users that were being charged incorrectly due to the late implementation were reasonable, although due to data quality, and lack thereof at the start of the arrangements, there are some that were not identified (see area for improvement)
- Once arrangements were known, a project group has ensured comprehensive operational guidance has been disseminated to cover eligibility for discharge and avoidance criteria and also for additional input to the Mosaic system, Including warning notices to flag cases eligible cases.
- The project group have been effective in coordinating tasks to ensure Adult Social Services comply with guidance released.
- Adequate manual processes have been implemented to identify hospital discharge and avoidance cases and these have reduced the number of Service User not identified.
- The record retained of clients under the arrangements is produced by the performance and information team and is distributed to relevant parties. There is recording of actual start and end dates, including the total cost for the period.
- The backlog of financial assessments was completed with remaining assessments for clients referred during August either completed or booked in.
- The master monitoring record is received monthly and calculation of funding to reclaim is accurate.

Areas for Development

- Although the current work for identifying service users that are included under the Covid19 discharge arrangements are reasonably robust, there were 2 Service Users that were not identified and had been charged. (these were prior to June 2020)
- Instances of poor data quality mean it is not possible to provide complete assurance that all Service User have been identified. Although these instances have reduced as process have become more embedded.
- Four from a sample of 20 identified Service Users, showed that they had, or potentially had, been incorrectly charged or their existing charge has not been capped.
- To date there is still no system solution to prevent clients being assessed and charged incorrectly although work is ongoing to develop one.
- To date no reclaim of funds have been made from the CCG.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- Initial issues affecting the notification of the commencement of Covid-19 Hospital Arrangements have been addressed, ensuring a timely response to future arrangements.
- There is an established manual work around to ensure further arrangements could be met from their start date.
- There is continuing work to find a system solution, with a number of options being pursued.

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

B4 - ASCH Assurance Map – Safeguarding

Audit Opinion	**N/A**
Prospects for Improvement	**N/A**

Introduction

It was agreed that Internal Audit would undertake an assurance mapping exercise against the Council's significant risks, with this map focussed on Adult Safeguarding. Assessment was undertaken through interviews with key officers, and reviews of relevant documentation.

Key Findings

An assurance map was provided for Directorate Management and highlighted areas where assurance gaps exist and where future work should be directed. Below are the key potential scope areas in which gaps exists in assurance for ASCH Safeguarding:

- Management supervision
- ASCH Performance dashboard and Quarterly Safeguarding report
- Quality Assurance Framework

	1st Line Assessment	2nd Line Assessment	3rd Line Assessment	RAG
Management Supervision	• Supervision should be carried out every 4-6 weeks and this should in include professional supervision. • An audit report of supervision records should be presented to Senior Management		• Gaps in frequency and quality	
Adult Social Care performance dashboard and Quarterly Safeguarding report	• Current system just measures process and compliance of set indicators/measures. Safeguarding only considered once referral has been made. The danger is that safeguarding is not identified as safeguarding encompasses the whole service		• No Internal Audit Coverage	
Quality Assurance Framework	• Complete Quality Assurance Framework is not currently in place. There is a danger that safeguarding has not been identified. Current system just measures process and compliance once a referral has been made. Safeguarding of adults should be across the service.		• Consultancy work completed in 2019/20 with no outputs/implementation noted at that time	
Learning and Development	• Competency framework in place and has been refreshed. There is mandatory training and development specified dependent on role. Attendance is reported to the Organisational Development Group and the Safeguarding Group, however little analysis to demonstrate impact		• No Internal Audit coverage	
Countywide Safeguarding Unit/Leads	• Model of unit not Currently adopted by LD and MH and therefore is not Directorate Wide			
Directorate Management Team	• Meetings have not happened recently and reporting centres around issues identified and compliance with process not quality			

B5 - Blue Badge Application Process

Audit Opinion	**Substantial**
Prospects for Improvement	**Good**

The Blue Badge Service has procedures in place to process new applications, renewals and payments, as well as data maps which reflect national good practice guidance. A third-party service provider is engaged to review initial applications, which are then processed to completion by the KCC Blue Badge team. In recent months, there has been a substantial increase in applications not being reviewed within timescales by the third-party service provider. This is understood to be due to a significant period of change within that organisation, and the contract manager is actively engaged in addressing this.

Sample testing of Blue Badge applications found that all had appropriate supporting evidence, including proof of ID. Further assessments were used to clarify applicant conditions and the decisions reached were well documented and supported.

Key Strengths

- All applications reviewed were found to have been assessed in line with procedures.
- The assessment process was effective and efficient, using a scoring matrix to assist in decision making.
- The service maintains up to date procedure notes and guidance for staff.
- Data maps are used show the flow of work and these reflect national guidance.
- Where applicants have not provided sufficient information, they are contacted promptly.
- Access to Government systems (for example to verify claimed benefits and confirm ID) helps to reduce the risk of fraud.
- Only applicants who have been assessed as meeting the criteria are issued a badge.
- The appeals process allows the applicant/carer the opportunity to bring forward any further information to support their application.

Areas for Development

- The third-party service provider which carried out initial assessment of applications is not currently completing applications within contracted timescales.
- The Blue Badge service has not developed a risk register. There are service specific operational and fraud risks which are not formally assessed for mitigation.
- It is unclear whether the data maps are reviewed and updated regularly.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- The service is planning to further enhance the guidance notes to include additional areas such as Blue Badges being lost in the post.
- There remains uncertainty regarding the performance of the third-party service, which is currently not meeting agreed timescales for the initial assessment of applications.

Summary of Management Responses

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	NA	NA
Medium Risk	2	2	0
Low Risk	1	1	0

B6 - ASCH Covid-19 Response Plan

Audit Opinion	**Adequate**
Prospects for Improvement	**Good**

The Directorate's response to the Covid-19 emergency was split into two distinct periods. During the period leading up to 11 March, the Directorate's response to the pandemic was driven by guidance from Central Government and Public Health England. During this period, the Directorate neither updated its business risks, nor did it review its business continuity plans in view of Covid-19.

The Directorate actively participated in KCC's Cross-Directorate Resilience Forum. This, however, did not extend to pro-active engagement with Public Health colleagues in the Directorate's preparedness for the pandemic, including consideration of changes to pre-Covid-19 business practices to ensure appropriate protection of elderly and vulnerable adults.

Internal Audit found weaknesses in controls relating to the monitoring and recording of business continuity training. The Directorate, however, benefited from extensive business continuity planning that had taken place to prepare for anticipated disruption linked to Brexit.

The second period was after 11 March, when the Directorate decided to stand-up its Resilience Group, initiated daily situation reporting and ensured services had reviewed their business continuity plans.

At this stage, the Directorate's response was guided by the business continuity plans and the Directorate's Resilience Group provided an effective discussion and decision-making forum, with timely information on service pressures.

In late March, the Directorate Management Team (DMT) redeployed the Portfolio Management Team to project manage the Directorate's response. The team provided good discipline and control over the Directorate's identified response activities.

The Coronavirus Act 2020 included provisions for Care Act easements for Local Authorities. In responding to the emergency, the Directorate did not need to seek easements under the Coronavirus Act.

Key Strengths

- The Directorate's System Resilience Plan contributed to an effective response to the pandemic.
- Extensive preparation had been conducted in anticipation of a "No Deal" Brexit, which included having up-to-date business continuity plans.
- The Directorate's Resilience Group met twice weekly from 11 March.
- On 11 March, the Directorate initiated daily situation reporting for all services.
- The situation reports were collated to create a single operational picture across the Directorate. These situation reports were then able to identify issues within the Directorate e.g. PPE shortages.
- The Directorate's situation report evolved as needed, settling on a RAG rated dashboard of service provision.
- The Resilience Group's meetings included feedback from multi-agency meetings and the Council's Business Partners.
- The Directorate was represented at the daily Corporate Management Team meetings and information was cascaded down to the Directorate Management Team (DMT).
- Strategic Commissioning already attended DMT meetings and a representative from the Public Health Team attended these meetings from mid-March.
- The Directorate's response was well integrated into both the Kent Resilience Forum and KCC's response structures.
- Issues and concerns relating to the emergency response were appropriately categorised and reported to DMT.
- Redeployed resources from the Portfolio and Project Management Team project managed the actions identified by DMT, tracked progress and provided daily updates.

Areas for Development
- There were no corporate policies, procedures or guidance that promote, at a directorate level, active and structured horizon scanning of risks and potential emergencies.
- None of the reviewed emergency plans set out how the Director of Public Health and the Directorate's Resilience Group should co-ordinate preparations to address public health risks arising from the pandemic.
- There was no record confirming that all relevant staff members have received the appropriate resilience training.
- A schedule of business continuity training and testing exercises could not be located.
- The reviewed business continuity plans contained generic references to pandemic risk but did not cover how pandemic specific risks should be addressed.
- Officers had not specifically prepared themselves, or their teams in advance to be alert to, and to respond to potential frauds.
- Several corporate policies or procedures were out of date.
- There was no evidence that in preparing its Response Plan, the Directorate proactively included activities necessary to achieve all the service priorities listed in KCC's Coronavirus (COVID-19) Pandemic Contingency Plan.

Prospects for Improvement
Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:
- The Directorate is ready to contribute to active and structured horizon scanning of risks and potential emergencies, when corporate policies, procedures or guidance are published, and will contribute to the development of these council wide policies.
- The Directorate's Resilience Group is aware that there are weaknesses in the resilience training programme and is considering ways of removing these.
- The Directorate's approach to training and exercising was signed-off by DMT on 7th October 2020.
- The Directorate has put forward nominations for multi-agency strategic command and control training as part of the induction programme for Assistant Directors appointed in September 2020.
- DMT agreed a schedule for Business Continuity Plan reviews on 7th October 2020. Plan reviews will seek to strengthen key areas of perceived weakness identified through this audit and operational lessons identified through the response to Covid-19.

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	1	1	0

Audit Opinion	**N/A**
Prospects for Improvement	**N/A**

Introduction

It was agreed that Internal Audit would undertake an assurance mapping exercise against the Council's significant risks, with this map focussed on CYPE Safeguarding. Assessment was undertaken through interviews with key officers, and by reviewing supporting documentation. Internal Audit sought to establish whether each component CYPE has in place to operate to the 3 lines of assurance were operational.

Findings

An assurance map was provided for Directorate Management and the high-level review found no operational gaps in the CYPE Safeguarding Governance at 1st, 2nd and 3rd lines of defence.

The beginning of the Financial Year had been disrupted due to the Pandemic and that some meetings governing CYPE Safeguarding, at the 3rd line, had been postponed. However, the subsequent use of technology to hold remote meetings had helped to stabilise the control framework. This had subsequently meant that some annual reports remained in draft longer, prior to them being issued to the relevant governing panel or board for review and formal issue.

At the time of the review, Internal Audit noted that:

- The Kent Safeguarding Children Multi-Agency Partnership (KSCMP) was in its first year since replacing the Kent Safeguarding Children Board. The last Annual Report available was for the year 2018/19, however Internal Audit were advised that the Independent Scrutineer was preparing a report for the KSCMP Executive Board, and that future annual reporting is likely to take place in July each year.
- The Corporate Parenting Panel (CPP) Draft report and Independent Reviewing Officer reports were awaiting approval prior to presenting to the CPP in December 2020.
- The Local Authority Designated Officer (LADO) report was awaiting sign off by the KSCMP Executive Board and publication on the KSCMP website.
- The latest Child Death Overview (CDOP) report was awaited.
- Pressures had also meant that there were instances where the Council's Intranet and other relevant websites had not been updated with reports and copies of meeting minutes.

D1 - Purchase to Pay (P2P)

Audit Opinion	**Substantial**
Prospects for Improvement	**Good**

The individual processes and controls within P2P were generally well controlled, with a few areas identified during our review that require improvement. Investment in the success of P2P has come from Strategic Commissioning and Finance, however there is no mandate for Directorates to use the catalogues set up on the iProc system. In addition, P2P lacks an end-to-end owner to ensure that improvements are driven through and service users are engaged.

The advances in Directorate core system technology have resulted in an increased use of interfaces between core systems and AP (rather than using the iProc system) with the evidence of approval of orders residing within those core systems. Internal Audit found that there was adequate control over setting up new suppliers within the Directorate core systems, supplier payments from those systems can only be made through the AP function and these were recorded in the General Ledger.

Data analysis has revealed that an average of 14% of all PO's raised were raised retrospectively, e.g., after the order was placed with the supplier, however Internal Audit note that this was not impacting adversely on payment of suppliers.

Key Strengths

- Policies and Procedures are up-to-date and available to staff.
- Analysis of elements of the P2P process is carried out by Strategic Commissioning in line with their Divisional Business Plan objectives.
- Strategic Commissioning are re-evaluating the receipting and new supplier set-up processes to identify improvements and efficiencies.
- Suppliers are paid promptly by CBS AP once an approved invoice has been received from KCC.
- All purchase and payment transactions are accurately recorded in the Council's Oracle financial systems.
- The CBS Control Team verifies changes to supplier bank details before changes are processed in Oracle AP.

Areas for Development

- The impact on financial control from purchases progressed outside iProc (and without a PO) has not been assessed and understood.
- The process for verification of a new supplier's bank details prior to set-up in Oracle AP does not include verification that the supplier bank details provided are correct.
- Both KCC Finance and CBS stated that delays in receipting of goods was the largest problem in processing invoices for payment promptly and leads to significant administrative burden.
- Suppliers are removed from the Oracle AP system after 12 months of inactivity, which is proving to be too soon in many instances.
- The Procurement Toolkit has not been published on KNet, and some of the and 'How to' guides issued by Procurement have broken links.
- There are no routine reviews of Flexfields to remove leavers, and the iProc user list to check if users have been set-up with dual 'requisitioner' and 'approver' roles.

Prospects for Improvement

Our overall opinion of Good for Prospects for Improvement is based on the following factors:

- A Finance Payment project has been set up with a remit to evaluate all methods of payment used by the Council;
- Strategic Commissioning have a project to improve the goods receipting workflow;
- Strategic Commissioning is working in conjunction with CBS to streamline new supplier set-up processes and reduce the error rate and lead time;
- Strategic Commissioning and Finance dashboards have been developed to monitor exceptions to the standard P2P process, e.g., late payments.

Summary of Management Responses

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	0
Medium Risk	2	2	0
Low Risk	4	4	0

D2 - Kent Pension Fund Investment Governance – Follow-Up

SUMMARY OF IMPLEMENTATION OF MANAGEMENT ACTIONS

Total Issues	Implemented	In Progress	Not Implemented	Superseded
15	**1 (7%)**	**8 (53%)**	**6 (40%)**	**0 (0%)**

SCOPE SUMMARY

1) The audit included a review of relevant documentation and an interview with the Acting Business Partner to the Kent Pension Fund.
2) In order to provide assurance, Internal Audit reviewed the implementation and effectiveness of all management plans for the 15 Issues with a "High" or "Medium" risk rating in the report, AD01-2020 – Pension Fund Investment Governance, Lessons Learned Review.

KEY FINDINGS FROM FOLLOW UP

Key Findings:

- KCC's Finance Function considered that governance of the Kent Pension Fund (the Fund) would benefit from a more thorough review conducted by an external adviser. Implementing this meant that the target dates for completion of the management actions for all 15 "High" or "Medium" risk rated issues would be missed.
- Following a procurement competition, KCC's Finance Function appointed Barnett Waddingham to conduct two separate but linked reviews of:
  - The governance of the Fund, including the management and organisation of KCC's Finance Function's support to the Fund
  - The management and resources of KCC's Treasury and Investments team Finance Function's support to the Fund
- The external review commenced on 23 October 2020 and the final report is expected in Spring 2021.
- KCC's Finance Function implemented a number of changes including varying Mercer's contract to monitor the performance of investment fund managers and to provide the Superannuation Fund Committee (the Committee) with investment advice.

MANAGEMENT ACTIONS STATUS

Implemented

- Management action for 1 out of 9 Issues with a "High" risk rating

In Progress

- Management actions for 6 out of 9 Issues with a "High" risk rating
- Management actions for 2 out of 6 Issues with a "Medium" risk rating

Not Implemented

- Management actions for 2 out of 9 Issues with a "High" risk rating
- Management actions for 4 out of 6 Issues with a "Medium" risk rating

D4 – Succession Planning – Management Letter

Audit Opinion	**N/A**
Prospects for Improvement	**N/A**

As part of the Audit Plan, it was agreed that Internal Audit will undertake a review of Succession Planning. The objective of this review was to provide assurance that effective and robust succession planning has been established and embedded across the Council to mitigate the risks related to the continuity of services.

However, in September 2020, following discussions with officers from Human Resources & Organisation Development (HR & OD), Internal Audit were made aware of a programme of work currently underway as part of the accelerated People Strategy and Organisation Development reset which significantly impacted the agreed scope of the audit.

Using the findings from last year's workforce planning review, and in collaboration with the LGA, a new workforce planning approach, process and toolkit has been developed and is soon to be piloted before being rolled out. A key element of the workforce planning toolkit is to facilitate effective divisional succession planning.

As the project is now at an advanced stage, it was agreed that Internal Audit would refocus the audit as follows:

- Phase one - a Management Letter and initial observations on the Council's succession planning arrangements
- Phase two – Internal Audit will work proactively and collaboratively to identify critical success factors to support the achievement of project objectives.

This initial report does not provide a formal assurance opinion but is a management memorandum to highlight issues and advice provided by Internal Audit to ensure appropriate actions can be implemented as soon as possible.

Initial Observations

Succession planning is a recognised method to assure that competent staff are assigned to fill vacant positions. It incorporates hiring, training, performance evaluation, and retention practices. Directors, Heads of Service, managers and HR have important roles in succession planning and management. Internal Audit findings are summarised below.

- None of the Heads of Service interviewed had formal, written succession plans.
- There was some awareness of the current HR & OD succession planning tool (available on KNet), though none had utilised it.
- Current succession planning guidance / tools are better suited to a pyramid staffing structures.
- Some potential successors are being identified and informally aligned with specific roles. However, there are some statutory services (such as Planning in GET) where options are limited with a number of staff nearing retirement / voluntary early retirement. Many are likely to have considerable knowledge and experience and may hold roles that are critical to the service.
- There was a perception that support is needed to create development opportunities for potential successors so that they can compete with external candidates.
- Heads of Service interviewed perceived that there was a need for more specific tailoring of formal learning and development for those identified as potential successors.
- Where potential successors cannot be identified, mitigation has been considered but not documented.
- There was some consensus that recruiting to bring in fresh new thinking from outside the Council has merit and would be welcomed.
- Interviewees also believed that they needed more HR support and engagement to develop effective succession plans.
- Formal skills matrices have not been consistently developed or documented to identify skills gaps in their teams and drive wider development plans.

Conclusion
The current Covid-19 pandemic has highlighted how critical it is to devote time and attention to identifying future leaders for key operational roles, on which the Council's success depends.

For any succession planning to be effective in identifying, developing, nurturing, and retaining future talent across services to mitigate future risk, it is imperative that they have access to the best possible guidance, tools, and support. The new Workforce Planning Toolkit aims to deliver this.

The extent to which the new workforce planning approach, process and toolkit will deliver improvements in succession planning depend on the, new processes and procedures being fully embedded and consistently applied across the Council. It is, therefore, vital that all key stakeholders involved define what success will look like and how the effectiveness of the succession planning component of the new toolkit will be qualitatively evaluated, monitored, reported and adjusted as needed.

Accordingly, HR management should ensure there is sustained focus and support to ensure this project is kept on a sound basis. Internal Audit will continue to liaise with relevant officers involved with the project and work collaboratively to identify critical success factors to support the achievement of project objectives.

D5 – ICT Access Controls / User Accounts for DSPT Assurance

Audit Opinion	**Substantial**
Prospects for Improvement	**Good**

Overall, there is a balanced control framework in place over ICT access and the applications selected for testing were found to be generally well managed. Whilst Internal Audit have raised some specific findings relating to the status of specific users, or accounts, these findings are at a relatively low level when compared to the population of users.

Both the CYPE Management Information & Intelligence Unit (MIIU), assisted by the Cantium LA Applications team, and the ASCH Business Delivery Unit (BDU) utilise a variety of different controls between them to manage the users of their main client systems, the Mosaic and Liberi applications which contain the electronic caseworker records for ASCH and CYPE respectively.

Internal Audit also reviewed access to the Public Health England system, for which Kent Public Health has access restricted only to five users. There was evidence that the treatment of the sensitive personal data that the system contained was being continually considered and advice sought where appropriate.

At the time of the audit, KCC held a current certificate from the Public Services Network Authority (PSN A), and Cantium, who manage the security controls on behalf of KCC, were certificated to Information Security Management System: ISO27001:2017.

Key Strengths

- Policies and Procedures are up-to-date and available to staff.
- Information Governance and Data Protection Essentials training are mandated for all Council officers.
- All auditees interviewed were found to have a good understanding of Data Protection and how personal data should be treated.
- Specific application training is provided to users on the CYPE Liberi and ASCH Mosaic systems, and access is granted only after users have completed the relevant training.
- Allocation of system permissions on the Liberi and Mosaic applications is by role, and on a needs-only and least-privilege basis.
- New user applications are authorised by the user's line manager and there are established policies and processes to manage new users.
- The Liberi and Mosaic logon authentication criteria meet the KCC Policy.

Areas for Development

- There was no single mechanism for Public Health to manage information governance risks in response to the fluid Government's expectations of the Local Authority.
- One Liberi system administrator account has a generic name.
- There was no direct evidence that the activities of highly privileged users on the Liberi and Mosaic applications are monitored.
- Several leavers and one user that had transferred to a different role had not been notified or actioned on the Liberi system.
- The Liberi and Mosaic applications were not yet single-sign-on.
- Periodic reviews of all users, including highly privileged users, are not being carried out.
- Mosaic last logged on reports were not being routinely used as a detective control.
- A small number of leavers had not been notified or actioned on the Mosaic system.
- Four leaver's Active Directory accounts had not been removed from the KCC systems.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- Adequate resources were in place for the management of system users.
- The CYPE MIIU for Liberi, and the ASCH BDU for Mosaic are working in conjunction with CBS to improve the joiner, leaver and user change processes.
- All staff interviewed were eager to further improve their internal processes and increase levels of information security and information governance.

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	6	6	0

D6 – Provider Data Protection Compliance

Audit Opinion	**N/A**
Prospects for Improvement	**N/A**

Internal Audit were commissioned by KCC Strategic Commissioning to undertake reviews of 16 key suppliers selected based on high-risk criteria determined by Commissioning to provide assurance on their compliance with the Data Protection Act (DPA) 2018.

In order to provide assurance, Internal Audit reviewed the adequacy of the controls in place against the DPA Principals. An assessment opinions for each supplier reviewed. And reported in a heatmap format.

Each provider was contacted via an MS Forms survey to obtain an understanding of their data protection arrangements and the related key documentation. This information was separately provided to Strategic Commissioning.

Key Strengths

- 69% of providers were assessed overall as Adequate or better in relation Data Protection.
- All providers had a Data Protection Policy in place, although these varied in quality - see Areas for Development.
- Each provider had a training programme for Data Protection in place.
- The providers which confirmed they had experienced Data Breaches appeared to have taken reasonable steps on the most part, with some good examples of organisational learning.
- Sub-contracting arrangements for those in our sample appeared robust.

Areas for Development

- Retention Schedules were in place for the vast majority of providers however, a large proportion of these require extra detail in order to operate effectively.
- Records of Processing activity (ROPA) which were only in place for a small number of providers and would provide an opportunity to understand why information is required and processed.
- Destruction of Data was not always sufficiently covered in procedures and often did not adequately cover both physical and electronic records.
- There is little reporting of the occurrence of data breaches which may suggest these are not being identified and escalated. This was a particular issue for the providers assessed as Adequate (56%) or Limited (31%) assurance.

E1 – Op Fennel (EU Transition) Management Letter

Background

This Internal Audit Memorandum describes the work of the Operation FENNEL Peer Review Team between 22 October and 11 December 2020. Operation FENNEL is a multi-agency response to adverse volumes of International freight and International tourist and light goods vehicles (LGV) traffic that are unable to leave the country via the Port of Dover and/or the Channel Tunnel in a timely way. The purpose of Op FENNEL is to collate Department for Transport, Highways England, Kent Police and Kent County Council plans together as a single plan.

In October 2020, ten weeks prior to the end of the EU transition period, the Kent Resilience Forum (KRF) initiated a review of the Op FENNEL plan. The Peer Review Team (PRT) was established comprising two Assistant Joint Regional Liaison Officers from the military and a member of KCC's Internal Audit Team. The Terms of Reference and a 5-Phase approach to reviewing the Op FENNEL Plan (Understand, Shape, Refine, Review, Reassure) were agreed on 27 October 2020. The Terms of Reference for the PRT were agreed as follows:

a. Review plans for issues and identify potential conflicts or inconsistencies.
b. Identify and highlight dependencies and interdependencies.
c. Identify potential planning gaps in plan, preparation & execution.
d. Assess whether there are capability and capacity gaps.
e. Review any planned assumptions of responsibilities/activities that sit within another organisations plan.
f. Identify all contingencies as described in the Reasonable Worst-Case Scenario.
g. Confirm that partners have risk assured their own business continuity capability and plans.
h. Provide support with multi-agency peer reviews of plans.
i. Provide support with individual agency scrutiny panels where requested.

Noting the collapsing timelines, both PRT and KRF acknowledged that success depended on a best endeavour approach, open and collaborative work amongst partners, and an accurate and honest independent review of plans allowing the PRT to inform KRF strategic and tactical decision-making processes.

Through a combination of document review, access to all meetings and interviews with key stakeholders, the PRT rapidly established a functional understanding of the planning environment and the status of key plans.

The OP Fennel Strategic Co-ordinating Group (SCG) requested support from members of the PRT beyond 11 December. Through continued participation at meeting of both the Tactical Co-ordinating Group (TCG) and SCG, KCC Internal Audit observed that steps were being taken to address and close out these key residual issues.

Conclusion

By highlighting issues and making associated recommendations in a timely manner, the PRT provided the Op FENNEL Strategic and Tactical Commanders with intelligence about vulnerabilities within Op FENNEL Plan. Prompt assignment and prioritisation of remedial actions, or acceptance of now known risks was observed, resulting in most of the issues being closed by mid-December 2020. Consequently, Internal Audit observed increased confidence across all members of the TCG and SCG that the Op FENNEL Plan is coherent and comprehensive across its constituent parts.

Appendix C – Implementation of Agreed Actions

3+ Years						
Engagement Reference	**Engagement Name**	**Audit Opinion**	**Title**	**Risk Rating**	**Directorate**	**Status**
ICT07-2015	PCI DSS	Limited	Issue 1 - Business Areas Processing Card Transactions	High	ST	**In Progress**
RB01-2018	Members Induction and Training	Adequate	Issue 2 - Mandatory Training	Medium	ST	**In Progress**
RB45-2017	National Driver Offender Retraining Scheme – Phase 2	Adequate	Issue 1 - Trainer Recruitment and Retention	High	GET	**In Progress**
RB45-2017	National Driver Offender Retraining Scheme – Phase 2	Adequate	Issue 2 - Forecasting and Procurement	High	GET	**Implemented**

2 - 3 Years						
Engagement Reference	**Engagement Name**	**Audit Opinion**	**Title**	**Risk Rating**	**Directorate**	**Status**
CA03-2018	Risk Culture	Substantial	Issue 3 - Risk transparency with decision reports	Medium	ST	**Risk Accepted**
ES05-2018	OPPD Day Services Themed Report	Adequate	Issue 1 - Utilisation	High	ASCH	**In Progress**
ES05-2018	OPPD Day Services Themed Report	Adequate	Issue 2 - Inclusivity	High	ASCH	**In Progress**
ES05-2018	OPPD Day Services Themed Report	Adequate	Issue 3 - Letting Policy	Medium	ASCH	**In Progress**
RB46-2019	Coroners Service - Financial Controls	Adequate	Issue 2 - Due Diligence and Cost Control	Medium	GET	**In Progress**

1 - 2 Years						
Engagement Reference	**Engagement Name**	**Audit Opinion**	**Title**	**Risk Rating**	**Directorate**	**Status**
CA09-2018	Departmental Governance Review – Adult Social Care and Health	Adequate	Issue 3 - Information flow – DMT and DivMTs	Medium	ASCH	**Implemented**
CA09-2018	Departmental Governance Review – Adult Social Care and Health	Adequate	Issue 5 - Independence of reporting lines for the Chair of the Adult Safeguarding Board	Medium	ASCH	**In Progress**
CA09-2018	Departmental Governance Review – Adult Social Care and Health	Adequate	Issue 6 - Committee Terms of Reference	Medium	ASCH	**In Progress**
CS01-2019	Payment Processing	Adequate	Issue 2 - Retrospective Purchase Orders	Medium	ST	**In Progress**
CS01-2019	Payment Processing	Adequate	Issue 3 - Authorisation of manual invoices	Medium	ST	**In Progress**
CS01-2019	Payment Processing	Adequate	Issue 5 - Vacation Rule in iProc	Medium	ST	**In Progress**
RB02-2019	Property - Statutory Compliance	Limited	Issue 3 - Tenanted Properties – Requirement to notify KCC of Compliance Checks	Medium	ST	**In Progress**
RB20-2019	LD Lifespan Pathway Post Implementation	Adequate	Issue 1 - Pathway Plans and Assessments	High	CYPE	**In Progress**
RB34 2020	Foster Care	Adequate	Issue 3 - Voice of the Child	Medium	CYPE	**In Progress**
RB42-2019	Virtual Schools Kent	Adequate	Issue 2 - Clear statements from VSK about the quality of the ePEPs	Medium	CYPE	**Implemented**
RB55-2017	Kent Resilience Team Phase 3 and Follow-up	Adequate	Issue 3 - Business Case	Medium	GET	**In Progress**

Less than 1 Year						
Engagement Reference	**Engagement Name**	**Audit Opinion**	**Title**	**Risk Rating**	**Directorate**	**Status**
CA01-2021	Annual Governance Statement	Adequate	Issue 2 - New Issues Raised from 2019/20	High	ST	In Progress
CA02-2019B	Developer Contributions Community Infrastructure Levy	Limited	Issue 1 - Procedures for optimising developer contributions through the Community	Medium	GET	In Progress
CA02-2019B	Developer Contributions Community Infrastructure Levy	Limited	Issue 4 - Consulting services about future infrastructure needs	Medium	GET	Implemented
CA06-2020	Data Protection Deep Dive	Adequate	Issue 1 - Record of Processing Activity (ROPA)	High	ST	In Progress
CA06-2020	Data Protection Deep Dive	Adequate	Issue 2 - Data Breaches	Medium	ST	In Progress
CA11-2019	Strategic Commissioning Overview	Adequate	Issue 3 - Relationships between the SC Division and directorates	Medium	ST	In Progress
CS05-2020	Schools Financial Services – School Compliance Regime	Substantial	Issue 1 - Escalation Process for Implementation of Recommendations	Medium	CYPE	Implemented
CS06-2020	Payroll	Substantial	Issue 1 - Timely Notification of Staff Leavers	Medium	ST	Implemented
CS06-2020	Payroll	Substantial	Issue 2 - Exception Reporting and Learning Lessons	Medium	ST	Implemented
ES01-2020	Establishments Themed Review - Day Services	Substantial	Issue 1 - Utilisation	Medium	ASCH	In Progress
ICT02-2020	Wireless Network Security and Capacity	Adequate	Issue 1 - User Access to the Data Centres.	Medium	ST	Implemented
ICT02-2020	Wireless Network Security and Capacity	Adequate	Issue 2 - Forward Planning for Wireless Infrastructure	Medium	ST	Implemented
ICT02-2020	Wireless Network Security and Capacity	Adequate	Issue 3 - Service Set Identifier (SSID)	Medium	ST	Implemented
ICT03-2020	Software Licensing	Substantial	Issue 2 - Software Licencing Issue	Medium	ST	In Progress
ICT04-2020	ICT Change – Project Benefits Realisation	Adequate	Issue 1 - ICT Project Management Response	High	ST	Implemented
ICT05-2020	Members ICT	Adequate	Issue 1 - ICT Support for Members	Medium	ST	In Progress
ICT05-2020	Members ICT	Adequate	Issue 2 - ICT Acceptable Use Policy	Medium	ST	In Progress
RB03 -2020	Customer Feedback	Substantial	Issue 6 - Customer feedback reporting	Medium	ST	Implemented

Less than 1 Year						
Engagement Reference	Engagement Name	Audit Opinion	Title	Risk Rating	Directorate	Status
RB04-2020	Agilisys Contract Management	Adequate	Issue 1 - Administering the Contract through an effective Contract Management System	Medium	ST	In Progress
RB04-2020	Agilisys Contract Management	Adequate	Issue 3 - Tracking and Reporting Performance Issues	Medium	ST	Implemented
RB04-2020	Agilisys Contract Management	Adequate	Issue 2 - Ambiguities between the Contract documents	Medium	ST	Implemented
RB04-2020	Agilisys Contract Management	Adequate	Issue 4 - Complaints and Feedback from Kent Residents and KCC's Stakeholders	Medium	ST	Implemented
RB04-2020	Agilisys Contract Management	Adequate	Issue 5 - Assurance around Risk Management and Business Continuity	Medium	ST	Implemented
RB04-2020	Agilisys Contract Management	Adequate	Issue 7 - Relationship Management	Medium	ST	In Progress
RB08-2020	Public Health Grant - Sexual Health Spend	Substantial	Issue 3 - Reconciliation of LARC Drug Costs	Medium	ST	Implemented
RB11-2019	Public Health - Partnership with Kent	Substantial	Issue 2 - Project/Workstream ownership and service development	Medium	ST	Implemented
RB12-2021	Personal Protective Equipment (PPE)	Substantial	Issue 1 - ASCH PPE Lead Function	Medium	ASCH	Implemented
CA07-2019	Data Protection	Adequate	Issue 2 - Data Protection Impact Assessments - Project & Programme Management and	Medium	ST	In Progress
RB21-2020	Customer Care & Complaints	Advisory	Issue 1 - Feedback Forums - Under Representation	Medium	ASCH	Implemented
RB21-2020	Customer Care & Complaints	Advisory	Issue 2 - Logging of Customer Feedback - Compliments/ Merits	Medium	ASCH	Implemented
RB21-2020	Customer Care & Complaints	Advisory	Issue 4 - Acceptance of Complaints - Customer Contact	Medium	ASCH	Implemented
RB21-2020	Customer Care & Complaints	Advisory	Issue 6 - Acceptance of Complaints - Formal Response Deadline	High	ASCH	In Progress
RB21-2020	Customer Care & Complaints	Advisory	Issue 8 - Acceptance of Complaints - Supporting Evidence	Medium	ASCH	Implemented
RB25-2020	DoLs – Progress with Addressing Backlog	Adequate	Issue 1 - Timely Processing of Applications	High	ASCH	Not Implemented
RB32-2020	Change for Kent Children	Adequate	Issue 2 - Monitoring of Savings and Cost Avoidance	Medium	CYPE	In Progress
RB32-2020	Change for Kent Children	Adequate	Issue 5 - Risk Management	Medium	CYPE	Implemented
RB35-2020	Care Leavers	Adequate	Issue 4 - Costing of the Care Offer	Medium	CYPE	In Progress
RB35-2020	Care Leavers	Adequate	Issue 5 - Staff Induction & Training	Medium	CYPE	Implemented

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By:	James Flannery – Counter Fraud Manager
To:	Governance and Audit Committee – 21st January 2021
Subject:	**COUNTER FRAUD UPDATE**
Classification:	Unrestricted

Summary:
This report details:

- The Counter Fraud activity undertaken for period April 2020 to September 2021, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for in 2020/21 covering reactive and proactive activity.

Recommendation: FOR ASSURANCE

Introduction

1.1 This report outlines Counter Fraud work which has been undertaken in Quarter 1 & 2 of 2020/21 and the progression of the Fraud Action plan for 2020/21. The report provides:

- An overview of the work of the Counter Fraud Team;
- details of savings identified through counter fraud activity; and
- a spotlight on the volume and variety of investigations work that the Counter Fraud Team undertakes and the competing priorities.

Irregularity Referrals

1.2 For Quarter 2 of 2020/21, there were 70 suspected irregularities (Trend analysis shown in tables below) reported to the Counter Fraud Team (compared to 116 in the same period for 2019/20). The distribution and characteristics of the suspected irregularities reported to date show that the highest areas of financial risk this year are from misuse of social care support paid via Direct Payments.

1.3 Actual fraud losses for Quarter 1 & 2 2020/21 were £39,251, with prevented fraud losses of £458,232. Most of the actual fraud loss is due to a £20k Personal Transport Budget overpayment following a keying error. The increase in prevented fraud losses are linked to an increase in Spear Phishing attempts at schools (£7,755 per attempt) as well as a few high value referrals received within Direct Payments. Prevented fraud losses will fluctuate depending on the nature of cases referred.

Direct Payments

1.4 There have been 15 cases referred in Quarter 1 & 2 of 2020/21 compared to a total of 15 cases for 2019/20, the nature of these referrals is due to funds not being spent in accordance with the care and support plans. As certain services have not been available to recipients due to Covid-19 restrictions, excess funds have been misused. However, through the DP monitoring team, the losses have been minimised through their annual reviews.

1.5 Losses range between £100s to £1,000s and are all subject to financial recovery. Each case is assessed based on the circumstances, with the length of time and amount misused being a factor in the decision to progress an investigation. From the 15 cases, there are 5 where the loss is more than £1,000, with the highest being £7,597.

Blue Badges

1.6 Referrals for Blue Badge misuse for Quarter 2 have increased to 47, although not at the same rate as pre-Covid, this is a good indication that parking enforcement teams, especially in Ashford, Dover and Gravesend, are continuing to detect misuse.

1.7 It has been noted that there has been an upturn in the number of referrals/ complaints from the public where they witness misuse in residential on-street parking, especially where there are parking restrictions in place. This is probably due to the change in the way people are working, with more home working prevalent than before.

1.8 Whilst intelligence can be forwarded to parking enforcement teams to act where appropriate, there is no provision within the on-street parking agreement covering blue badge misuse. This has been raised with representatives in the Growth Environment and Transport Directorate and are awaiting an update from them on a way forward.

Emerging Risks

1.9 The engagement by Counter Fraud Specialist at divisional level in assessing fraud risks has seen referrals being received from different areas of KCC as awareness and the counter fraud culture grows. This has included referrals being received in relation to financial assessment within the adoption and guardianship service.

1.10 There have been concerns raised by other County Councils on the fraud risks associated to grant payments for Infection Control. KCC have been allocated £35.5m to support providers mitigate the risk of infection. Counter Fraud have contacted Finance and Adult Social Care and Health representatives to support them in assessing the fraud risks in this new initiative.

Fraud and Irregularity Trends

1.11 The tables below show trends in reported fraud and irregularities:

Table CF1 - Top Seven areas of reported fraud and irregularities over the past 2.5 years

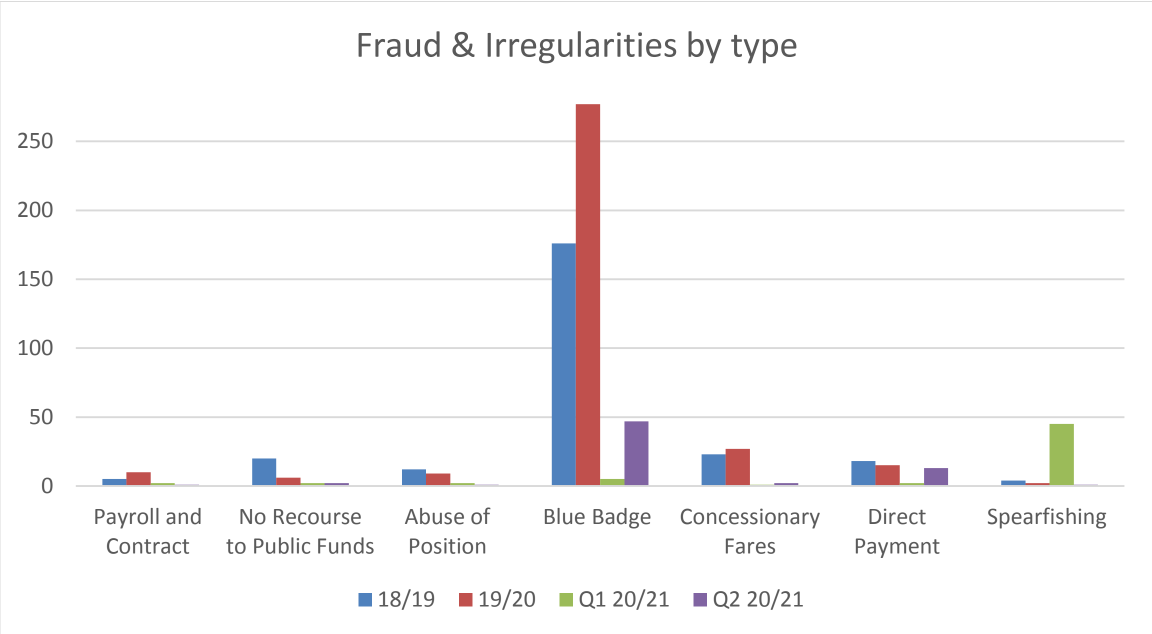


Table CF2 – Number of Irregularities Reported by Month

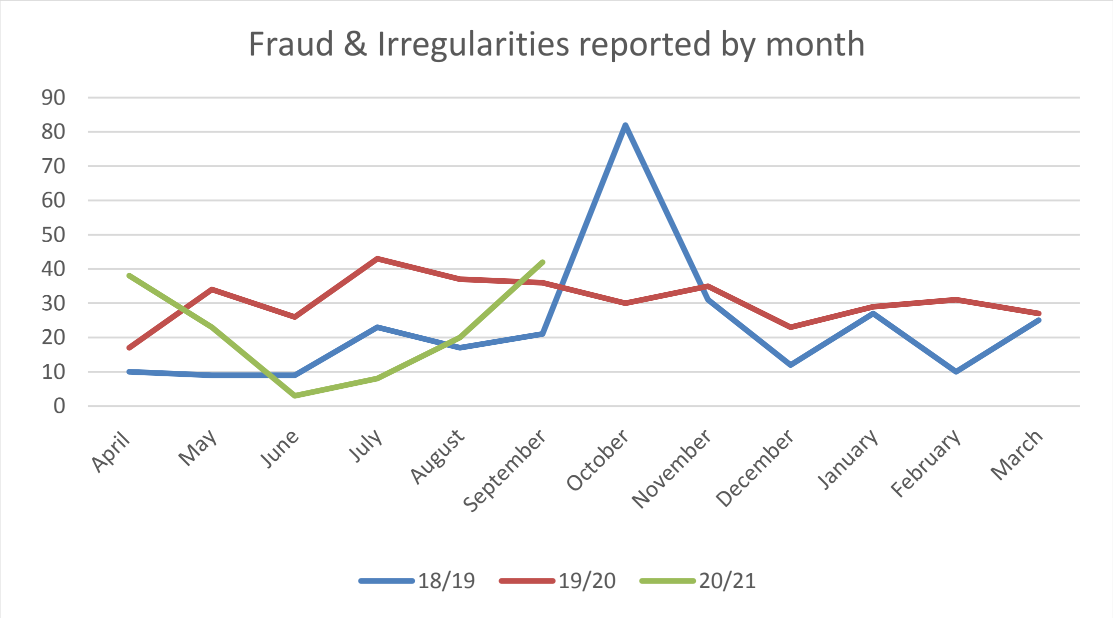
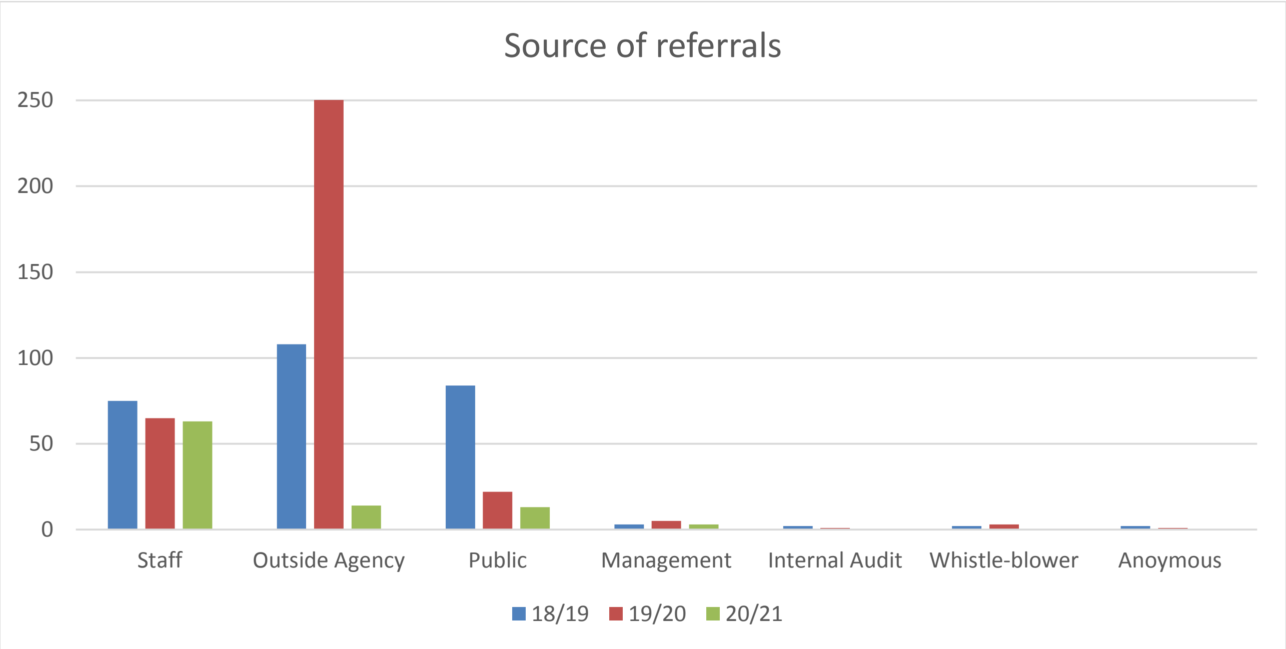
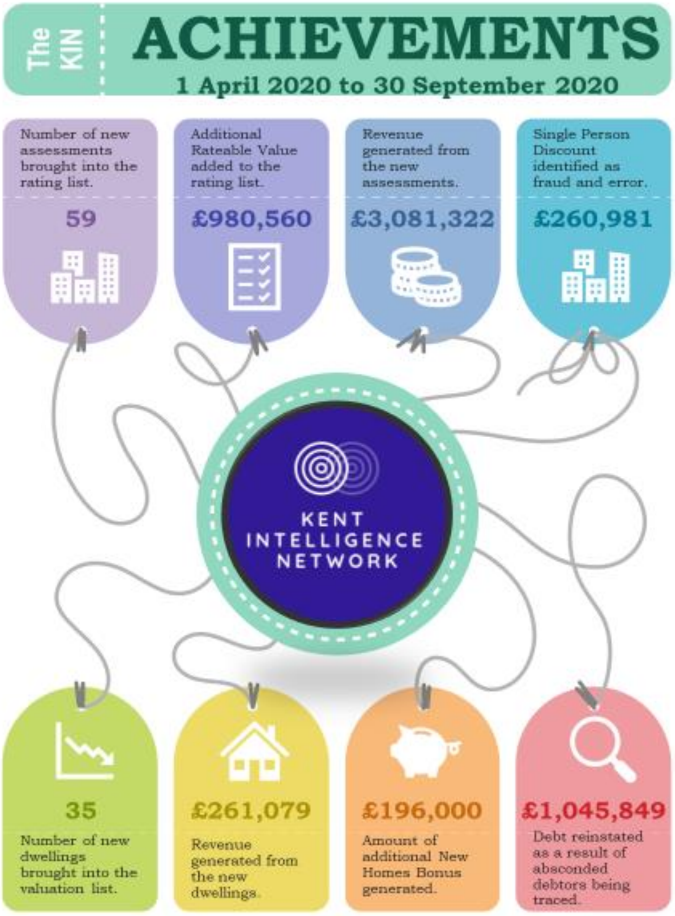


Table CF3 – Referrals by Source



Kent Intelligence Network (KIN)

1.12 The KIN, the lead officer for which is employed by KCC, continues to provide support to the District/Borough Councils and the outcomes for Q2, set out below, show some impressive financial returns in the first 6 months of 2020/21:



1.13 59 commercial properties have been identified that were previously missing from the rating list. These properties have now been brought into the list by the Valuation Office Agency and consequently, the businesses occupying these properties are now paying business rates.

1.14 The additional business rates revenue generated from the identification of these missing properties is £3,081,322, of which broadly 9% (approx. £277,300) comes to KCC, is a combination of the following:

- The total amount of business rates billed for both the current financial year and previous financial years of £1,639,797; and
- A 'future loss prevention' provision of 3 years of £1,441,525. This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.

1.15 The KIN has recently expanded its remit and is now starting to identify dwellings missing from the valuation list. So far, 35 dwellings have been identified, the majority of which are self-contained annexes missing from the list.

1.16 The additional council tax revenue generated from the identification of these properties is £261,079, of which broadly 73% (approx. £190,600) comes to KCC, is a combination of the following:

- The total amount of council tax billed for both the current financial year and previous financial years of £98,527; and
- A 'future loss prevention' provision of 3 years of £162,552. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.

1.17 Dwellings added to the valuation list also help to generate additional New Homes Bonus (NHB) for both Districts/Boroughs and KCC. It is estimated that the 35 dwellings identified will generate £196,000 in additional NHB, of which 20% (approx. £39,200) _ will come to KCC.

1.18 In total, the financial benefit to KCC from the initiatives detailed above in 2020-21 amounts to £507,105.

1.19 The financial returns continue to demonstrate the value of the KIN and, consequently district councils have now agreed a 'payment-by-results' scheme that will help to fund the project going forward. The main principle behind this is that for every commercial property and domestic dwelling found by the KIN, districts will pay a fee based on the following:

- A charge of 8% of the Rateable Value identified for commercial properties added to the rating list, and
- A charge of 50% of the gross current year Council Tax liability for domestic dwellings added to the valuation list.

1.20 The total amount to be billed to districts, as at the end of September, is £102,788. This amount, together with the balance of funds currently available in the KIN's budget, means that the project's costs can be fully underwritten for both 2020/21 and 2021/22.

The KIN is also gaining national recognition for the work it is undertaking. Having already won the ALARM Risk Award for Best Initiative in Combatting Fraud in 2019, the KIN has also been shortlisted as a finalist in the national awards detailed below:

- Public Finance Awards 2020 in the category of Outstanding Proactive Fraud Detection and Recovery Awards (finalist), and

- Credit & Collections Technology Awards in the category of Best Use of Technology in Credit & Collections, in partnership with Destin Solutions.

1.21 KIN were also shortlisted for the Fighting Fraud & Corruption Locally 2020 in the category of Outstanding Proactive Fraud Prevention and Recovery Award. KIN received a highly commended award at the presentation for their continued work in how local authorities collaborate across the county.

Counter Fraud Pro-Active Work

1.22 The Counter Fraud Pro-Active Work delivered for 2020/21 includes:

- Fraud awareness to 30+ Commissioners;
- Reviewing and updating the Financial Abuse Toolkit;
- Awareness campaign across KNet.

1.23 The Fraud awareness presentation to Commissioners concentrated on fraud and corruption in commissioning cycle. It concentrated on the research by the Cabinet office on the risks of fraud and corruption in local government procurement. Feedback from those that attended when asked if they would do their job differently included:

‘Having gained further insight into this area, I will apply this additional knowledge to my work.’

‘Be more vigilant, as well as continue to be open, fair and transparent when dealing with clients/framework.’

‘I am taking account of fraud in the new commissioning framework I have written as discussed with Shelley and James.’

1.24 The Financial Abuse Toolkit has been reviewed and updated following its introduction in 2014. The document is owned by Adult Social Care and Health, Safeguard team with the Counter Fraud Team responsible for reviewing and updating it.

1.25 The review process consisted of engagement with key stakeholders, Care Management, Trading Standards, Financial Assessment, ASC&H Policy and Adult Safeguarding. It has seen the introduction of common scenarios that stakeholders and Counter Fraud have experience over the years and how to manage the scenario’s through a roles and responsibilities matrix. This will not only help prevent Kent residents from financial abuse but also ensure that if they are a victim that a clear escalation process is in place to the relevant agency for investigation.

1.26 Feedback from both Adult Safeguarding and Care Management has been positive, the next stage of this project is to develop and introduce a communication strategy with front line staff to ensure awareness and knowledge is shared.

1.27 The Fraud Awareness week in November saw a collaboration between the Counter Fraud Team, Serious and Organised Crime Project Board, Trading Standards and ICT Security and Risk team. The week brought together key messages to staff to ensure awareness of the risks facing not only KCC but Kent residents as well.

Counter Fraud Resources

1.28 The team has received notice from the Counter Fraud Apprentice recently, this will result in some resource shortages whilst recruitment into this post occurs. The recruitment process is underway and it is anticipated that someone will be in post by the end of January 2021.

Counter Fraud Action Plan 2020/21

1.29 There has been good progression of the Counter Fraud Action Plan to date, given the current environment there will need to be an agile approach to some of the planned work to meet any additional demands from services on new initiatives, policies and strategies. Progression against the plan can be found at **Appendix A**.

Conclusions

1.30 Fraud risks are being assessed, however the embedding of fraud risks assessments in new policies, strategies and initiatives needs strengthening to ensure services engage with us at concept stage to properly assess the risks, in particular with the new initiatives to respond to the pandemic for example the Infection Control grant funding.

Recommendations

1.31 The Governance and Audit Committee note the Counter Fraud Update report for 2020/21.

James Flannery, Counter Fraud Manager

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Jan 2021

Appendix A

Work to Prevent and Pursue Fraud and Corruption

Ref.	Activity	Outline Scope / Rationale	Update
CF01 2021	Fraud Awareness / Detection and Prevention Authority Wide	Plan and deliver a fraud awareness campaign in 2020-210 that is supported by the leadership team and includes both internal and external communications. The latter should raise awareness across clients and customers and include 'good news' stories such as successful prosecution or fraud prevention activity.	Commissioning Fraud Awareness completed. KNet Fraud Awareness Week completed. 207 Fraud E-Learning Courses completed
CF02 – 2021	NFI	Coordinate the Council's and its LATCO's participation in the National Fraud Initiative	Data extraction and upload completed. Results due in Jan/ Feb 2021
CF03 – 2021	Review Policies & Procedures • Anti-Fraud Strategy • Whistleblowing • Bribery • Code of Conduct	Review each policy annually ahead of the April G&A Committee and ensure that this is presented to CMT and once agreed to be communicated across KCC management via Kmail for managers.	Completed
CF04 – 2021	Kent Intelligence Network	Actively participate in the Kent Intelligence Network and develop data matching proposals to increase detection of fraud at KCC and across Kent authorities	Ongoing
CF05 – 2021	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments	To ensure that key Senior Stakeholders are kept up to date on the fraud risks and mitigation: • Leader as Portfolio Holder • CMT (In particular, Head of Paid Service) S.151 and Monitoring Officer, Corporate Directors • Governance and Audit Committee • Directorate/ Divisional Directors	Ongoing Risk assessments within CYPE and ASCH Division for final review. Risk Assessments within GET ongoing through engagement at divisional level. Risk Assessments within ST, G&L, Finance Final draft. Strategic Commissioning/ HR&OD to be completed.

CF06 2021	Proactive Fraud Exercise - Schools	Provide Fraud awareness sessions to school finance staff, emerging leaders and governors. Including existing and emerging risks	Awareness sessions cancelled for Q2 & Q3 due to School commitments now planned for Q4.
CF07 2021	Proactive Fraud Exercise - Blue Badges	Provide regular attendance at the parking managers meetings to inform them of latest guidance, what is working well and what needs improving. Provide enforcement awareness sessions to district CEOs.	Ongoing however enforcement days planned have been deferred to Q4 due to Covid.
CF08 2021	Proactive Fraud Exercise - Social Care	Review the Financial Abuse Toolkit to support Social Care in identifying and managing financial abuse.	Final version completed following stakeholder engagement, communication strategy being developed with ASCH safeguarding and policy teams.
CF09 2021	Proactive Fraud Exercise - Commissioning	Work with Commissioning in assessment of the fraud risks within the supply chain.	Ongoing Supplier set up process being progressed with Strategic Commissioning. Data analytics on payments to dissolved companies being investigated. Awareness training provided.
CF10 2021	Reactive Investigations	To manage and complete investigations.	Ongoing 68 cleared referrals and investigations in Q1 & Q2.
CF11 – 2021	Data Analytics Development - Payments	To identify a way to use data analytics to help identify fraud and error within the payments systems.	On-Going Results from NFI on creditor data due in Q4 will inform next steps
CF12 – 2021	Data Analytics Development - Procurement Card Usage	To identify a way to use data analytics to help identify fraud and error within the procurement card systems.	Planned for Q4
CF13 – 2021	Covid-19 Fraud Risk Assessments	To updated COVID-19 Fraud Risk assessments as new threats emerge.	Completed and under review
CF14 – 2021	Supporting Internal Audit on specific audits where there is a fraud risk, through planning, fieldwork and reporting stages as required.	Provide advice and support on key fraud controls in specific audits, support in testing and reporting as required.	On-going and good engagement from auditors on assessing fraud risks. Training provided to Internal Audit on fraud risks and controls in Q3

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Grant Thornton

The Annual Audit Letter for Kent County Council

Year ended 31 March 2020

21 January 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent County Council (the Council) and its subsidiaries and joint venture (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance and Audit Committee as those charged with governance in our Audit Findings Report on 8 October 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £35m, which is 1.5% of the group's prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 27 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We are in the process of completing work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 November 2020.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Kent County Council in accordance with the requirements of the Code of Audit Practice until the WGA assurance has been submitted.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has dealt with the administration of grants, getting PPE to frontline carers, the closure of schools, building additional mortuary capacity, staff re-deployment, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.
We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach.

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

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

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the group financial statements to be £35m, which is 1.5**%** of the group's prior year expenditure. We determined materiality for the audit of the Council's financial statements to be £34m, which is 1.5**%** of the Council's prior year gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for the Council's senior officer remuneration. We set a lower threshold of £100,000, above which we reported errors to the Governance and Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19	As part of our audit work we have: • Worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach; • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely; • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.	There are no issues to bring to your attention.
Management override of internal controls	As part of our audit work we have; • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	There are no issues to bring to your attention.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • Considered the implications of Brexit on the valuations of the Authority's asset portfolio; and • Considered the implications of Covid-19 on the valuations of the Authority's asset portfolio	The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability Page 258	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent Pension Fund (Grant Thornton) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	We have also considered the movements within the IAS 19 report described as 'experience' items arising due to the triennial review and updates to the issues arising from the McCloud case. Following discussion with the actuary and management we have sufficient assurance. The Kent Pension Fund accounts included a material valuation uncertainty disclosure with regards to the valuation of directly held property and pooled property investments as a result of Covid-19. Given the Council's share of these assets is material, we requested that the Council refer to this in the notes to the accounts and we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19	As part of our audit work we have; • worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 May 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	There are no issues to bring to your attention. The accounts disclose a material valuation uncertainty in relation to directly held property and pooled property investments.
Management override of internal controls	As part of our audit work we; • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any issues in respect of management override of controls.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments (Annual revaluation)	As part of our audit work we have: • evaluated management's processes for valuing Level 3 investments • 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; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers and the custodian • for all but one of the Level 3 investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and either agreed these to the fund manager reports at that date or used the March valuation and adjusted for transactions to reconcile to the audited accounts. No audited accounts were available for the LF Woodford Equity Income Fund (now renamed Link Equity Fund); • evaluated the competence, capabilities and objectivity of the fund manager as valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available reviewed investment manager service auditor report on design effectiveness of internal controls.	With regards the Woodford Equity Income Fund, we reviewed the accounting for movements in the investment and the year end valuation. We agreed the transactions and performed an evaluation of the fund manager as a management expert for the purposes of valuation. We have considered the work being undertaken as a result of the internal audit report produced following the suspension of the fund in June 2019 and we were provided with an update on progress against the internal audit recommendations by the Pension Fund management team. Whilst some of the recommendations have been completed there are a number where the date of completion has been delayed, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. We will be following up on the outcome of this review as part of our 2020/21 audit. Addressing the recommendations of the Internal Audit Review , and any that follow the governance review are , in our view a key priority that needs to be addressed in 20/21 where appropriate. There are no further issues to bring to your attention.

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Audit of the Financial Statements

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of Directly Held Property (Level 2 Investment) Annual valuation . Page 261	As part of our audit work we; • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently requested year-end confirmations from investment managers and the custodian • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer or investment manager to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records	The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. This also covers the same uncertainty in relation to the valuation of pooled property investments. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the group's financial statements on 27 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. There were audit challenges due to new remote access working arrangements e.g. remote accessing financial systems, video calling, and completeness and accuracy testing of information produced by the entity.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Governance and Audit Committee on 8 October 2020 and an updated report on 21 January 2021.

In addition to the key audit risks reported above, we identified the issues in Appendix A throughout our audit that we have asked the Council's management to address for the next financial year.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report.

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

Pension fund accounts
We gave an unqualified opinion on the pension fund accounts of Kent Pension Fund on 27 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Governance and Audit Committee on 27 November 2020.

In addition to the key audit risks reported above, we identified the status of progress of the response to the recommendations in the internal audit report on governance as an issue during our audit that we asked management to address for the next financial year.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . The work is currently ongoing.

Certificate of closure of the audit
We are unable to certify that we have completed the audit of the financial statements of Kent County Council in accordance with the requirements of the Code of Audit Practice until the WGA assurance has been submitted.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

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

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

However we noted that the progress against the internal audit recommendations relating to the Kent Pension Fund governance processes have not progressed to the original timetable and a number remain in progress. We therefore intend to follow upon this risk in 2020/21.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Overall Financial Position – Medium Term Financial Plan	As part of our work we have: • Reviewed the assumptions behind the latest MTFP • Reviewed savings plans and revenue generating schemes. • Discussed plans and outcomes with management, as well as reviewed how finances are reported to Councillors • discussed with management the expected impact of Covid-19 on the budget and measures that are being taken to mitigate the risk to provision of services	**Budget for 2020/21** We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2020/21. We looked at the assumptions behind these and concluded that they were realistically and prudently estimated but remain challenging. It has been noted that the deficit on the Dedicated Schools Grant (DSG) return has increased in 2019-20 and the Council has to monitor this and develop a plan to reduce the deficit. **Impact of Covid-19** As a result of the pandemic it is expected that service directorates will experience income and expenditure pressures in 2020/21. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council has reviewed its 2020/21 budget and has been tracking costs and impact on income as well as considering the impact on reserves and capital programmes. The Council has been providing regular updates to MHCLG on costs and income pressures. A revised budget was presented to the Council in September 2020. The budget was balanced but included amendments to reflect the additional cost pressures and underspends arising from the impact of the pandemic. This identified net pressures of £23.8m related to Covid-19, this included £96.3m of additional spending , delayed savings and loss of income offset by additional funding from central government of £75.3m. In addition to the additional pressure from Covid-19 the revised budget also identified a further £20.3m of non-Covid-19 overspends. Overall the analysis has concluded that there is a gross impact to the budget from Covid and non-Covid variances of £116.7m of which £75.3m is offset by additional funding leaving a balance of £36.3m which requires an increase in the 2020-21 budget. This will be funded by further government grants and other non-Covid grants already confirmed. The Council is also experiencing additional pressures, both in costs and capacity, relating to unaccompanied asylum seekers. The Council is forecasting reserves of £212m at the end of 2020-21 after the drawdowns required in the revised budget. This comprises general fund reserves of £37m and earmarked reserves of £175m. .

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Woodford Equity Income Fund . Page 265	Kent County Council is the administering authority for Kent Pension Fund which holds investments in the above fund. We will review the accounting for the movements on the investment in the fund, the management assessment of the year end valuation and any related disclosures. We will discuss with management and the internal auditors the progress made against the Internal Audit recommendations.	We were provided with an update on progress against the internal audit recommendations by the Pension Fund management team. Whilst some of the recommendations had been completed there are a number where the date of completion has been delayed from the initial date of June 2020 to September 2020, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. The Pension Fund losses are estimated at circa £75m at this stage. We are of the view that the Pension Fund has responded well to the issues raised but believe its very important that all the recommendations from both Internal Audit reviews and other external reviews are implemented as soon as possible and that very strong steps are in place to prevent any recurrence of the events that led to the loss of the Pension Fund monies. Due to the current status of the response to the internal audit report recommendations we noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of future VFM reviews.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	21 July 2020
Audit Findings Report	8 October 2020
Annual Audit Letter	21 January 2021

Fees

	Planned £	Actual fees £
Statutory audit	151,062	173,712
Audit of Pension Fund	37,037	37,037

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £120,062 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

A. Reports issued and fees

Area	Reason	Fee proposed
Pensions - valuation of net pension liabilities under International Auditing Standard (IAS) 19	The Financial Reporting Council (FRC) has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	4,000
PPE Valuation – work of experts	As above, the FRC has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We increased the volume and scope of our audit work to reflect this.	9,500 (including use of an auditor's expert)
Increased challenge and depth of work	The FRC has highlighted that the quality of work by all audit firms needs to improve across local audit. This involved additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits, reflecting the higher profile of local audit, this entailed increased scoping and sampling	6,500
Materiality		4,000
New standards / developments	Additional work required for changes in standards and the impact of Covid-19	3,000
Group consolidation	The Authority produced group accounts for the first time in 2019/20 and this required additional work to audit the consolidation and in order to have sufficient assurance over the information from subsidiaries for material misstatement.	4,000
Total		31,000

Fee variations are subject to PSAA approval.

Audit fee variation – Covid-19

Additionally, over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covd-19 on the audit of the financial statements has been multifaceted. This included:

- Revisiting planning - we have needed to revisit our planning and refresh our risk assessments and materiality as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.
- Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations. Our audit opinion included an emphasis of matter in respect of this.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as have other auditors, experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.

We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020 sets out the expectations of the FRC.

In the case of Kent County Council, the increase will be 15% or £22,650. This has been included in the final fee on page 16.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Kent County Active Partnership accounts audit	2,750
- Resolution of objections to prior years statutory accounts	13,000
- Audit of subsidiaries	150,955
Non-Audit related services	
- Kent County Council - CFO Insights	24,000
- Kent Pension Fund - IAS19 procedures for other bodies admitted to the pension fund	11,000

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Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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

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Grant Thornton

The Audit Findings for Kent County Council

Year ended 31 March 2020

21 January 2021

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has dealt with the administration of grants to vulnerable households, getting PPE to frontline carers, the closure of schools, building additional mortuary capacity, staff re-deployment, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing. The uncertainties resulting from the pandemic have impacted on the valuations for property including the property investments held in the pension fund. This is reflected in the material valuation uncertainty included by the valuers in relation to these assets.

Headlines

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July-November. Our findings are summarised on pages 7 to 11. We have identified 32 adjustments to the financial statements that have resulted in a £NIL adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is complete and our audit report opinion was unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties for both the Council's property and their share of assets included in the IAS 19 pension fund actuarial position.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We completed our risk based review of the Council's value for money arrangements. We concluded that Kent County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We have issued an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 23.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we are able: • to complete our work on the Council's Whole of Government Accounts consolidation pack

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group and Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that analytical procedures were required, which was completed by the audit team.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have completed our audit of your financial statements we have issued an unqualified audit opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	35m	34m	1.5% of prior year gross expenditure
Performance materiality	26.25m	25.5m	75% of materiality
Trivial matters	1.75m	1.7m	5% of materiality
Materiality for senior officers' remuneration	n/a	100,000	Lower level of precision for detecting errors in these specific accounts

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19	We: • Worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach; • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely; • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. **Findings** There are no issues to bring to your attention.
ISA240 revenue recognition risk	We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement. **Findings** There are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** There are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability	We: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent Pension Fund (Grant Thornton) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Findings** We have also considered the movements within the IAS 19 report described as 'experience' items arising due to the triennial review and updates to the issues arising form the McCloud case. Following discussion with the actuary and management we have sufficient assurance. The Kent Pension Fund accounts included a material valuation uncertainty disclosure with regards to the valuation of directly held property and pooled property investments as a result of Covid-19. Given the Council's share of these assets is material, we requested that the Council refer to this in the notes to the accounts and we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (Rolling revaluation)	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • Considered the implications of Brexit on the valuations of the Authority's asset portfolio; and • Considered the implications of Covid-19 on the valuations of the Authority's asset portfolio **Findings** The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Production of consolidated group accounts	This is the first year that the Authority has been required to produce group accounts, although the subsidiaries have been in place for a number of years. We: • Gained an understanding of the Authority's process for producing group accounts • Reviewed the consolidation process applied to the 2018-19 and 2019-20; and • Undertook sufficient audit work to have assurance over the completeness and accuracy of the consolidated figures **Findings** We have obtained sufficient assurance over the consolidation process however we have made recommendations in relation to the process. These can be found in Appendix A.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate with a slight amendment to the wording to be fully compliant.. **Recommendation** In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.
Dedicated Schools Grant The Council had a cumulative overspend of £21.5m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."	We agreed the balance to underlying information and agreed the amount disclosed as part of the unearmarked schools reserve. We requested that the financial statements include additional disclosure to make the offset within this reserve clear to a reader of the accounts. We understand that MHCLG is currently considering how DSG deficits are to be dealt with going forward in local government accounts following the introduction of new DFE regulations about the treatment of DSG deficits. This will mean the introduction of a statutory override to ringfence DSG deficits in an unusable reserve.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £2,203m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head Eve to complete the valuation of properties as at 31 March 2020 on a four yearly cyclical basis. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. The valuation of properties valued by the valuer has resulted in a net increase of £540m. Management have considered the year end value of non-valued properties and reviewed the composition of this population and the movement in asset valuations of the revalued portfolio to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.	• We have assessed the Council's valuer, Wilks Head & Eve LLP, to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings. • Wilks Head & Eve LLP were newly appointed for 2019-20 and we have considered the impact of changes in valuation methodology and judgements from the prior year to ensure they remain reasonable the movements are due to changes in estimation the valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts.	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Auditor commentary
Land and Buildings – Other - £2,203m	We have used Gerald Eve as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for key aspects of the work completed and our responses:

Area of review	Gerald Eve comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	VPS 1, of the Red Book, requires any valuer to formally set out the scope of the instruction before the valuation is reported. This is a mandatory requirement of the RICS	We confirmed that the scope had been agreed with the valuer.	●
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	We are comfortable that the four classifications of valuation approaches have been set out in accordance with the Code. We are unable to consider the appropriateness of which valuation technique has been used to measure fair value (i.e. income or market comparable).	We confirmed the valuation technique applied for each asset with the valuer and it is considered appropriate.	●
Reasons for changes in assumptions or methodologies employed from prior periods.	The written report does not refer to any changes in assumptions or methodologies. As this is the first year of the instruction for the Valuer, changes in methodology may arise from a difference in valuation approach to the previous valuer.	We confirmed with the valuer the basis of their valuation assumptions and valuation methodologies. As this is the first year of this valuer in post the Council's capital team provided further analysis of the changes in assumptions and methodologies from prior year and we have used this to inform our understanding of the changes. We have tested those assets that have changed classification to ensure that the change in approach from last year is appropriate.	●
Confirmation that land values adopted in DRC valuations are satisfactorily evidenced.	Confirm that the valuer has undertaken market evidence research to ensure land values are kept up to date with market movements.	Our work includes review and challenge of evidence to support land values adopted for the sample of assets tested – no issues identified.	●
Confirmation that asset lifting estimates appear reasonable and in accordance with the detailed guidance.	Confirm whether the lives reported are: useful lives (subject to any assumptions agreed with the Authority), economic lives or design lives. Check if the Valuer has assessed remaining economic lives and these are in accordance with section 9.19 "Remaining Economic Life" of the DRC Guidance Note.	We confirmed with the valuer that they apply useful lives across three component types and have no issues to report.	●
How has obsolescence been arrived at for DRC valuations?	Understand how the age and obsolescence has been calculated.	We reviewed the valuer judgement as part of our audit testing – no issues identified.	●

Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £1,363m

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Summary of management's policy

The Council's net pension liability at 31 March 2020 is £1,363m (PY £1,334m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £78.5m net actuarial gain during 2019/20.

Auditor commentary

Our assessment of the estimate has considered:

- Assessment of management's expert
- Use of PwC as auditors expert to assess actuary and assumptions made by actuary

Assumption	Actuary Value	Assessment
Discount rate	2.35%	
Pension increase rate	1.95%	
Salary growth	2.95%	
Mortality assumptions –longevity at 65 for current male pensioners (years)	21.8	
Mortality assumptions –longevity at 65 for future male pensioners (years)	23.2	
Mortality assumptions –longevity at 65 for current female pensioners (years)	23.7	
Mortality assumptions –longevity at 65 for future female pensioners (years)	25.2	

- Completeness and accuracy of the underlying information used to determine the estimate
- Assessment of the information received from pension fund auditor
- Reasonableness of the Council's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

Assessment

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has included the closure of schools, building additional mortuary capacity, and staff re-deployment with additional challenges of reopening services under new government guidelines;staff absences due to being ill , the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges.

Going concern commentary	Auditor commentary
Management's assessment process Management’s assessment process is based on your financial planning framework. You have a four year Medium Term Financial Plan (MTFP) for the period 2020/21 to 2023/24.	• The Council has a history of achieving financial savings plans and delivering services within budget • The Council has a comprehensive medium term planning framework. The financial plan is updated annually. • Management has concluded that it is appropriate to use the going concern basis of accounting. • The Council has demonstrated that it has forecast the expected impact of loss of revenue and additional expenditure arising from the Covid-19 pandemic • Management has determined that there are sufficient reserves at the end of March 2020 to cover the projected impact of Covid-19 in 2020-21 but is keeping this under regular review.
Work performed	• As at 31 March 2020 the draft accounts showed useable reserves of £393,027k. • We have subjected the 2020/21 budget and cash flow forecast to detailed scrutiny and reviewed the planned savings proposals for 2020/21 and 2021/22 in our consideration of the appropriateness of management’s use of the going concern assumption. • We reviewed the revised budget presented to the September Council meeting
Concluding comments	We have not identified any material uncertainty about the Council’s ability to continue as a going concern.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures].
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
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.
Written representations	A letter of representation has been obtained from the Council, including specific representations in respect of the property valuations.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. All but one of these requests have been returned to date with positive confirmation. Alternative procedures were used to verify the remaining account tested. We requested permission from 3 schools to send confirmation requests to the school's banking institution. This permission was granted and the requests were sent. We received all requested responses from the external institution.
Disclosures	Our review found no material omissions in the financial statements other than in relation to the inclusion of a post balance sheet event in relation to Covid-19 impacts, additional disclosure in relation to he DSG reserves position and additional disclosures in relation to the group. We discussed with the finance team the level of disclosure of critical judgements and estimations and whilst we have concluded there is appropriate disclosure we recommend these should be reviewed in 2020-21.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We requested amendments to the Annual Governance Statement and have accepted the amended version.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
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 we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work in this area is currently ongoing and we expect it will be completed in line with the deadline.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Kent County Council in the audit report until the work on the WGA consolidation pack is complete. This is was delayed due to issues with the central system for submissions.

Value for Money

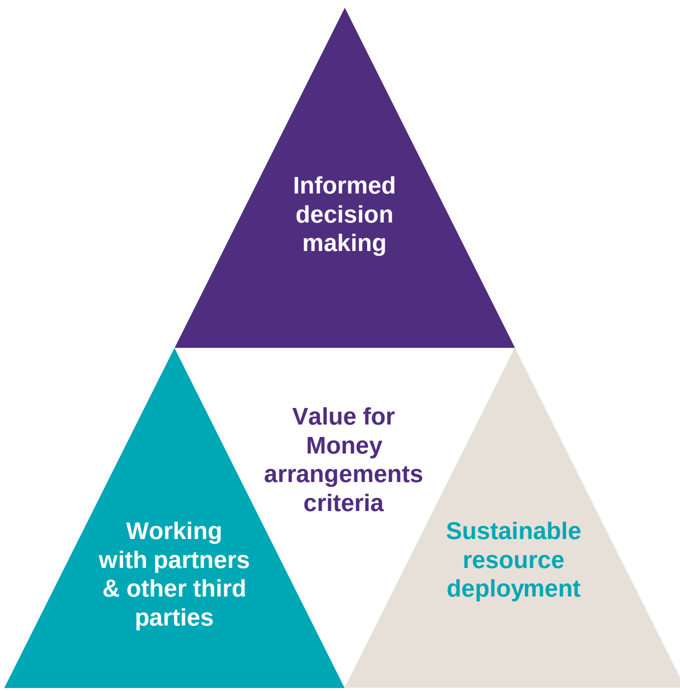
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February / March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated May 2020.

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

Our work

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. In arriving at our conclusion, our main considerations were:

- The Council's 2019/20 financial outturn;
- The robustness of the Council's 2020/21 budget and Medium Term Financial Strategy, including savings and income proposals; and
- The level and stability of the Council's usable reserves.
- The response of the Kent Pension Fund and Council as Administering Authority to the internal audit review relating to the Woodford Equity Income Fund investment

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 pages 20 to 22.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

However we have noted that the progress against the internal audit recommendations relating to the Kent Pension Fund governance processes have not progressed to the original timetable and a number remain in progress. We therefore intend to follow upon this risk in 2020/21.

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.

Value for Money

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	Findings
Overall Financial Position – Medium Term Financial Plan You have a strong track record of delivering to your budgeted spend at the year end. However there is a requirement for a considerable level of savings of the life of the Medium Term Financial Plan (MTFP). In response to this risk we will: • Review the assumptions behind the latest MTFP • Review savings plans and revenue generating schemes. • Discuss your plans and outcomes with management, as well as reviewing how finances are reported to Councillors • discuss with management the expected impact of Covid-19 on the budget and measures that are being taken to mitigate the risk to provision of services	**Revenue outturn for 2019/20** In a year where March saw the outbreak of the Covid-19 pandemic, the Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but will be a larger impact on 2020/21. At the end of March, the Council had an underspend against revenue budgets of £6.226m at year end but excluding schools and roll forward requests of £3.106m. The variance was primarily in the Children, Young People & Education directorate (overspend of 8.038m) and the Financing directorate (underspend of £11.174m). The capital budget was reporting a variance of -£150.288m (excluding devolved schools and PFI). This was partly due to variances in projects and partly due to re-phasing of projects. The largest variance was within the Growth, Environment and Transport directorate. **Budget for 2020/21** The Council approved the budget in February 2020 for 2020/21 which included the need to identify circa £30m of income generation and savings in the year. In the 2019/20 year you faced the following immediate challenges: - Increased spending pressures of circa £107m driven by changes in demography/increasing demand, inflation of pay and prices, replacement of one-off items in 2018-19 and other budget realignments. We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2020/21. We looked at the assumptions behind these and concluded that they were realistically and prudently estimated but remain challenging. The Council's reserves level provides it with a sufficient cushion to weather the on-going financial challenges that it faces over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, the Council only has finite reserves available and it is important that it continues to maintain appropriate budgetary controls. It is worth noting that as a large county, the Council reserves are proportionately lower than a number of its county peers. It has been noted that the deficit on the Dedicated Schools Grant (DSG) return has increased in 2019-20 and the Council has to monitor this and develop a plan to reduce the deficit.

Value for Money

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	Findings
Overall Financial Position – Medium Term Financial Plan	**Impact of Covid-19** As a result of the pandemic it is expected that service directorates will experience income and expenditure pressures in 2020/21. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council has reviewed its 2020/21 budget and has been tracking costs and impact on income as well as considering the impact on reserves and capital programme. The Council has been providing regular updates to MHCLG on costs and income pressures. A revised budget was presented to the Council in September 2020. The budget was balanced but included amendments to reflect the additional cost pressures and underspends arising from the impact of the pandemic. This identified net pressures of £23.8m related to Covid-19, this included £96.3m of additional spending , delayed savings and loss of income offset by additional funding from central government of £75.3m. In addition to the additional pressure from Covid-19 the revised budget also identified a further £20.3m of non-Covid-19 overspends. Overall the analysis has concluded that there is a gross impact to the budget from Covid and non-Covid variances of £116.7m of which £75.3m is offset by additional funding leaving a balance of £36.3m which requires an increase in the 2020-21 budget. This will be funded by further government grants and other non-Covid grants already confirmed. The Council is also experiencing additional pressures, both in costs and capacity, relating to unaccompanied asylum seekers. The Council is now forecasting reserves of £212m at the end of 2020-21 after the drawdowns required in the revised budget. This comprises general fund reserves of £37m and earmarked reserves of £175m. The Council will use the full range of options available, including (but not limited to) taking steps to reduce demand for services, implementing further efficiency savings, streamlining processes, and is reviewing the reserves it holds to identify any that could be redeployed as a one-off measure.

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Value for Money

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	Findings
Woodford Equity Income Fund Kent County Council is the administering authority for the Kent Pension Fund which holds investments in the above fund. We will review the accounting for the movements on the investment in the fund, the management assessment of the year end valuation and any related disclosures. We will discuss with management and the internal auditors the progress made against the Internal Audit recommendations.	We were provided with an update on progress against the internal audit recommendation by the Pension Fund management team. Whilst some of the recommendations have been completed there are a number where the date of completion has been delayed from the initial date of June 2020 to September 2020, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. The Pension Fund losses are estimated at circa £75m at this stage. We are of the view that the Pension Fund has responded well to the issues raised but believe its very important that all the recommendations from both the Internal Audit review and other external reviews are implemented as soon as possible. Timely implementation of these recommendations will put a framework in place to help prevent any reoccurrence of the losses incurred by the Pension Fund in respect of the Woodford Equity Income Fund. Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of future VFM reviews.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

- We identified a recent potential self-interest threat in respect of a threat by a third party to make a complaint to the ICAEW about our audit of the financial statements of Invicta Law Limited for the year ended 31 March 2019, which we signed on 26 June 2019. The threat of making a compliant was received after the 2019 audit report of Invicta Law Limited was signed and no details of the complaints have been provided to us. Therefore we are satisfied that we were independent for the 2019 audit. Invicta Law Limited was not consolidated into the Kent County Council's accounts in 31 March 2019. The threat of a complaint, whilst not carried through at the date of this document, is considered to be present for the 2020 audit.
- In addition, as we expect to sign the audit reports of certain subsidiaries of Kent County Council for the year ended 31 March 2020 before the outcome of the ongoing tender of these audits is known, we have identified potential self interest and intimidation threats.
- We have appointed safeguarding partners onto the impacted audits of the subsidiaries of Kent County Council as a safeguard to mitigate against these self interest and intimidation threats.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and group. Grant Thornton also carries out the audit of the Kent Pension Fund of which Kent County Council is the administering authority. We report fees and independence considerations in relation to that audit in the separate Audit Findings Report presented to the Governance and Audit Committee.

The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Kent County Active Partnership accounts audit	2,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,750 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This service is not provided to the Council but to the Active Partnership which is hosted by the Council. It does not appear in the Council's accounts.
Resolution of objections to prior years statutory accounts	13,000	Self interest Self review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. The work we do on this and the level of fee is also closely scrutinised and challenged by Public Sector Audit Appointments to ensure that they consider this to be reasonable and consistent at a national level.
Audit of subsidiaries	150,955	Self interest Self review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the appointments are made independently of the appointment process for the Kent County Council audit and the work is undertaken by a separate audit team external to the Grant Thornton Public Services department.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights	24,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,000 in comparison to the total fee for the audit of £151,062 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 6 recommendations for the group / Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	In 2019-10 the Council has produced group accounts for the first time. The working papers provided to support this process were extensive and detailed and documented the process, sources of information and any judgements. However, discussing the group accounts consolidation process with management, and on review of the working papers, a number of areas where the processes could be improved for future year were identified. Disclosure is required in the group accounts where the values differ materially to those in the Council's accounts. At present the disclosure is not fully Code compliant. Without the information from counterparties which provide the appropriate level of detail, there is a risk that there will be significant unexplained differences between data. In addition without the level of detail in the returns to enable the expected disclosures in the group accounts there is a risk the group reporting will not be able to comply with the requirements of the accounting framework.	The returns required from consolidating bodies and schools should be reviewed to ensure they include the detail of the intragroup transactions to enable eliminations on consolidation to be matched in full and reduce the level of judgement in the process. Consider requesting returns with the income and expenditure data as at M9 or M10 to perform a matching exercise prior to year end to reduce the level of analysis required at year end. The returns should also be amended to ensure they include a request for a breakdown of balances / transactions for the specific areas where the amounts may require the disclosure in the group accounts such as income and expenditure by nature to ensure they are fully Code compliant. **Management response** This was the first year of preparing Group accounts, including prior years' accounts, during very difficult circumstances, including a ransomware attack on one of the companies. We will be doing a full review of the process, working closely with Holdco to ensure risks are mitigated and returns are produced as accurately and as timely as possible including the areas which require disclosure.
Medium	During our bank testing we were made aware that the payments account was not reconciled in the period from September 2019 to July 2020 due to issues with the specialised software required for the process including failure of the single machine that had the software installed. The reconciliation was performed for the year end date in September 2020 and provided to the audit team. The reconciliation process identified items which had not been processed between bank accounts. The adjustments totalled £2.8m however these were between the payments account and the general account within the bank section so there is nil impact on the financial statements. If a regular reconciliation is not performed there is a risk that the bank movements are not appropriately recorded and in the case of the payments accounts there is the risk that unknown payments could be made and not identified to be investigated promptly.	We are aware that this issue has now been resolved however, the Council should ensure that specialised software for key processes is not restricted to one user and there is a contingency plan where the failure of such software would impact the Council's ability to perform key financial controls. **Management response** The software is now available to more than one user. The Payments Account is the only reconciliation which relied on a specific piece of software we are now aware that the software is not required to complete the Payment Account bank reconciliation so the key financial controls will be able to be met.

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

Action plan

Assessment	Issue and risk	Recommendations
Medium	During our review of Property, plant and equipment our testing identified that amounts included in Assets under Construction had become operational in prior years. On investigation it was confirm this was due to project manager mis understanding the terminology used on the returns they are asked to complete by the capital team as part of the year end close down process and the different interpretations of the 'completion' of projects. The risk is that the assets remain in AUC when they have become operational and therefore are not appropriately depreciated or revalued.	The capital team should ensure that the project managers being asked to provide information regarding assets are aware of the accounting requirements for the classification of assets and when they are considered operational. The close down process should include challenge of any assets under construction that have been classified under this heading for more than one year to ensure they are being reclassified at the appropriate time. **Management response** This is undertaken each year but we will review our processes and ensure that this is explicit and will provide training where necessary.
Medium	During our review of creditors, our sample testing included an item in capital creditors which the capital team confirmed was not a valid creditor at year end. On further investigation it was confirmed that this was due to a number of duplicate purchase orders being included in the year- end creditor balance. This has been isolated to a specific area of the property function. The capital team undertook extensive work to identify the level of the issue to provide sufficient assurance that this was not a material issue However without sufficient controls and oversight of the procurement and purchase order process there is a risk that creditors will be overstated and the level of expected capital expenditure is not accurately reported.	The close down process should include review of the purchase orders and the teams involved in the process of receipting purchase orders in the iProcurement system should be trained to ensure they are able to identify duplicates before posting. **Management response** This is an isolated issue and there has been significant organisational change in this area since 1 April, however, we will ensure that appropriate training is provided to KCC staff and suppliers and that duplicate testing is undertaken at year end.
Medium	We identified the response to the internal audit report as part of our VFM risk. Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and, at the time of our audit work, a follow up internal audit report had not yet been performed (due to the status of the recommendations) we will revisit this risk as part of future VFM reviews.	We will revisit this risk as part of future VFM reviews to review the actions taken in response the internal audit report recommendations. **Management response** Progress on implementing the actions recommended by Internal Audit has been impacted by Covid 19. However a number have been implemented and an external consultant appointed to undertake a review of the governance of the Fund and the finance resources allocated to the management and administration of the Fund. Internal Audit will do a follow up once this review is complete.

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
Medium	During our review of creditors we identified that not all account codes are regularly reconciled, in particular those with lower levels of transactions and where balances relating to specific creditors. A similar issue was identified during our bank testing where the responsibility for completing reconciliation was not always clear and reconciliations were not performed as expected. This leads to the risk that balances are not held at an accurate level in the financial statements and there is a risk that transactions are not appropriately recorded.	The Council should review the balance sheet account codes and ensure that each has an 'owner' and a reconciliation is performed at regular intervals appropriate for the size and frequency of transactions for the code and should include a reconciliation process at year end. **Management response** Agreed. This piece of work commenced but has not been completed and needs constant review to manage staff changes. We will also be liaising with our external partners to ensure they understand their responsibilities in relation to account reconciliations.

Controls

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

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The client identified an adjustment was required after the production of the draft accounts to amend the debtor balance and cash. This has been processed in the revised accounts.			
DR Debtors		6,500	Nil impact
CR Bank		(6,500)	
During creditor testing it was identified that a month end journal for the transfer of bank payments against the creditor code had not been actioned. Further analysis identified that a similar issue impacted other balances resulting in an adjustment.			
DR Creditors		5,131	Nil impact
CR Debtors		(102)	
CR Bank		(5,029)	
Overall impact	**£0**	**£0**	**£0**

Audit adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail
Dedicated Schools Grant disclosure in Schools' reserve	Disclosure to include additional information to highlight to a reader of the accounts the inclusion of the DSG deficit within the earmarked schools reserve in order to ensure the offset is transparent
Group	This is the first year of production of the group accounts and we have made recommendations of a number of areas where additional disclosure are required to ensure the group accounts are fully Code compliant including: - Critical judgements - Notes for balances / transactions analysis where they differ materially to the Council's single entity accounts including expenditure analysis. Additional disclosure has been provided however this should be improved in 2020-21 to ensure it is fully Code compliant. A recommendation has been raised in the Action plan section. - Clarification of the disclosures relating to group structure and the basis of accounting
Prior period adjustment to reflect IFRS 15 reporting of agency arrangements	- The disclosure of income and expenditure under agency arrangements was amended in the 2018-19 figures to ensure they aligned with the treatment in 2019-20 and reflected the requirements of IFRS 15.
Prior period adjustment to reflect split of capital and non-capital creditors	- The disclosure of the capital creditors in prior year has been amended and this has also resulted in an adjustment to the split of creditor movements in the prior year cashflow statement.

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Duplicate capital creditor invoices raised in 2019-20 due to an issue identified within a specific area of the business. The number of invoices raised by this section is £10m however the capital finance team have performed additional work following discussions with auditors and determined a potential error rate for specific projects with duplicate creditors at year end. Using this error rate they have assessed a potential overstatement of creditors. We have included this amount as the error but there is the potential for it to be higher to the maximum level of £14.5m.				
DR Creditors		6,832		
CR Assets under construction or operational assets		(6,832)		
The transfer between assets under construction and other categories of tangible assets were disclosed as additions and should be transfers or reclassifications. This impacted the Property, plant and equipment note only				
Dr disclosure of transfers / reclassification		23,047	Nil impact	Disclosure adjustment only with nil impact
Cr disclosure of additions		(23,047)		
Our review of the assets under construction identified that expenditure on assets which had changed to being operation in the prior years had not been reclassified in the balance sheet due. The impact is within the Property, plant and equipment note disclosure however there is an impact that depreciation should have been charged on the assets that were misclassified.				
DR Operational assets		3,649		
CR Assets under construction		(3,649)		
DR depreciation charge (estimated)	166		166	
CR Accumulated depreciation (estimated)		(166)		
Overall impact	**£166**	**(£166)**	**(£166)**	

Fees

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

Audit fees	Proposed fee	Fee per accounts	Additional fees for Covid-19 (see below)	Final Fees
Council Audit	151,062	151,062	22,650	173,712
Resolution of objections to prior years statutory accounts	13,000	13,000		13,000
Total audit fees (excluding VAT)	**£164,062**	**£164,062**	**£22,650**	**186,712**

The fees reconcile to the financial statements subject to the additional fees set out below

- Council audit fees per the financial statements £164,062
- Covid-19 related additional fees £22,650

Total fees per above £186,712

Audit fee variation – Covid-19

- Additionally, over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covd-19 on the audit of the financial statements has been multifaceted. This included:
- Revisiting planning- we have needed to revisit our planning and refresh our risk assessments and materiality as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.
- Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations. Our audit opinion included an emphasis of matter in respect of this.
- Remote working – the most significant impact of terms of delivery is the move to remote working. We, as have other auditors, have experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.
- We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020 sets out the expectations of the FRC.

Non-audit fees for other services	Proposed fee	Final fee
CFO Insights	24,000	24,000
Total non- audit fees (excluding VAT)	**£24,000**	**£24,000**

Grant Thornton
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Audit Progress Report and Sector Update

Kent County Council Year ending 31 March 2021

21 January 2021

Contents

Introduction

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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

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

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

Completion of the Financial Statements Audit 2019/20.

Financial Statements Audit

We issued an unqualified audit opinion on the Council and the Group's financial statements on 27th November 2020.

We included an emphasis of matter within our audit opinion which referred to the disclosures that management had made regarding the material uncertainties for the valuations of property , plant and equipment and pension fund directly held property and pooled property funds. Our audit opinion was not modified as a result of this emphasis.

Value for Money opinion

We issued an unqualified value for money opinion for the year ended 31 March 2020 on 27th November 2020.

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Certification of the Audit

We will complete the certification of the audit for 2019/20 following the completion of the audit of the Whole of Government Account return.

Kent Pension Fund Financial statements and Annual Report

We issued an unqualified opinion on the Kent Pension Fund financial statements on 27th November 2020. We also issued positive assurance that the Kent Pension Fund's Annual Report was consistent with the financial statements on the same date.

We included an emphasis of matter within our audit opinion which referred to the disclosures that management had made regarding the material uncertainties for the valuations of directly held property and pooled property funds. Our audit opinion was not modified as a result of this emphasis.

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Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2018/19 claim and the 2019/20 claim is ongoing.

Meetings

We met with Finance Officers in December and January as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Corporate Director of Finance in December.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers have been invited to our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.

- Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.

- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming**. Additional fees to cover the impact of Covid 19 have been levied on all of our audits. This amounts to £22,650 for Kent County Council. These fees are subject to PSAA approval.**

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Audit Findings Report	October 2020	October 2020
The Audit Findings Report was reported to the October Governance and Audit Committee and a final version is being presented to the January Governance and Audit Committee		Final January 2021
Annual Audit Letter	January 2021	completed
This letter communicates the key issues arising from our work.		
2020/21 Deliverables		
Fee Letter	April 2021	Not yet due
Audit Plan	April 2021	Not yet due
Interim findings	April 2021	Not yet due
Audit opinion	September 2021	Not yet due
Audit Annual Report	September 2021	Not yet due

Sector update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

New NAO Code of Audit Practice for 2020-21

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VFM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:

Commentary on arrangements
Recommendations
Progress in implementing recommendations
Use of additional powers
Opinion on the financial statements

The '**Commentary on arrangements**' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Corporate Director of Finance shortly.

To review the new Code and AGN03 click here

NAO

Value for Money update for Governance and Audit Committee on new arrangements 2020-21

How have the NAO changed value for money work ?

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National Audit Office

Code of Audit Practice

APRIL 2020

National Audit Office

AGN 03
Auditors' Work on VFM Arrangements

Issued on xxxx

Auditor Guidance Note 3 (AGN 03)

Auditors' Work on Value for Money (VFM) Arrangements

Version issued on: xxxx

About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

AGNs are numbered sequentially and published on the NAO's website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

The NAO prepares Auditor Guidance Notes (AGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of AGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.

The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.

Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.

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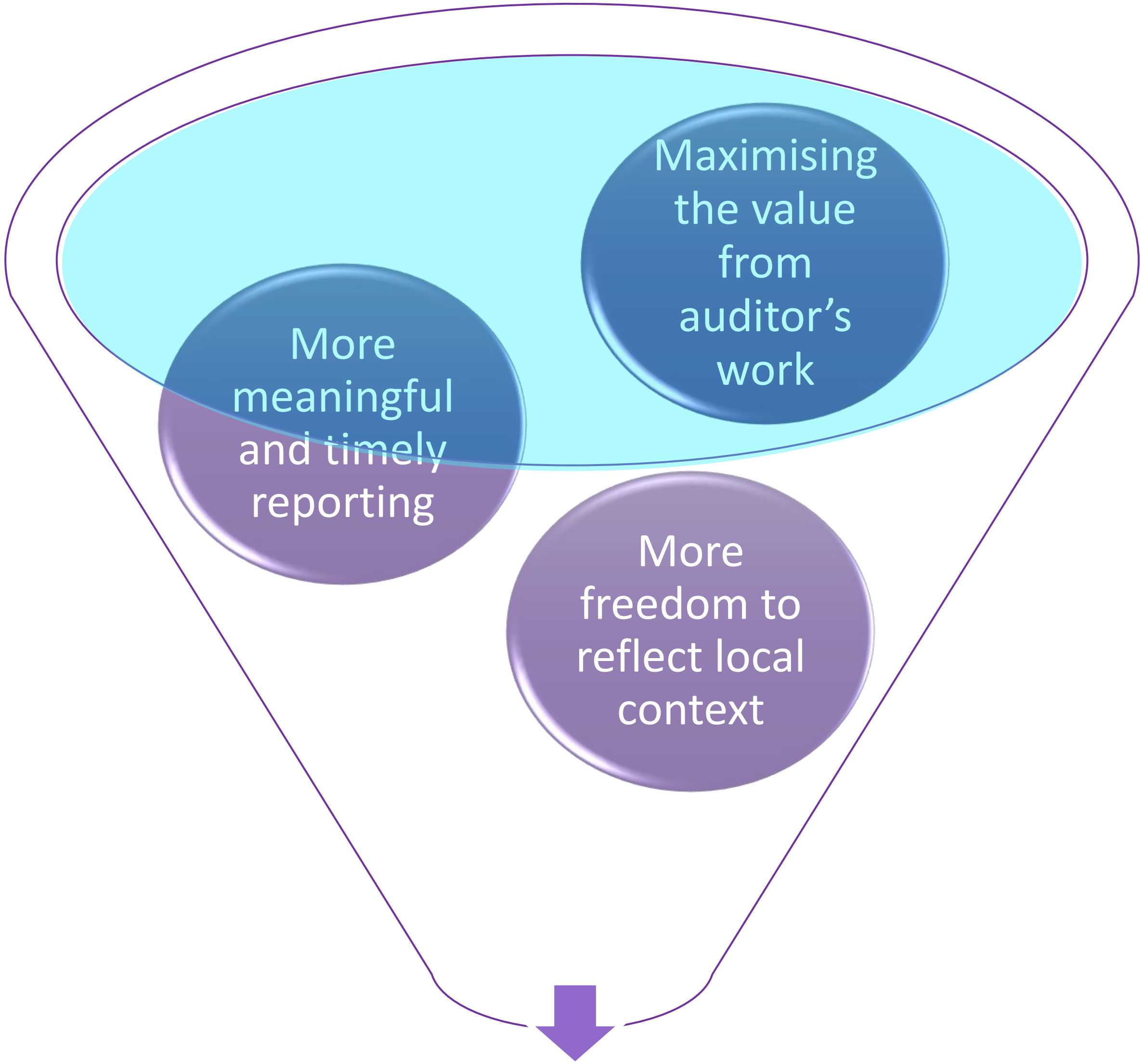
OFFICIAL

How is value for money work changing ?



VFM arrangements commentary and recommendations

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The three criteria have changed…

~~Informed decision making~~	Governance
~~Sustainable resource deployment~~	Financial sustainability
~~Working with partners and other third parties~~	Improving economy, efficiency and effectiveness

A key change in reporting…

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~~Annual Audit Letter~~

Auditor's Annual Report

So what is in an Auditor's Annual Report ?

Commentary on arrangements

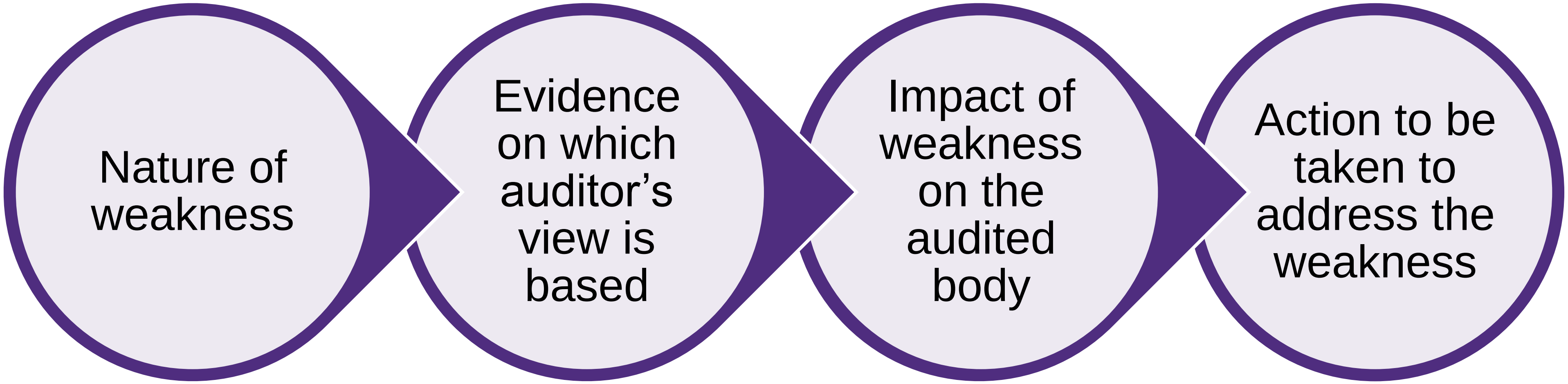
Recommendations

Progress in implementing recommendations

Use of additional powers

Opinion on the financial statements

Recommendations



Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing

- Resourcing

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that::

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

- Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:
- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at a Governance and Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

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By: Jonathan Idle – Head of Internal Audit

To: Governance and Audit Committee – 21st January 2021

Subject: **EFFECTIVENESS OF EXTERNAL AUDIT AND INTERNAL AUDIT LIAISON**

Classification: Unrestricted

Summary:

This paper highlights the liaison arrangements between External Audit and Internal Audit.

Recommendation:

The Governance and Audit Committee note this annual update on liaison arrangements between Internal Audit and External Audit for assurance.

FOR ASSURANCE

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1. Introduction

1.1 The requirement for Internal and External Audit to liaise in an effective way is recognised by professional guidance within both disciplines. The Chartered Institute of Internal Auditors (IIA) states that:

> "Although internal and external audit need to maintain clear boundaries and independence from each other, both functions complement one another. Therefore, it is beneficial for external and internal audit to maintain an appropriate, constructive, and fluid two-way dialogue. This relationship will ensure they coordinate efforts and share valuable information, such as the internal audit programme of work, the external audit management plan, the risks each function has identified, or changes in legislation/regulation."

1.2 This is reflected in the Public Sector Internal Audit Standards, which include the following in respect of liaison between External and Internal Audit:

> "The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts (Standard 2050).

1.3 External Audit's work is governed by the International Standards on Auditing (ISAs). In particular ISA 610 requires External Audit to:

- Determine whether, and to what extent, to use specific work of the internal auditors; and
- If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.

1.4 ISA 610 is clear that effective internal auditing will often allow a modification in the nature and timing, and a reduction in the extent of audit procedures performed by the external auditor. It also states, however, that the external auditor may decide that internal auditing will have no effect on external audit procedures. In coming to a conclusion whether to rely on the work of internal audit, the external auditor usually makes an assessment of internal audit's organisational status, objectivity and scope of the function, technical competence of the team and the due professional care in place.

1.5 One of the issues raised within the publication of the "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting" (Redmond Review) was to emphasise the need and benefit of close working between External And Internal Audit. This included commentary that as internal auditors are much closer to the business than external audit and focus upon governance and service delivery matters then "…this could make internal audit a rich source of knowledge, should the external audit team wish to use it."

1.6 Furthermore, the NAO's new value for money Code comes into place for 2020/21 external audits. There is a specific requirement for external auditors to reach a view on financial sustainability, governance and economy, efficiency and effectiveness. This will almost certainly involve drawing on the work of Internal Audit, particularly around governance.

1.7 It is important to understand that both functions have very different remits. Internal Audit is an independent assurance function within the Council, whereas External Audit is responsible for giving an independent opinion on the Council's financial statements and a conclusion on its arrangements to secure value for money through economic, efficient and effective use of its resources.

1.8 It has been noted in previous reports to the Committee and more widely across the public sector that the interaction between the two functions seems to have diminished over recent years.

2. Current practice

2.1 Over the last 18 months, External Audit and Internal Audit have ensured that there is regular liaison and communication on a range of issues, principally but not restricted to, regarding financially based reviews.

2.2 A key example of this has been the communicating of Internal Audit findings in respect of the Pension Fund Investment Governance Lessons Learned Review, which was a significant factor in consideration of External Audit's Value for Money conclusion for 2019-20 and review of the Council's Annual Governance Statement.

2.3 Additionally, Internal Audit regularly appraise External Audit of other key reviews and also liaise and consult in respect of audit coverage and planning on an ongoing basis.

3. Conclusion

3.1 There is a positive and constructive working relationship between Internal and External Audit, which reflects good practice endorsed by professional bodies.

4. Recommendation

4.1 The Governance and Audit Committee note this annual update on liaison arrangements between Internal Audit and External Audit for assurance.

Jonathan Idle, Head of Internal Audit

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January 2021

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By virtue of paragraph(s) 5, 6a, 6b of Part 1 of Schedule 12A
of the Local Government Act 1972.

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