

GOVERNANCE AND AUDIT COMMITTEE

Friday, 23rd April, 2021

10.00 am

Online





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Friday, 23rd April, 2021, at 10.00 am
Online

Ask for: **Andrew Tait**
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. Minutes -12 January 2021 (Pages 1 - 8)
5. The Future Role of the Governance and Audit Committee (Pages 9 - 80)
6. Review of the Terms of Reference for the Governance and Audit Committee (Pages 81 - 84)
7. Training Programme for Governance and Audit Committee Members (Pages 85 - 88)
8. Annual Review of the Council's Code of Governance and Annual Governance Statement - Oral Presentation by Monitoring Officer
9. Internal Audit Progress Report (Pages 89 - 112)
10. Counter Fraud Progress Update (Pages 113 - 126)
11. External Audit Progress Report and Sector Update (Pages 127 - 146)
12. External Audit Audit Plan for Kent County Council (Pages 147 - 178)
13. External Audit Audit Plan for Kent Superannuation Fund (Pages 179 - 202)
14. Treasury Management Quarterly Update 2020/21 (Pages 203 - 216)
15. Revised Accounting Policies (Pages 217 - 220)
16. Other items which the Chairman decides are urgent

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Benjamin Watts
General Counsel
03000 416814

Thursday, 15 April 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.

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Online on Thursday, 21 January 2021.

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 D Farrell, Mrs S V Hohler, Dr D Horne, Mr M J Horwood, Mr H Rayner and Mr M E Whybrow

ALSO PRESENT: Mr R W Gough, Mr R L H Long, TD, Mr P J Oakford, Mr B J Sweetland and Mr M Whiting

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr B Watts (General Counsel), Mr J Idle (Head of Internal Audit), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mr M Rolfe (Head of Kent Scientific Services/Interim Head of Kent Resilience Team), Mr D Adams (Director of Education), Mr J Flannery (Principal Auditor) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

1. Dates of future meetings of the Committee (Item 4)

RESOLVED that the dates of future meetings of the Committee be noted as set out below:-

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

2. Minutes - 8 October 2020 (Item 5)

RESOLVED that the Minutes of the meeting held on 8 October 2020 are correctly recorded and that they be signed by the Chairman.

3. Committee Work and Member Development Programme (Item 6)

(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) The Committee agreed that the Work Programme would be updated to include the External Review of the Kent Pension Plan.
- (3) RESOLVED that subject to (2) above, approval be given to the forward Committee Work Programme and Member Development Programme as set out in the report.

4. Review of the Risk Management Strategy, Policy and Programme *(Item 7)*

- (1) The Corporate Risk Manager presented the annual review of the County Council's Risk Management Policy and Strategy.
- (2) In the light of comments made by Members of the Committee, the Director of Policy, Relationships and Corporate Assurance agreed that the 4th bullet point in paragraph 7.14 would be augmented by reference to Financial Risk.
- (3) RESOLVED that subject to (2) above, approval be given to the Risk Management Policy and Strategy for the coming year.

5. Corporate Risk Register *(Item 8)*

- (1) The Corporate Risk Manager presented the Corporate Risk Register to the Committee together with an overview of the changes since it had last been presented and an outline of the ongoing process of monitoring and review.
- (2) The Committee agreed that Risks CRR0006 and CRR0007 should be amended to incorporate the risks of serious harm or death, and that Risk CRR0049 should include financial and reputational loss.
- (3) The Corporate Risk Manager replied to questions by assuring the Committee that the question of the risks of the release from care within the Social Care Markets was being considered.
- (4) The Chairman stated that it was open to any Member of the Committee to request a "deep dive" into any of the Risks.
- (5) RESOLVED that subject to (2) above, the report be noted for assurance.

6. Treasury Management Six Month Review 2020/21 *(Item 9)*

- (1) The Treasury and Investments Manager provided a review of Treasury Management activity for the year 2020/21 to date. She agreed that, in future the table for externally managed investment returns would include book costs.
- (2) RESOLVED that the report be endorsed for submission to the County Council.

7. 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

(Item 10)

(1) The Head of Kent Scientific Services presented a report on the use of covert investigative techniques surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2019 and 31 March 2020. He explained that his role was to consider such requests rather than to initiate them.

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

8. The Future Role of the Governance and Audit Committee

(Item 11)

(1) The General Counsel provided an overview of the governance challenges facing the local governance sector and KCC specifically.

(2) The General Counsel's report made recommendations on the future role of the Committee to meet current and future challenges.

(3) The General Counsel agreed to include the Trading Companies' figures as they presented within the recommendations.

(4) RESOLVED to agree that:-

(a) the Monitoring Officer will 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.

(b) 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 in paragraph 11 of the report by no later than 26th February 2021;

(c) the Monitoring Officer, Section 151 Officer and Head of Internal Audit will arrange a further workshop to discuss the future role of the Committee by no later than 19th March 2021;

(d) The following reports will considered at the April meeting of the Committee: -

(i) The Future Role of the Governance and Audit Committee;

(ii) The Training Programme for Governance and Audit Members;

(iii) Annual Review of the Council's Code of Corporate Governance;

(iv) Annual Review of the Committee's Effectiveness;

(v) Review of the Terms of Reference for the Governance and Audit Committee; and

(vi) Annual Governance Statement – Update on Actions; and

- (e) future reports on KCC's Trading Companies will include the figures as they present.

9. Schools Audit Annual Report

(Item 12)

(1) The Interim Director Education summarised the Schools Financial Services (SFS) compliance programme and other activities undertaken during 2019/20 which had enabled the Chief Finance Officer to certify that there was a system of audit for schools which gave adequate assurance over financial management standards in schools.

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

10. Internal Audit Progress Report

(Item 13)

(1) The Head of Internal Audit introduced the report which gave detailed summaries of completed audit reports for the period between October and December 2020. This included drawing attention to areas where there had been management resistance to the commencement of audits and the resources available to the Internal Audit Team.

(2) The Corporate Finance Director agreed to prepare a full report on the adequacy of the resourcing of the Internal Audit Service to the next meeting of the Committee.

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

11. Counter Fraud Update

(Item 14)

(1) The Counter Fraud Manager reported on Counter Fraud activity undertaken during the period from April to September 2020, including reported fraud and irregularities. He also gave an update on the Counter Fraud Plan for 2020/21 covering reactive and proactive activity.

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

12. External Audit 2019/20 Final Audit Letter, Findings Report 2019/20 and Update 2020/21

(Item 15)

(1) Mr Paul Dossett from Grant Thornton UK LLP presented the External Audit 2019/20 Final Audit Letter and Findings report as well as an update on External Audit work in 2020/21.

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

13. Effectiveness of External Audit and Internal Audit Liaison

(Item 18)

(1) The Head of Internal Audit presented a report highlighting the liaison arrangements between External Audit and Internal Audit. He informed the Committee that regular liaison meetings had taken place over the previous 18 months. Mr Paul

Dossett from Grant Thornton UK LLP endorsed the report on behalf of the External Auditors.

(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.

14. Internal Audit Progress Report
(Item 21)

(1) The Head of internal Audit reported the audits on Winter Pressure Commissioning; Urgent CHAPS Payment; and Highways Term Services Commissioning. He said that the issue identified in the Urgent CHAPS Payment report were being satisfactorily addressed.

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

15. Review of KCC Company Ownership Governance
(Item 22)

(1) The General Counsel introduced an update report in relation to the governance of KCC's wholly-owned trading vehicles.

(2) The Committee asked for a report giving a deep dive in respect of the financial impact on KCC and lessons to be learned from the Gen2 experience.

(3) RESOLVED that:-

(a) the Committee will:-

- (i) consider the financial performance of any wholly-owned companies[
- (ii) provide scrutiny of the executive decision-making around shareholder strategy;
- (iii) provide advice and comment regarding Governance arrangements for wholly owned companies; and
- (iv) update the work programme on an ongoing basis to reflect areas of review;

(b) the further dataset to be provided to Members will include quarterly financial reports, annual business plans and a shareholder update from the executive.

(c) the Monitoring Officer shall arrange a workshop to provide training for Members of the Governance and Audit Committee covering the existing governance arrangements by no later than 24 February 2021;

- (d) the Monitoring Officer shall arrange a training event for Members of the Governance and Audit Committee to support the expanded role of the Committee by no later than 9 April 2021;
- (e) the Traded Services Member Panel be struck from the Council's governance;
- (f) the Chairman of the Committee shall write to the Chairman of Policy and Resources Committee to update him on any approved recommendations to allow an equivalent paper to be drafted to update Members of that Committee;
- (g) the Monitoring Officer be instructed to amend the Terms of Reference for this Committee to be presented in draft at the April meeting to reflect these recommendations; and
- (h) a report be presented to a future meeting of the Committee giving a deep dive the financial impact on KCC and lessons to be learned from the Gen2 experience.

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By: Zena Cooke, Corporate Director of Finance
Ben Watts, General Counsel (Monitoring Officer)

To: Governance and Audit Committee – April 23rd 2021

Subject: The Future Role of the Governance and Audit Committee

Classification: Unrestricted

Summary: This report provides further detail on developing the future role of the Governance and Audit Committee to meet the current and future challenges.

FOR DECISION

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 January 2021 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. It had been hoped that work could be completed and a paper could be finalised in time for the April meeting but that has not been possible.
4. Since the meeting took place, a further relevant report has been published and is attached at Appendix 1 to this paper. The Best Value Report into Liverpool City Council by Max Caller (Lead Inspector) follows on from the reports previously provided to the Committee and merits discussion.
5. Again, whilst operating environment and circumstances are very different to Kent, the report provides useful learning and reflection ahead of the changes being contemplated to the Committee's role.
6. One key reflection in many of these recent reports and part of previous discussions is the concept of an annual report from the Governance and Audit Committee to the County Council. Given that this is the last meeting of the current electoral cycle, Members are asked to consider formally agreeing to the

annual report to County Council in order that this be added to the County Council forward agenda.

7. To support this activity, it would be recommended that the standing agenda for the Governance and Audit Committee receive an annual report on the committee's effectiveness alongside the Annual Governance Statement in the July meeting each year. This would mean that the significant financial, audit and governance outputs would all be overseen by the Committee in July and that a report to full Council be prepared for the October or December County Council meeting each year.
8. The approach outlined in the paragraph above also provides greater meeting capacity for the January and April meetings to consider the likely additional items regarding company ownership given the business planning cycle.
9. At the meeting on April 23rd 2021, officers will provide a presentation in relation to the future role of the Committee which will be finalised into a report for the first meeting of the Governance and Audit Committee after the election.

Recommendation:

The Committee is invited to discuss the paper and:

- a. NOTE and COMMENT on the Best Value Report into Liverpool City Council
- b. AGREE that the Governance and Audit shall prepare an annual report to the County Council and instruct the Monitoring Officer to speak with the Chairman to add this to the forward agenda.

Ben Watts
General Counsel
Tel No: 03000 416814
e-mail: benjamin.watts@kent.gov.uk

Liverpool City Council Best Value Inspection

December 2020-March 2021



Max Caller CBE

Lead Inspector

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1. Executive Summary:

- 1.1. Liverpool is a city with a great sense of its history and traditions, with many residents fiercely proud of their heritage. In part, due to the decline in its historical activity, it is highly economically deprived even though it hosts a world-leading knowledge economy and, pre-pandemic, was one of the leading UK attractions for tourism.
- 1.2. The City Council has many hard-working, long serving, committed and dedicated officers delivering key services in difficult circumstances. The Council itself, has Councillors of all parties who encapsulate the best traditions of local democracy, working for their residents and striving to deliver the best possible outcomes for people and place.
- 1.3. This Inspection report risks devaluing all the good work that is done, as it focusses on serious failings that have been evidenced in both governance and practice in those areas of the Council subject to this Inspection, and the corporate blindness that failed to pick this up and remedy the position. Indeed, the position documented by the Inspection provides the best empirical evidence of Conquest's Third Law of Politics 'The behaviour of any bureaucratic organisation can best be understood by assuming that it is controlled by a secret cabal of its enemies.'
- 1.4. To remedy these failings will require changes to introduce and embed good practice right across the Council, politically and managerially, building on the start that has been made by the Council's current Chief Executive. These recommended changes will involve revising electoral arrangements, strengthening personal accountability for both Members and Officers, and introducing best local government practice together with cultural change.
- 1.5. The evidence and events over the Inspection period leads to the conclusion that there can be no confidence that the Council will be able to take and implement all the required decisions in a sensible timescale. As a consequence, the imposition of Commissioners, supported by Directions is recommended to stand behind the Council and ensure that the right decisions are taken at the right time.
- 1.6. The road to recovery will be hard, as it is inevitable that more bad things will emerge through the process. The outcome will be a Council with transparent decision taking that can legitimately withstand challenge and can be proud of what it delivers.

2. Introduction

2.1. The Secretary of State for Housing, Communities and Local Government, by way of letter dated 17 December 2020, appointed Max Caller CBE to lead a statutory Inspection at Liverpool City Council (LCC), to be completed by the end of March 2021.

2.2. The purpose of the Inspection was to provide direct independent assurance to the Secretary of State that the council is complying with its best value duties following:

a) The Merseyside Police inquiry into fraud, bribery, corruption and misconduct in public office, which involves a significant connection to Liverpool City Council.

b) The response Liverpool City Council submitted to the Ministry of Housing, Communities and Local Government on Friday 11 December 2020 in respect of governance arrangements, oversight and control measures within the Council including details of the measures and controls implemented during the course of the last eighteen months.

2.3. Subsequently on 7 January 2021, at the request of the Lead Inspector, the Secretary of State appointed Viv Geary and Mervyn Greer as Assistant Inspectors.

2.4. The Secretary of State provided the following Terms of Reference in relation to the undertaking of the review, requesting consideration of the following functions of the council and their alignment with the best value duty, the authority's:

- planning,
- highways,
- regeneration and
- property management functions and
- the strength of associated audit and governance arrangements in the exercise of those specified functions.

2.5. In addition, the inspection team were directed to consider whether the authority has effective arrangements in place for securing best value in the functions listed above in paragraph 2.4.

2.6. The full text of the letter of appointment of the Lead Inspector¹ can be found at Appendix 1.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945914/Letter_to_Max Caller_CBE_201217.pdf

- 2.7. The letter of appointment identified the need to seek to agree a Memorandum of Understanding with Merseyside Police, to share relevant information and to avoid prejudicing both the Best Value Inspection and Police enquiries as part of 'Operation Aloft'. This was negotiated and agreed between the Lead Inspector and the Police in the first half of January 2021. A copy is attached as Appendix 2.
- 2.8. Max Caller CBE is a former London Borough Chief Executive and was one of the Intervention Commissioners, following the imposition of Directions on the London Borough of Tower Hamlets. He led the Best Value Inspection of Northamptonshire County Council in March 2018, the non-statutory review of Nottingham City Council in 2020 and was one of the Non-Executives appointed to support Birmingham City Council in their improvement journey. He was also the Chief Executive of London Borough of Hackney, the first authority to be subject to the Direction regime. Earlier in his career, he co-chaired the Local Authority Association (LAA) Adviser group that produced the first LAA code of good practice on highway maintenance.
- 2.9. Viv Geary LL.M is a Solicitor with 35 years' experience of working in local government in five different local authorities. She was a Monitoring Officer for over 10 years both at Unitary Authority and Combined Authority levels. She has worked with three different elected Mayors and is a specialist in local authority governance having developed, reviewed and updated the constitutional arrangements for a range of different local authorities including those operating elected Mayor and Cabinet, Leader and Cabinet, Combined Authority and Committee governance systems.
- 2.10. Mervyn Greer's career spans more than 4 decades, he has experience in construction, property and estates management. Starting working life in the design office of a construction business he joined a major structural and civil engineering consultancy working in the middle east on transport, education, and military facilities. Mervyn moved into the Utilities sector where he was responsible for the South East Water Estate. His experience in major construction companies includes PFIs such as HMG Home Office Marsham Street, Barnet NHS Trust and Kings College United Medical Dental School. Mervyn has also conducted reviews of Local Authorities', NHS Trusts and Police Authorities reporting to Governance Boards. Mervyn was the strategic director for Kier responsible for all activities in the Local Government Sector, at its peak valued at £1.5bn pa. He has directly managed key major contracts with local government including under the Building Schools for the Future programme. Mervyn is now engaged by the Cabinet Office as a Crown Representative, responsible for the relationships with the UK's major Construction and FM suppliers. He is an accredited assessor for the

Government Commercial Function programmes for commercial and contract management capability up to commercial director level. He is co-Chair of the Crown Commercial Service Workplace commercial scrutiny board.

- 2.11. In assessing how to undertake the review the Inspection Team decided to review property disposals from 2015-2020 (the Review Period) to see how the Council had complied with its best value duty. This Review Period covers a period from the last year of the previous Chief Executive through the period when the Mayor chaired management team through to the current Chief Executive's time in post, to test the impact they had made on the organisation. As the Inspection has followed case studies end-to-end, this has meant looking at some issues from much earlier in time, to trace the story in full.
- 2.12. The Inspection has been undertaken by calling for and reviewing all documentation, relating to over 65 property transactions, highway and building maintenance tender appraisals, an extensive programme of interviews with Councillors, Officers, former Officers, contractors and members of the public. The document review encompassed both published documents and working papers, where they existed. This has enabled an end-to-end assessment of property transactions from initial call for expressions of interest, through negotiations, legal documentation, to planning, planning enforcement, and building control issues. It has also enabled the determination of key elements required to be included in any recovery plan and to identify the support the Council might need to ensure success.
- 2.13. As the Inspection progressed, it became clear that the quality and coverage of LCC's record keeping, particularly in the Regeneration Directorate was often patchy. New documentation became available only as individual transactions were examined, in a significant number of instances. Towards the end of the Inspection, it was evident that crucial officer exchanges were not held on the files supplied and it became necessary to request that these needed to be recovered from LCC's servers. This only became clear as part of interviews. This report therefore deals with record keeping as an issue as part of the Inspection. The Inspection of LCC is based upon the evidence and documentation provided, supplemented by interviews, which has been reviewed at pace, to meet the timeframe specified by the Secretary of State. As part of the justification for some of the decisions has been the wider benefits to Liverpool and its citizens, the concepts and application of Social Value considerations has also been explored.

Best Value – Generally

- 2.14. The Best Value legislation states: "A best value authority must make arrangements to secure continuous improvement in the way in which its

functions are exercised, having regard to a combination of economy, efficiency and effectiveness².

2.15. The concept of continuous improvement must mean that the best value duty must be a process. It must mean that even in the best performing local authorities' errors will occur, failures of policy or practice may result despite good intentions and that an instance of this would not automatically mean a failure to comply with the best value duty. However, it must also mean that an authority will learn from its past performance, rectify defects, and not continue along a path when failure is evident. Such events should be clearly isolated and exceptional, rather than regular and repeated and should be immaterial in value or wider implications. A continued failure to correctly value land or assets, is not an isolated matter and capable of being considered a failure to make the necessary arrangements that the legislation envisages.

Best Value - Land and Property Disposals

2.16. Legislation states that local authorities can dispose of land held by them in any manner they wish as long as it is sold at the best rate that can be reasonably obtained. With the exception of land given on a short lease (less than seven years) any disposals at less than best value needed the permission of the Secretary of State³. Best value is defined as the best price that could be reasonably obtained and this, in practice, means at a price set by an accredited valuer as per the technical Appendices to the 2003 Consent Order⁴.

2.17. In 2013 a general consent⁵ was issued by the Secretary of State. The consent acknowledged that disposing of land at less than best value can sometimes create wider public benefits. Where disposal will help secure improvement of the economic, social or environmental well-being of the area, public bodies such as local authorities could undervalue assets (except for land held for housing or planning purposes) by £2 million or less without the Secretary of State's permission.

2.18. In undertaking a 'less than best' disposal local authorities are expected to satisfy themselves that there are no state aid implications, undertake valuations to ensure that they are not exceeding the £2 million limit and demonstrate the wider public benefits gained. Even under the general consent, housing land is expected to be sold at best /market value and requires permission from the Secretary of State to sell at less than best value.

² [Local Government Act 1999 Part 1 section 3\(1\)](#)

³ [section 123 of the Local Government Act 1972](#)

⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7690/462483.pdf

2.19. In 2015 the Government allowed receipts from land and asset sales to be converted into revenue to provide finances for Local authority services. This encouraged local authorities to sell off parts of their land and property portfolio to generate further income.

Social Value

2.20. Since its introduction in 2012/13, The Public Services (Social Value) Act 2012 has been most effectively taken up by local government and applied to in sourced and outsourced service delivery in varying degrees of success. The original intention of the Act was never to be a punitive measure against suppliers and service providers but was more putative in its design, to ensure that public authorities understood the value of their service to the communities they served.

2.21. As a stand-alone guide this had little positive effect until some level of measurement of intended social value (SV) outcomes could be applied. Through the LGA National Advisory Group (NAG) in partnership with the Social Value Portal the National Social Value Task Force (NSVTF) was set up. This group developed a range of measures that could be adapted and used when authorities were either procuring or commissioning services so that the SV could be assessed. These measures are published in Toolkit form as the National TOMs Framework (Themes, Outcomes and Measures)⁶. For local government, which leads the way on SV delivery, the use of TOMs is currently best practice and gives some consistency of measurement for authorities and suppliers alike.

Thanks

2.22. LCC had assured the Secretary of State of their willingness to engage openly with the Inspection. The Inspection Team wish to thank and acknowledge the efforts made by the Council to provide substantial documentation and to make available Senior Councillors and Officers to meet the timetable, and the openness of the communications. All requests for documentation, information or the facilitation of meetings were dealt with efficiently and speedily. No doubt, many staff were involved in making this happen, but the work of Lisa Smith, Lucy Horne and Brigid Parkinson helped enormously. Special thanks also go to Linda Cheng and Paula Crawford for their welcome and practical support.

2.23. The Inspection Team would also like to thank those Officers, Members and members of the public who came forward to share their personal concerns. Their willingness to share information helped to identify areas of focus.

⁵ ibid

⁶ <https://socialvalueportal.com/national-toms/>

Throughout the Inspection Team has endeavoured to see all of those who wanted to meet us and welcomed written submissions from those who wanted to set out the history as they saw it or to point us to areas which needed exploration. Some of the topics identified were outside the scope of this Inspection. In such a short Inspection period it was never possible to explore every item raised and come to a specific conclusion on that individual topic. That would require an in-depth audit process with considerably more resources. However, each area looked at has contributed to the overall findings and conclusions. They have highlighted the systemic nature of the issues facing LCC leading to the overall findings and conclusions. Just because an individual site or issue is not mentioned by name does not mean that the Inspection Team failed to look at it or take it seriously.

2.24. The Inspection Team were supported by Eleanor Smyllie, seconded from MHCLG. Her knowledge, skills and commitment were instrumental in ensuring this report was delivered to the Secretary of State to meet the deadline. Her insights and work are a credit to the Civil Service.

3. About Liverpool City Council

- 3.1. Liverpool is the largest constituent member of the Liverpool Combined Authority. The Council serves a growing and vibrant population of approximately 498,000⁷ making it the 10th biggest council by population size in the UK. The city centre area also houses up to 50,000 students and other short-term residents not captured by the ONS figure but captured in health statistics⁸.
- 3.2. Liverpool is the fourth most deprived local authority area in England⁹. It has a comparatively youthful population with 42.5% of the population under the age of 30 compared to an English average of 37.7%¹⁰ but life expectancy is 6 years lower than the England average and health outcomes are poor with a recent report concluding 86% of people are not active enough to maintain a good health¹¹. Its employment rate is also below the national average and 16% of Liverpool residents have no qualifications (16-64) which is double the national average of 8%¹².
- 3.3. The decline of Liverpool's dockland and industry is well documented and has left numerous vacant sites across the city. This combined with an aging housing stock has meant that development and regeneration initiatives are welcomed in the city.
- 3.4. The city centre has seen large amounts of investment and development over recent years, this has started to spread along the waterfront and out towards the Georgian parts of the inner-city centre arch. However, the outer suburbs have seen comparatively little investment. Much of the city centre development has been student accommodation and hotels, justified by its growing student population. Within the city there are four universities serving around 50,000 students, a large proportion (around a fifth overall and around a third at University of Liverpool) coming from outside the UK to study in the city¹³. Before the pandemic, there was a thriving tourism sector, in 2019 Liverpool was the 5th most visited city in the UK¹⁴.
- 3.5. There are currently 15 local authorities with a directly elected mayor and

⁷ Liverpool Key Statistics Release, data point as of 3rd March 2021 (<https://liverpool.gov.uk/council/key-statistics-and-data/headline-indicators/>)

⁸ Liverpool Key Statistics Release February 2021 (<https://liverpool.gov.uk/council/key-statistics-and-data/headline-indicators/>)

⁹ [Indices of Deprivation 2019](#)

¹⁰ UK Census (2011). "Local Area Report – Liverpool Local Authority". Nomis. Office for National Statistics, accessed 13 March 2021

¹¹ [Mayor of Liverpool Inclusive Growth Plan March 2018](#), accessed on 13 March 2021

¹² Ibid

¹³ [The Great British Brain Drain: Liverpool](#) 20 Jan 2017, accessed on 13 March 2021

¹⁴ [Mayor of Liverpool Inclusive Growth Plan March 2018](#), accessed on 13 March 2021

cabinet model of governance. Initially the change to this model was only available following a local referendum in favour of an elected mayor, but since 2007 it has been possible for a Council to resolve to change to the mayor and cabinet model without the support of a referendum. Liverpool City Council resolved to adopt an elected Mayor (the Mayor) and Cabinet model of governance in February 2012. In May 2012, the first and only elected Mayor of Liverpool City Council, Joe Anderson OBE, was elected and was re-elected in 2016. Mayoral and all other local elections were postponed in 2020 due to the Covid pandemic and, following his arrest and suspension by the Labour Party, Joe Anderson stood down from acting as Mayor and has decided not to seek re-election in May 2021.

- 3.6. An elected mayor, who is not a councillor cannot be removed during their term of office unless they become ineligible but if they are unable to act or stand aside the statutory deputy mayor, who is a councillor, exercises their powers. In Liverpool, as a consequence, Cllr Wendy Simon is acting as Mayor. Otherwise, although the mayor is an authority's principal public spokesperson and provides the overall political direction for a council, an elected mayor has no additional local authority powers over and above those found in the leader and cabinet model, or the committee system.

Political Balance

- 3.7. LCC currently elects 90 councillors representing 30 wards, on a uniform pattern of 3 members per each ward. Elections for a third of council seats occurs each year. In normal circumstances, the mayoral election will take place in the third year. The last elections took place in 2019, and, following death and resignations, the current political balance of the Council is 68 Labour, with 10 Liberal Democrat, 3 Liberal, 4 Green 2 Independent and 3 vacancies. Labour has controlled LCC since 2010.
- 3.8. An elected mayor is required to appoint a cabinet comprising at least 2 but not more than 9 councillors and, together with the mayor, they are the local authority's executive. It is the executive who are the decision makers for all matters unless they are council functions under the Functions and Responsibilities Regulations¹⁵ or otherwise assigned as a local choice function or delegated by the mayor to a cabinet member, an officer or retained by the mayor as a mayoral responsibility. The LCC Mayor has appointed nine cabinet members. Their responsibilities cover a number of overlapping and conflicting components. Evidence from a number of witnesses leads to the conclusion that the Cabinet was not a key source of governance in LCC.

¹⁵ [Local Authorities \(Functions and Responsibilities\) \(England\) Regulations 2000](#)

3.9. In Liverpool, in addition to the nine Cabinet Members, the Mayor has a number of Mayoral Leads, who are appointed by, and report to, the Mayor and, sometimes a specified Cabinet Member to assist in the delivery of the Mayor's priorities. Over the Review Period this number has fluctuated and has included both non-Councillor, and past Councillor appointments. The appointment process for these paid posts is not always transparent. This aspect is discussed in more detail in paragraphs 9.14-9.15 A full list of Special Responsibility Allowances given to councillors over the Review Period can be found here:

<http://councillors.liverpool.gov.uk/ecCatDisplay.aspx?sch=doc&cat=259>

Officer Structure

- 3.10. Over the Review Period LCC's officer structure has changed many times. At the start of the period, the City Solicitor and Monitoring Officer (MO) was not on the top management team but reported to the Director of Finance and Resources (S151 Officer). There was no post explicitly linked to the Internal Audit function. Instead, it was titled Financial Management System Programme Director. In the Regeneration Directorate (Regeneration), the Divisional Manager Highways and Transport reported directly to the Director but all other Divisional Managers reported via an Assistant Director. The Divisional Manager Planning reported to one of these, AD Planning and Development, who also had responsibility for property matters except Housing.
- 3.11. Over the next 3 years the structure regularly changed, both in personnel and structure terms. A common feature was overlapping responsibility with titles not really reflecting roles. This was borne out in the documentary evidence where senior officers dropped in and out of projects and decisions were signed off by individuals who seemed to have no responsibility for the project.
- 3.12. The position was further complicated, following the departure then Chief Executive, with the Mayor chairing the officer team with an interim statutory Head of Paid Service reporting to the Mayor, as part of that team.
- 3.13. Once the current Chief Executive, Tony Reeves (TR) took up post the top management team stabilised with both the other two statutory officers at the top table, but the rotation continued in the Regeneration Directorate for a little longer.
- 3.14. At the start of the Review Period a number of direct and professional services, and much that might be considered client-side functions, were delivered by private sector providers. In 2016 street cleansing and refuse collection returned to in-house control, TUPEd into a pre-existing LCC wholly owned company.

This was repurposed and renamed Liverpool Streetscene Services Ltd (LSSL) to provide the vehicle. The Company Directors appointed by LCC included the Director of Community Services as the only officer who was the client-side Director. Subsequently, in 2018, an element of highways direct service provision was purported to be TUPEd back inhouse from Amey who continued to provide client-side staff under a framework agreement. This is discussed in more detail in Section 5.

3.15. TR took immediate steps to rationalise and improve control, making the MO responsible for Audit and Governance and being on the top team, ensuring the appointment of a new Director of Finance and moving Property and Asset Management (PAMS) out of Regeneration into Finance.

3.16. In the ten years before the Inspection, LCC had externalised and reinternalised many of the services subject to this Inspection. These processes had not always been managed well and both physical and corporate knowledge and culture had been lost at each stage. What was clear was that, in Regeneration, the only way to survive was to do what was requested without asking too many questions or applying normal professional standards. The result of this approach is discussed in subsequent sections of this report.

3.17. The Mayor appoints his or her cabinet and can determine which “executive” decision making responsibilities can be undertaken by individual cabinet members, officers, through joint arrangements with another authority, or by themselves as mayor. Decision making responsibilities on executive matters are otherwise fulfilled through decision making at Cabinet meetings. The usual split of responsibilities between the officers and members is not changed as a result of the use of the mayoral model, nor are any of the record keeping responsibilities. Officers provide options, advice and guidance to the decision makers and implement the (lawful) decisions made as a result. Members work closely with officers, but both must respect the split of roles and not seek to step over that line.

The Constitution

3.18. The same legislation that established the elected mayoral model also introduced a requirement on local authorities to publish their Constitutions. The Constitution is part of the framework seeking to ensure that decision making in local authorities is open, transparent, and undertaken applying proper decision-making principles. It is a fundamental building block of good governance. As well as governing the conduct of meetings it sets out the decision taking structure of the Council and the regulations under which a range of processes take place, together with Codes of Conduct for Members and Officers, working relationships and other detailed matters which together govern the Local

Authority. It also provides the framework for scrutiny and challenge of individual decisions. The legislation requires the Constitution to be kept under review and updated as required.

3.19. The Inspection Team considered the LCC Constitution and how decision making, and scrutiny processes worked in practice, in particular in relation to the areas subject to the Best Value Inspection, namely Regeneration, Planning and Highways. The Inspection Team specifically looked at contract and property Standing Orders, the terms of reference for the Audit and Governance (Select) Committee, Companies Governance Committee and the Complaints Sub-Committee together with issues relating to declarations of interest and codes of conduct¹⁶. What emerged is described in more detail, mostly in the section on overall governance issues, Section 9 below.

Local Authority Trading Companies (LATCo)

3.20. LCC discloses a number of subsidiary companies which are recorded in Note 37 to their unaudited 2019/20 Statement of Accounts and note 41 to the 18/19 accounts¹⁷. Two of these fall within the purview of this Inspection, Liverpool Streetscene Services Ltd (LSSL) and Liverpool Foundation Homes Ltd (LFH).

3.21. The financial statement for LFH discloses a loss of £0.7m on a turnover of £0.3m in its first year of trading.

3.22. LSSL discloses a loss of £2.2m on a turnover of £37.4m. Previous year's financial statements show that as turnover increases the loss increases. The previous year figures show a loss of £0.8m on a turnover of £31.9m and the year before that, a loss of £0.6 m on a turnover of £25.7m. No dividends are paid.

3.23. The Constitution provides for Council oversight of its subsidiary companies, as distinct from Councillors acting as Directors on their boards, to be overseen by a Companies Governance Committee with the Terms of Reference can be found on LCC's website¹⁸. This Committee rarely meets. Its last meeting was on 10th December 2020 to consider the recommendations of the Redmond Review. Previously, it met on 14th May 2019 to consider a paper from the working group on Company Governance. This paper was approved but no action has been taken yet to turn their recommendations into constitutional changes and operationalise the agreed position.

¹⁶ <http://councillors.liverpool.gov.uk/ecCatDisplay.aspx?sch=doc&cat=370>

¹⁷ <https://liverpool.gov.uk/council/budgets-and-finance/statement-of-accounts/>

¹⁸ <http://councillors.liverpool.gov.uk/documents/s222826/Terms%20of%20Reference%20Updated.pdf>

3.24. There is no record of the Council appointing an officer to act as shareholder representative or to agree a shareholder agreement to govern their relationship with the companies subject to this Inspection and this needed to be done irrespective of wider issues. The Inspection Team was advised that such actions had been deferred pending a more strategic review of LCC's holdings but that in hindsight, it would have been wiser to deal with these critical governance issues as a priority.

3.25. Following feedback from the Inspection Team during the course of the inspection LCC at an Extraordinary City Council meeting on 3rd March 2021 removed all Councillors from their company boards and either replaced them with officers or left them vacant.

4. Regeneration Directorate

- 4.1. The Inspection Team heard from a number of sources that in the early part of the Review Period, corporate management and oversight was sketchy and in Regeneration itself, no divisional management or team meetings took place. Many individuals described the style in Regeneration as intimidating. Little instruction or direction was committed to writing. Instructions were given to undertake specific elements of a task to ensure that the total picture was not evident. It was suggested although bullying was not overt it was clear what would happen if instructions were not followed explicitly. More than one person told us that the Director's style was to see you at your desk, make it clear that what he said was the Mayor's wish and that the file should look right. People who did not comply did not last.
- 4.2. Not every Officer was put under the same type of pressure or felt it in the same way: The Inspection Team heard from one Officer who did not experience a bullying culture as others did- they were not shouted at or threatened with the sack- but they did feel pressure to behave in a particular way with certain people and could not speak out as they would have wished. Since the arrests, suspensions, and the arrival of the Inspection team a lot of pressure has been removed and they are "no longer wary of every email that arrives in the inbox." The Inspection Team considered that all this testimony was very telling about the pervading tension in Regeneration and other areas subject of the Inspection.
- 4.3. The Inspection Team noted significant differences in record keeping in different parts of the Directorate. Planning, Planning Enforcement and Building Control files, whether paper or electronic, were clearly full and contemporaneous. It was possible to trace the development of analysis through to decision. The Inspection Team heard from planning officers who drew attention to particular cases where it was considered pressure had been applied to get the 'right' outcome. However, if these cases had not been linked to particular developments that had been identified as being of interest, there would have been nothing specific in the records that would have indicated that this was more than an exercise in normal professional leadership. The evidence on enforcement was much more conclusive. A number of instances were noted where works were recorded as having started on site, either in the absence of consent, satisfaction of conditions or the entering to of planning agreements e.g., Section 106 agreements. In normal circumstances, enforcement action would have been commenced in line with published guidance. Requests for authority to take action were either refused or ignored. Some planning agreements were only finalised when the development was proposed to be sold on and would not have proceeded without a valid consent.

- 4.4. On the property side, there was no coherent property-based filing system, nor even a project-based case file. It is accepted that documents relating to the early years of the Review Period were complicated by operational and professional property matters being outsourced to a joint venture with Mouchel under the Liverpool 2020 brand name. The subsequent reintegration into the LCC officer structure accompanied by what was described as a brutal service review substantially reduced staff, had a damaging effect on rent reviews and collection still being felt today, and resulted in much documentation being destroyed. Officers who survived the events talked about having to rescue case files from skips, each morning, to ensure they could deal with live matters.
- 4.5. In almost all the property cases viewed by the Inspection Team, until the last part of the Review Period, there was little original material. The files looked to have been constituted from individuals personal filing systems. When gaps were identified by the team more information was often forthcoming. In particular, it was extremely difficult to trace agreed final versions of Delegated Action Reports (DAR's), the means by which the rules on delegated powers were complied with. The Directorate appeared to have a great reluctance to share the final signed authority with the centre, on the spurious grounds of commercial confidentiality. In a number of instances, the Inspection Team noted DAR's being created to retrospectively authorise deals that were now being finalised, sometimes with the valuation supporting the deal appearing on the file for the first time at this point.
- 4.6. As a consequence, it is not possible to state that the standards of record keeping required by a statutory authority were complied with.

5. Highways

- 5.1. Prior to the Review Period, Highways and associated services were outsourced to Amey LG. These services included refuse and recycling, non-statutory street cleansing, grounds maintenance and parks management. In the highways contractual arrangements with Amey LG professional technical services were also included. These services were gradually, and piecemeal, moved back 'in-house' with responsibility for refuse and recycling, street cleansing and grounds maintenance transferring the Community Services Directorate. In 2016 the services were let under contract with LSSL
- 5.2. In February 2018, following substantial termination of the contract with Amey LG, the highways maintenance services were also transferred to LSSL but remained the responsibility of the Regeneration Directorate. Parks management also transferred to LSSL later in 2018.
- 5.3. This gradual breakup of the highways services appeared to proceed without plan or foresight as to how they would be managed and delivered in future years. There is no evidence that senior managers understood the risks to the service or what resources, structures, processes, or procedures should be put in place to ensure a good service could be delivered.
- 5.4. This situation was exacerbated when the AD responsible for the service was arrested and suspended from LCC. The service continues to operate without a coherent business plan, direction or forward vision.
- 5.5. The majority by value of highway works are by a mix of term and tendered contractors or with mini tenders being used to price specific jobs using contractors already under contract.
- 5.6. The evidence showed that Highways management were reluctant to make use of the professional expertise of the central procurement team. Further, compliance with LCC Contract Standing Orders was poor. Records show a high level of exception reports (in essence, a breach of the rules remedied by a retrospective approval) together with a significant number of compensation events (claims) which increased the overall costs of the schemes. Where it was appropriate to report back to Cabinet, for example, on overspent Capital schemes, this was just covered in the S151 Officers monitoring report, without any justification provided by technical officers.
- 5.7. A number of reasons were suggested to the Inspection Team as justifying this position. The team heard that on key contract management stages prior to commencement of works on site, the highways team abrogated its responsibility to 'set up' contracts to the Central Procurement Unit (CPU) appropriate category manager. This means that the highways team has no foresight of Health and Safety risks, environmental issues or works planning. This, inevitably, leads to additional requirements being identified after tender

and is a cause of the excessive compensation events claims and payments. Jobs were being awarded without knowing the contractor's workplan being agreed in advance of the commission, leading to costs being increased when the necessary traffic management or restricted hours working was established or insufficient allowance for unforeseen conditions. Of course, had the estimate included for these events in advance they could not have been awarded under the relevant Financial limit rules. Overall, the culture appeared to be rule avoidance and a specific example of this is identified later.

5.8. Overlying all of this was the Mayor's insistence that his concept of social value was best achieved by employing contractors with a Liverpool postcode base. When contractors without that qualification won in competition this normally provoked a request for review. The documents reviewed record a complaint to the Mayor from a losing local contractor resulting in external consultants being called in to review the process. Their report revealed some minor irregularities but nothing worthy of intervention. However, the Mayor continued to express concerns. In fact, the central procurement process, if followed properly and followed up on with contractors after award does show how legally compliant social value can be delivered. The practice in Highways did not do this.

5.9. Having said that, there are concerns about how some of the maintenance contracts were awarded. The Inspection Team examined the process for the latest series of term contracts. It was noted that the detailed evaluation at bill of quantities level showed a difference on the sample calculation of around £8000 in £600,000. When grossed up by the percentage addons the numerical difference became much greater, and the award was made on this basis and it was not questioned. In reality, a minor change in the sample calculation could have led to a different outcome. There were no records available to us to check that the sample calculation was predetermined.

Dismantling of the Churchill Way Flyover

5.10. This was a major civil engineering project, let under the NEC3 framework, and was procured by the CPU in mini competition. From our interview it is understood that the Highways team did not know what the Health and Safety plan for the project was prior to commencement on site. At the point of works starting an urgent appointment of safety consultants, Safety Support Consultants (SSC), was instructed. SSC had no previous relationship with the Council or the Highways team or their professional technical consultants. Not only was this in contravention of the Construction Design Management regulation but also this action exposed the site teams to considerable Health and Safety risk. It also increased the commercial risk to the Council of budget over run and additional compensation event claims.

5.11. SSC is a private limited company incorporated in July 2016. Amongst other services it provides Health and Safety consultancy, including to construction

sites. As noted above, it has never undertaken any work directly for LCC and is not on any approved list. For LCC to use its services, unless it was below the exemption limit, would require a waiver of Contract Standing Orders.

- 5.12. In mid-2019, Council officers in Highways requested Amey, who at that stage were still providing a range of professional services via the residual framework contract, to appoint SSC to provide client -side H&S support. Initially, it was suggested that SSC would review in-house design from a CDM perspective and do random site audits. Amey asked why LCC would not procure the service direct and why SSC? as they had no published highways experience. It would also have been possible for Amey, given notice, to deploy their in-house resource or use consultants already known to them.
- 5.13. The files record the assistance given by officers to SSC to enable rates to be set for the task on the basis that this information should not be disclosed to 3rd parties. Amey were given a direct instruction to appoint. From the outset, there were relationship difficulties on site and issues relating to perceived over resourcing with claims to match. From the evidence available on file, the quality and content of the output provided to the client-side did not justify the scale of contract payments. Although the arrangement was announced as lasting only 4-6 weeks, the engagement came to an end after 4 months with expenditure of the order of £250,000, once the CPU became aware and pointed out the availability of framework contractors providing the same service at less cost. This episode is an example of the approach taken by officers to circumvent the control systems.
- 5.14. After examining responses to questions raised and interviews with the appropriate managing officers for LCC Highways Services, the Inspection Team found that there is no overall direction of the service and that management of the capital works services is dysfunctional and without 'ownership' of operational strategy and delivery. The service was split into two key areas of management with sub sections from these. The two principal sections are Capital works and Core Services (Maintenance works). Each area is led by an operational manager.
- 5.15. Dealing with Core Services the Inspection Team found that there is a framework in place to cover most service delivery needs. The framework is under review and will be replaced under a new procurement. Most works under this contract are procured against agreed schedules of rates by direct award with DAR or Cabinet report being processed before executing contracts. The payment mechanisms for this framework are well developed and include checks and balances from both the CPU and suppliers prior to submission of invoices. Spot on-site checks are also made to verify work done and value.
- 5.16. The Inspection Team noted missed opportunities to plan capital works, to control spend against budget and to derive better value from its contracts. Poor

contract management and/or lack of ownership of contracts and the service leading to excessive claimed Compensation Events, lack of market and supplier relationship management and poor specification of contracts and frameworks.

- 5.17. Set against this was a welcomed category management approach and support from the CPU.
- 5.18. The Inspection Team also found that the relationship between the Core Services and Capital Works service lacked structure and process. For example, when questioning the managers of each service, the team were unable to establish how schemes to deliver repairs to potholes became too onerous and were handed over to the capital works team for further work under capital works programme budget i.e., there are no clear criteria for assessing revenue and capital works.
- 5.19. Capital works gave the greatest concern to the Inspection Team. Since the suspension of the Assistant Director, management of the service has been placed with 'operational' engineering staff. Of particular concern are the low contract management capability leading to loss of value for LCC and giving rise to the following concerns: -
- Poor specifications for Mini competitions under the framework leading to excessive compensation event claims from contractors
 - Inadequate health and safety planning prior to commencement of works
 - Inadequate commercial risk assessment that maintains value driven outcomes of contracts
 - Lack of understanding of the commercial lifecycle and the role to be played in it by the Highways team.
 - Lack of visibility and understanding of supply chains

The Sustainable Commercial Life Cycle

- 5.20. Although we noted the increased support provided by the CPU, it will be important for the Highways team to have greater understanding of the commercial life cycle and to be fully involved in the development and management of its supply chains and markets. There is no evidence of the highways team either having full understanding of their key suppliers or active engagement as to market and supplier health. There is no evidence of using lessons learnt from each major contract completion to improve either technical or commercial outcomes of subsequent contracts. Health and Safety must be gripped and put at the top of future risk assessments with clear ownership by contract managers from the commencement of procurement processes. These three elements must be embedded in the Highways procedures to support CPU in procuring better value contracts and that value must be brought to fruition through effective contract management that understands the criticality

of commercial value from contracts. To improve the procurement of construction contracts it is expected that the CPU are adopting the principles of the recently published Construction Playbook¹⁹. Is shown in any improvement plan as a result of the Best Value Inspection. It will be equally important that the Highways team is fully familiar with these guiding principles so that they are applied throughout the contract commercial lifecycle.

5.21. To ensure that the initial contract scheme outcomes are delivered it will be important that the design and procurement remain aligned with business case objective. The introduction of a gateway approval process will ensure that there are sufficient checks and balances as projects develop and that value is maintained.

5.22. In the Inspection Team's judgement, the Highways service needs to be completely restructured to ensure clear lines of leadership guided by the principles of the Construction Play book referred to earlier and appropriate business planning and contract procurement and management principles. It may be that the only way to achieve this in the short term is by partnering with another authority.

Liverpool Streetscene Services Limited (LSSL)

5.23. Of greatest concern to the Inspection Team was the relationship between the core services team and LSSL.

5.24. LSSL was established as a LATCo in March 2016. Its primary functions at the time of inception were to deliver street cleansing service, environmental services (refuse collection and recycling), grounds maintenance and parks.

5.25. In January 2018 LCC and Amey LG mutually agreed to early termination of the highways maintenance service contract. The intention for the service was to transfer the service, with a new contract, to LSSL. At the point of transfer LCC did not have a formal contract agreed with LSSL. This delay in formalising the arrangement was to give LCC time to consider the longer-term agreements for the services. In addition, LSSL presented no working plans for how the service would be delivered or how the TUPE transferred staff would be assimilated into the business. Officers expressed concern about this arrangement, pointing out the frailties of the TUPE transfer of staff to LSSL. These concerns had not been fully disclosed to the Inspection team and have only come to light by interviews with former LCC Officers involved at the time. To date no formal contract has been put in place and rates charged by LSSL have not undergone competitive or best value benchmarking. The current total spend with LSSL for core highways services is £4.3m. The LCC operational manager stated that because of the requirement to use LSSL there is a lack of control over expenditure making the management of budgets impossible. The

¹⁹ <https://www.gov.uk/government/publications/the-construction-playbook>

relationship with LSSL must be either formalised or curtailed for the service to be able to perform more effectively.

- 5.26. These services have been provided by LSSL on a cost-plus basis. Acting under Teckal rules, these costs have not been benchmarked or challenged since 2018. As a consequence, this puts increasing pressure on client-side budgets, it is anticipated that the budget for 2021/22 will need to be increased by £2m to maintain current work schedules of LSSL. This prevents the highways teams from reducing the backlog maintenance liability and ensuring that residential roads across the city do not continue to fall further into unacceptable states of disrepair.
- 5.27. The board of LSSL comprises a chairperson, currently the interim Mayor, and one other Councillor. A third Officer Director was appointed initially (see paragraph 3.14), but the position has not been appointed to since the untimely demise of the person appointed. LSSL's Chief Operating Officer, Accountant and HR Business Manager support Directors at board meetings. It is of concern that LSSL board meetings are both infrequent and do not discuss key reports which would enable the Directors to understand how LSSL is performing in both physical and financial terms. There have been only five quorate meetings between December 2019 and January 2021. Board meeting should occur at least every six weeks and, in the current pandemic condition, should meet at least monthly.
- 5.28. LSSL's 5-year business plan was last published in 2018, some two years after setting up the company and, after commencement of contracts for the service described previously. Since 2018 LSSL has not revised this business plan, although the terms of reference for the Board requires it to review and roll forward the business plan annually. No action or analysis has been reported to the Board even in light of the pressures caused by the pandemic. It is clear that the reporting arrangements cannot ensure the Directors are able to fulfil their roles and responsibilities envisaged by legislation. As it was not evident that appropriate training had been provided to Councillors acting as Directors, it may be that they are unaware of the personal risks they are running.
- 5.29. As noted in paragraph 3.24 it is a major concern that no shareholder agreement exists between LCC and LSSL. There is, therefore, no appointed shareholder representative at Board meetings. The consequence of this is that LCC have no representative to make binding decisions on its behalf, appears not to set financial targets nor to require compliance with key elements of LCC activity which would deliver value for money. Finally, the Inspection Team noted that it was possible for Councillors with no apparent role in the management of LSSL to intervene in its HR practices. This could not have happened in the core of LCC and should not have happened in LSSL. It is therefore hard to see if this operation is truly being operated as a company.

5.30.LCC needs to consider and regularise the position as a matter of urgency before reviewing whether these activities are best operated through this structure.

5.31.It is understood that LFH, LCC's housing company is being wound down as it is no longer being funded to achieve the goals identified when it was set up. A wider review of all LCC's companies is therefore indicated as there is no evidence that the issues highlighted above do not apply more widely.

6. Property

Disposals

6.1. As well as the best value requirements for property disposals summarised in paras 2.16-2.19 above, property disposals in LCC are governed by Rule 13 of LCC's Contract Standing Orders. Although LCC's Standing Orders generally have been updated on a regular basis over the years this particular Rule has remained in force throughout the whole period examined by the Inspection, although with title changes as the Council has changed Member and Officer structures, and remains current today.

6.2. Key extracts from Rule 13 are set out below.

'13.1 In disposing of Council assets, including land and interest in property, the Head of Business Unit/Assistant Director must seek to obtain the best consideration for the Council in compliance with all relevant legislation and Council policies...'

'13.4 For disposals or sale of land or property where the income receivable is greater than £5000, the highest tender may be approved and accepted by the Director ..., in consultation with the Cabinet Member....'

'13.5 Disposals (whether by lease, license or sale of freeholds) of the type of land, to the persons, or in the circumstances set out below shall be by way of negotiation subject to compliance with all relevant legislation by private treaty unless the Director... recommends disposal by way of public auction or public tender: ...

(viii) Disposals of property to a developer of adjoining land who has an approved scheme and requires such property to complete the scheme.

(ix) Disposals of property to developers who are proposing schemes that will have a regenerating effect on the City and investment, which, in the view of the relevant Director in consultation with the relevant Cabinet Member and the Cabinet Member for Finance and Resources, could be prejudiced by inviting tenders.'

6.3. From this it is reasonable to conclude that: the Director of Finance had a veto over agreeing deals done under delegated powers and could insist that matters were reported to full Cabinet; that a disposal to an adjoining landowner could only be dealt with under delegated powers if a scheme with a valid planning consent existed; and that to qualify for the exemption under Rule 13.5 (ix) required some sort of analysis which needed to be shared in some formal way with two Cabinet Members or the Mayor and Cabinet

Member before determining not to invite tenders.

- 6.4. Rule 13.4 also refers to the Scheme of Delegation. The Director of Regeneration had delegated powers (subsequently included within the Director of Finance's delegations when PAMS moved Directorates under the TR changes) to dispose of property etc. where the disposal represents best value subject to prior consultation with the Mayor and relevant Cabinet Members and the decision being reported to the relevant select Committee within one cycle. The Inspection Team do not accept that this delegation must override Rule 13 in its entirety as only 13.4 refers to the use of delegated powers. Even if it did, the requirements to consult before use of the power needs to be documented and there is no evidence that this was done.
- 6.5. At the start of the Inspection, the Inspection Team called for a schedule of all disposals completed from 2015 onwards. Over 65 specific cases were identified for more detailed end to end examination. These were selected because of the method chosen for securing an offer i.e., the exemptions referred to above; the particular policy initiative which was relevant i.e., Homes for a Pound; or because the sites could be linked to the Police investigations. Officers preparing these schedules were initially confident they had captured all the relevant disposals. However, as the Inspection progressed more disposals came to light, in part because they had been linked to wider schemes involving land swaps with consideration involved and in part because of the lack of a coherent record keeping system noted earlier.
- 6.6. Each one of the disposals examined had some sort of issue and it is important not to necessarily judge on the basis of perfect hindsight vision. As the Inspection progressed, though, what became a depressingly familiar pattern emerged. The Inspection Team have chosen to illustrate some of this using the case studies set out in part 12 of this report.
- 6.7. In case after case, the Inspection Team noted that there was no attempt to seek any form of market test. Many instances were noted where LCC held the freehold of, often a former industrial or commercial unit let on a long leasehold with a restrictive covenant on use and with a low or peppercorn ground rent. Sometimes valuations were prepared on a number of bases, but rarely on the basis of a likely alternative planning scenario. The concept of preparing an informal planning brief was absent. Alternative valuation scenarios were also prepared which discounted the likely highest valuation. These valuations were almost entirely prepared in house. Not every site started here, some did not have a valuation recorded on file until it was needed to certify the proposed deal.

- 6.8. More often than coincidence would allow, the person/company who was found at that point to have acquired the lease was drawn from a very restricted pool. Heads of terms were agreed, certified as being best value reasonably obtainable in the marketplace and recorded as being authorised, although it did not fulfil the requirements of the delegation to enable them to rely upon it and authorisation should have come from Cabinet. There was no evidence of the analysis and consultation with Members that the Rules provided for. This was neither set out in the Delegated Action Report (DAR) itself nor did the file contain any correspondence to evidence compliance. It was reported that the Director did not hold Cabinet Member briefings, as was the practice in other parts of LCC, so there appeared to be no formal mechanism to record any advice that might have been sought or proffered.
- 6.9. Solicitors on both sides were instructed. LCC often did not have the resources to handle the number of cases in process so outside solicitors were commissioned. It was noted that this was commonly done directly by the Regeneration Directorate without any involvement with the City Solicitor. This meant that the City Solicitor never had oversight of the scale and scope of activity and could never ensure a consistent approach which protected LCC's interests and ensured compliance with Standing Orders. Because the client was seen, by the outside Solicitor, as being whichever Regeneration officer was the lead, advice on the advisability or risk of agreeing alternative terms proposed by the purchaser was not considered in the round, just doing the deal mattered.
- 6.10. Step by step, the deal outlined in the Heads of Terms was undermined or cut back. Very often, when planning sought to agree routine S106 agreements as part of the planning process, the costs of this were sought and usually agreed to be deducted from the consideration. Overage clauses were trimmed back to effectively make them unenforceable. Pre-emption clauses, designed to allow LCC to buy back the property if development did not proceed, were undermined and when proposals were put in place to structure the deal into a Special Purpose Vehicle, not carried through to have an effect.
- 6.11. At the point of exchange, it was often necessary to recertify the value as the existing DAR did not cover the new terms. This was always forthcoming. From time to time, both legal and finance officers raised concerns, but no-one thought it correct to call a halt, reflect on where the deal now was and whether it was still right to continue. Instead, the files were full of, 'what do we now do to get this deal over the line.' Securing LCC's best interests were not on the agenda.

- 6.12. When officers tried to resist, implied threats were employed. The Allerton Golf Course lease extension is a good case in point.
- 6.13. Valuation of golf course interests are very difficult. There are few comparables, and most valuers do not have sufficient experience to be able to properly certify a valuation. For this deal LCC employed CBRE who have sufficient specialist experience to undertake this commission. For the proposed lease extension and redevelopment of the clubhouse and site. CBRE prepared a full valuation appraisal on a capital premium basis. Subsequently, LCC at service Director level decided that an income stream was preferable. Negotiations were commenced to convert the deal into that format. This led to a number of clauses being promoted to LCC that significantly disadvantaged the Council. When these were challenged, the solicitor acting for the proposed lessee made it clear that if terms were not agreed the delay and blockage would be raised the next day at a lunch that the developer was holding with the Mayor and the Director. It was seen by both the LCC's retained solicitors and the client officers to whom this correspondence was copied as an implied threat.
- 6.14. No records exist showing the declaration of this alleged hospitality. LCC conceded the point to let the deal go through.
- 6.15. During these negotiations CBRE were kept abreast of the position. Eventually they wrote to LCC saying that the position had been reached that they could no longer certify that this was best value. It was suggested to the Inspection Team in interview with the client officer that a meeting had taken place where this position had been retracted but also conceded that there was no record of this discussion nor any further correspondence. More importantly the DAR was drafted to say that CBRE had been appointed to provide specialist valuation advice on the deal. The next sentence reads that PAMS certifies that these terms comply with best value. In the Inspection Team's view, no PAMS officer, who was unnamed in the report, could have the experience to provide this certification.
- 6.16. In many instances, in the files, it has been hard to establish what deal actually was approved and who authorised it. There is evidence of retrofitting an approval to the final contract. As one of the case studies makes clear, getting an authority in advance was not always done and rectifying an authority once it was known that the terms would not be delivered was not a priority.

- 6.17. It would have been open to both finance and legal officers to have required such major changes to have been considered or reconsidered by Cabinet. This would have exposed such schemes to detailed review and required explanation on the face of the report as to why the deal had changed. Proper democratic scrutiny would have been achieved and, if the deal continued, however poor it might seem in hindsight, the elected representatives concerned could have been held accountable at the ballot box. Even listing the various deals as key decisions as they went through might have alerted Councillors to what was going on.
- 6.18. These typical events often relate to projects where there might have been an opportunity to pray in aid the provision of Rule 13.5 (viii) – dealing with adjoining land. It clearly cannot apply when the adjoining land is across a highway which is not proposed to be closed or bridged. It cannot apply when there is no approved scheme at all but the Inspection Team saw disposals where that Rule was used in both situations.
- 6.19. The Inspection Team reviewed the latest tranche of Small Site disposals late in the Inspection period. This came about because this project had been omitted from the schedule of disposals provided as a result of the initial document request. It was reviewed because it had been missed so was seen as an exception. The project was being managed by two graduate surveyors who were clearly apprehensive about how their processes would be judged. They had been allocated the project before the suspensions and arrests and then allowed to manage the process with little intervention.
- 6.20. It is worth reporting here because it was an example of what had been looked for in a normal local authority. The record demonstrated understanding with both professional practice and LCC procedure. The decision record was properly prepared and documented. They had recognised the risks to LCC in releasing all the sites in one tranche to the developer that had offered the best price and decided to release each one only on satisfactory completion of the current site. The records were not perfect but were an example of what good professional practice in a local government setting should look like. If this is the future, it is possible to see a recovery plan taking hold.

Property Asset Management Services (PAMS)

6.21. From the inspection process we noticed that the narrative for the Property Asset Management Service (PAMS) falls into two distinct periods:

- Pre 2018 under the Regeneration Directorate and
- Post 2018 under the Finance and Resources Directorate

6.22. In 2018, TR took the important decision to take the PAMS team out of the Regeneration Directorate and place them in the Finance and Resources Directorate where their development would go unhindered. Each of these periods is examined to highlight how property has been misused under the management of the Regeneration team and how this contrast with the more Corporate Property approach taken in recent times.

Pre 2018

6.23. Under the management of the Regeneration directorate the PAMS team lacked senior direction and support to use property assets strategically to deliver sustainable regeneration projects that supported the corporate objectives of LCC. More commonly, the Regeneration Director used property assets as 'disposable' assets at best to meet goals only of the Regeneration team. This was with apparent disregard to the strategic importance; capital value or social value of the properties being used.

6.24. The PAMS team also came under pressure during this time to save money for the department. This resulted in a significant head count reduction from 52 FTEs to 26 FTEs. This number was further reduced in 2017 to 17 FTEs. The pressures noted throughout the Inspection Period resulted in further vacancies occurring. This reduction in numbers compromised the team's ability to function as an effective property management department and key posts, as well as estate knowledge, was lost.

6.25. As example of the effect of this reduction and capacity in the team a key post lost was that of Rent Officer. This affected the management of the 'let' estate and timely collection/payment of rent. Without this role in place, LCC continues to have a significant outstanding rent debt of c£7m. This would have been difficult to collect before the pandemic but now it is likely that significant write offs will be necessary.

- 6.26. To support the PAMS team and to augment the low capacity available, the team often relied on external support for valuations and technical advice. They engaged local and national property specialists on an ad hoc basis.
- 6.27. The Inspection Team has seen evidence that, in many instances, the valuations provided by external expert surveyors was dismissed or ignored by the regeneration team when agreeing final terms on disposals or acquisitions of property. Similarly, the technical advice provided was also not taken into consideration when finalising transactions.
- 6.28. As many of the transactions were carried out using DAR's it appears that the external professional advice and valuations were 'used' to gain one-time approval from Cabinet. Between this initial approval and finalising the deal many changes may have taken place that have not been subject to scrutiny, approval or amendment to the agreed delegated authority provided by Cabinet.
- 6.29. Both Members and other Officers involved were blind-sided by these actions.
- 6.30. The PAMS team played an increasingly low-level role in these property transactions and were often side-lined. So too were the finance, central legal and scrutiny teams. This is evidenced in the Case Studies included in part 12 of this report.
- 6.31. This way of doing business not only reduced the value of properties and was a dereliction of the Council's duty to achieve best consideration for disposed properties but also, in some cases, cost the Council in external, legal, and valuations appointments. Moreover, the loss of s106 income (not paid by developers) to support the developments proposed went unchecked, further providing evidence that best value was not being achieved.

Post 2018

- 6.32. Since the appointment of a new Chief Executive in July 2018 significant improvements have been made in how LCC manages its property portfolio. Most important of these changes was the move of the PAMS from the Regeneration to the Finance and Resources Directorate. Under the management of a newly appointed head of service, this significant move has allowed the PAMS team to take stock of its processes and procedures. They have developed and published plans that are incorporated in the corporate Medium Term Financial Plan. However, the plans that have been published are

considered only short term and are:

- The Corporate Asset Management Plan 2020/21
- The Commercial Property Investment Strategy 2020/21

These therefore cannot be considered as substantive in the MTFS and longer-term plans and strategies must be developed to support the LCC's corporate financial strategies.

6.33. In October 2020 the PAMS team engaged CIPFA property consultancy to appraise the health of the management of the Corporate Property Estate. The resulting report set out a number of recommended work streams that will support LCC and the PAMS team to adopt and implement a Corporate Property management approach. This will be a significant move and, if implemented fully, will be catalyst for sustainable and best value development across the city. However, the support for Corporate management of LCC's property portfolio is not clear from the current Asset Management Plan. It would be expected that, as part of an improvement plan for PAMS that a revised 5 year Business Plan and a 5 year Corporate Asset Management Plan will be evident.

Opportunity and Future Proofing the Service.

6.34. It was noted that the department uses a number of data capture systems, the principal of which are Concerto and Tribal systems. The opportunity presents itself to update how data is used to forecast property uses, costs and values to LCC and to improve property decisions beyond a 5-year horizon.

6.35. How data is used to support the Corporate Property approach will be key to ensure that the team can fully support decision making by property occupiers in the future. The implementation of an integrated workplace management system will help both property users/occupiers and Members to better understand the strategic goals for the use of property and will give better insight to the PAMS team on:

- Facilities Management and Estates Compliance
- Better space utilisation reducing property costs
- Better value from capital projects
- Better maintenance and resource planning

7. Procurement

LCC Central Procurement Unit

7.1. LCC Central Procurement Unit (CPU) has made significant changes to how it procures goods and services for the departments subject to this inspection. In particular, the introduction of category managers and business unit contract management support is a meaningful step taken.

7.2. However, it was noted that a number of important issues remain for urgent resolution:

7.3. Contract change and contractual compensation events valued at under £5,000 are currently the responsibility of site level management sign off. Until the restructuring of the Highways department is complete it is considered that this additional spend must be brought under control with greater scrutiny from the designated contract manager in the CPU.

7.4. The Premises Management Unit (PMU) currently does not have in place a contract for Hard FM service. Significant spend (£23m) is procured by spot purchase orders, in the case of PMU this is entirely by exemptions. This is unsustainable in a number of ways:

- No control over expenditure and budget management
- Significant risk of non-compliance of the estate
- Lack of data collection and collation to monitor; cost in use of the property portfolio, value of backlog maintenance liability, accurate forward planning of PPM etc.

It is therefore essential that CPU procures a Hard FM framework or makes use of an appropriate existing national framework to urgently recover this situation.

Future Procurement

7.5. It should be noted that this is an opportune time to make advancements in commercial procurement for LCC. These opportunities exist because: the exit from the European Union has triggered rules reform for public sector procurement. A Green Paper setting out the reforms is under development; consultation on the Green Paper closed on 10th March 2021. It is understood that TR has been involved in the consultation process.

7.6. For procuring units the Cabinet Office is developing bespoke training packages for local authorities to assist in preparing for the implementation of reforms. Cabinet Office will fund the training programme to be rolled out from 2022.

7.7. The National Procurement Policy Statement (NPPS) is anticipated to be published in March 2021 and this will set out Government's strategic national priorities for procurement. This will include further guidance on social value, effective delivery and enhancing commercial procurement skills and capability. The NPPS will be underpinned by legislation which will require larger contracting authorities (with an annual spend of over £200m) to publish pipelines by April 2022.

7.8. The LCC CPU should take advantage of the training programmes being provided and ensure that its forward plan embraces the principal policies that will be set out in the new legislation and guidance.

The Outsourcing Playbook and Construction Playbook

7.9. Although it is recognised that the LCC CPU has made significant advances in recent years it was noted that further improvements could be made that would make a sea change in its effectiveness in the future. In support of the rules reform already mentioned the adoption of the principles of the Government's Outsourcing Playbook²⁰ and Construction Playbook²¹ will have a profound effect on how procurement works in the future. The roll out of these two Playbooks has the full backing of government, industry, suppliers, professional bodies and the Local Government Association. Training in their practical application is available through the LGA.

Applying Social Value in procurement.

7.10. In September 2020, a new SV Framework for central government departments was agreed and released. Developed by the Department for Digital, Culture, Media, and Sport (DCMS) together with the Cabinet Office and led by a prominent Liverpoolian, Claire Dove CBE, this framework paved the way for the inclusion of SV as an evaluation metric in future procurement processes. This was confirmed by the release of PPN 06/20 and further endorsed through PPN11/20²². In short, this requires all contracting authorities to include at least 10% evaluation score to SV. This is mandated and will be incorporated in the National Procurement Policy Statement and Rules Reform green paper currently in consultation. Some departments have opted to raise the level of measure to 20% of evaluation scoring.

7.11. Without demonstrating SV in tenders, for the first time since its introduction, suppliers, whether in house or external private sector will be evaluated out of procurement competitions.

7.12. In general, through engagement with Officers and Members, the Inspection Team found that there is a stated passion for delivering social value to the citizens of Liverpool. However, the application of SV assessment of contracts

²⁰ <https://www.gov.uk/government/news/updated-outsourcing-playbook>

²¹ <https://www.gov.uk/government/publications/the-construction-playbook>

²² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921437/PPN-06_20-Taking-Account-of-Social-Value-in-the-Award-of-Central-Government-Contracts.pdf

and property deals that were witnessed did not accord with this. Indeed, the myopic view that suppliers of services to LCC must have a Liverpool postcode, as stated in interview by the Mayor, demonstrates, at best, a lack of understanding of the Act and at worst, an attempt to stifle healthy competition in tender processes. The adverse effects of this approach are demonstrated in a number of cases examined.

The Opportunity

- 7.13. LCC now has the opportunity to demonstrate to its citizens, investors and business communities that social value is at the heart of all that it achieves across the city.
- 7.14. By reviewing and restating its approach to SV, LCC can pledge to its stakeholder communities a consistency in how it intends to evaluate and embed SV in its service delivery. In a move away from the requirement for a Liverpool postcode for contract suppliers LCC will give clear signals that it is open for business with an emphasis on social value creation”.

How can this be achieved in Liverpool?

- 7.15. There are many tools and systems that could be used to develop a Liverpool Social Value Model. Working with organisations such as LGA and central government will provide LCC with support and capacity to re-invigorate its SV platform for change.
- 7.16. In the short term, two key circumstances, the recovery from Covid 19 pandemic and the adoption of rules reform brought about by the exit from the European Union, will need to be addressed. In terms of SV supporting the local community to recover from Covid19 will be of paramount importance. Guidance exists, in the form of a PPN06/20 and the theme “Recovery from Covid19”²³.
- 7.17. Revised procurement rules are currently at consultation (Green Paper) stage and will give further guidance on procurement procedures to be adopted.

²³https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921437/PPN-06_20-Taking-Account-of-Social-Value-in-the-Award-of-Central-Government-Contracts.pdf

8. Legal Services

- 8.1. The Legal Service in a local authority should provide the essential corporate and operational legal advice and support for the authority's departments and also have developed systems and processes to ensure that it is seen as the first port of call for legal support. The Inspection Team found dedicated, enthusiastic, and very able lawyers working within LCC. However, the internal resources for the areas under inspection were stretched leading to the outsourcing of large volumes of work and a pressurised work environment.
- 8.2. Like in many local authorities, legal services in LCC were significantly cut from 2010-14. However, over the Review Period their resource and shape has remained reasonably stable. Their position in LCC has changed to make them more visible and central to the Authority's activities. In 2016 having been previously located in a different building, Legal Services moved to the Cunard building to sit alongside the service departments. Also, as noted in the introduction, in 2018 TR moved Legal Services and the City Solicitor/MO from the S151 line management chain to report directly to him.
- 8.3. There are 6 teams of varying sizes within Legal Services, each with a Principal Solicitor undertaking operational leadership. The majority of the work in scope of the Inspection was completed by the Regeneration and Development Team, Regulatory Team and the Contracts and Commercial Team. The Development Team has two qualified lawyers and two skilled legal assistants to cover a substantial amount of work, in 2017 LCC made 44 disposals of property and maintained an average of 35 disposals a year over the review period. However, Legal Services had a reputation for being 'slow' and struggled to keep up with the volume of work.
- 8.4. The one notable exception to the stability within Legal Services was the departure of the Assistant City Solicitor in 2018 who has yet to be replaced. Senior management roles of this nature are integral to the effective running and prominence of a service. While two of the Principal Solicitors have provided interim cover, the Inspection Team heard that in the absence of this position Legal Services views were not always heard or were consciously ignored when raising valid concerns with other departments. In addition, the vacancy also places additional stretch on the service and reduced the ability of legal services to strategically forward plan.
- 8.5. The apparent lack of capacity has had two particular consequences, firstly large parts of legal work was outsourced, one Officer estimated that 20-25% of the Regeneration legal work was outsourced. The Inspection Team found that while there was a central process for procuring legal work which was

championed as the best method, LCC's CSO allowed client teams to procure external legal support directly without involving Legal Services. When outsourcing whether through the legal team or otherwise, Officers often procured at speed and went to legal firms they had worked with before creating a small pool of preferred firms and solicitors. It led to occasions where both LCC and developer were using the same firm. The Inspection Team were also informed that on occasion the first time Legal Services became aware of outsourcing was when they were required sign off a DAR or to witness the Authority's seal. Securing external legal advice and support is costly and it may be that addressing in house capacity issues through the appointment and critically, the development of internal resources would be more cost effective and beneficial to LCC.

- 8.6. It is also notable that such outsourcing resulted in an absence of copies of external legal files and formal documentation including, for example, leases for completed transactions being part of the LCC records although this is now being addressed. The Inspection Team were also told and saw evidence of external advice being secured to challenge the advice of Legal Services. Linked to this it was noted that challenging a client department's instructions was commonly ineffective, particularly those from Regeneration.
- 8.7. The second consequence of the lack of capacity is that in 2016 it led to Regeneration creating a new solicitor post (at a higher grade than Principal Solicitor) to help speed up and smooth legal processes. The job went to a candidate from Legal Services. Although there was some agreement between Legal Services and the successful candidate about not signing off reports on behalf of Legal Services, for example, there was no professional responsibility to the Legal Service or the MO. The success of the arrangement from the perspective of Regeneration is apparent because this approach has been repeated, and a further solicitor appointed again with line management in Regeneration. The creation of these posts moved the focus of legal support from Legal Services and diminished proper oversight of the legal advice to LCC it also reduced the visibility of the land transactions to the in-house legal team.
- 8.8. Another area of concern is that it was common practice for internal Legal Services to be presented with reports for "sign off" seemingly at the last possible moment with emphasis on the political support behind any proposal. This introduced unacceptable pressures on the internal team, impacting on the robustness of scrutiny, and increasing the reliance and trust placed (or potentially/occasionally misplaced) on the information provided by Officers submitting the report.

8.9. At LCC the MO is also the City Solicitor but there is no specific designation of that role as the Solicitor to the Council in the constitution. In addition, the current delegations to the City Solicitor in the Officer Delegation Scheme are limited and do not reflect the significance of the role and its responsibilities or the work and activities that this officer and their team is, in fact and necessarily, undertaking.

8.10. The LCC recovery plan will need to build the prominence of Legal Services, and include investment in senior staff, increasing oversight of outsourcing and reducing reliance on external firms for non-specialist matters. Any review and update of the Constitution and SO should provide clarity about the full responsibilities of the City Solicitor and MO role for the benefit of both members and the public alike.

9. Overall Governance issues

Behaviours

- 9.1. The 2018 LGA Peer Challenge report into Liverpool City Council found that “Councillors have strong views and sometimes they are expressed in ways that are not the norm in local government”. The team heard that it could be difficult for Members to challenge at meetings and often the challenging behaviour came from the Mayor and prominent Councillors. The evidence indicated that both Councillors and Officers had a limited understanding of declarations of interest and hospitality registers - these important documents that foster transparency. It was clear that they were not monitored, were often incorrect and rarely updated to reflect changes in circumstances. It was noted that the majority of Councillors’ declarations of interest were updated since December 2020 after the announcement of the inspection. Gifts and Hospitality registers appeared not to have been updated until midway through the Inspection Period. Despite evidence to the contrary, the registers recorded that the Mayor and many Members, including Cabinet Members had not received any registrable gifts or hospitality for several years, or alternatively, Members simply did not comply with the requirements of the Code of Conduct. Although significant updating took place while the Inspection Team were on site when it became known this was being reviewed. Officer declarations were hard to examine and cross check. They were not subject to a requirement to update and were not discussed as part of routine management action.
- 9.2. Overall, there was a lack of appreciation of the Nolan principles and the requirements of the Members Code of Conduct. Linked to this there was a lack of understanding in how complaints against Members were handled. Approximately 120 complaints have been received over the Review Period, but the vast majority have not been validated or considered appropriate for any further formal action by the MO. Many have been addressed on an informal basis, and only one complaint has resulted in a determination by the Complaints Sub Committee and the Member being censured in a meeting of full Council. LCC have no regular meeting of an ethics or standards committee (it last met in January 2012) and no way of reporting any monitoring information on complaints. When the recent LGA model code was considered, it was dealt with at a cross-party Member working group on Member training rather than a formal body that might recommend to Council that its provisions be adopted.
- 9.3. Members were often confused about processes and who the complaint was being handled by, the Authority or the Party. The Inspection Team noted a number of examples where there was evidence of pecuniary advantage being obtained indirectly. These included persuading fellow Ward Members

to authorise funding to an organisation where the individual worked or provided consultancy. The Officer response to this was to devise and implement processes which would make it more difficult for Members to take these decisions. There was never a report published or shared with Members which set out the correct behaviours expected. By not publicly addressing breaches in the Code of Conduct, LCC prevented members gaining a wider appreciation of the Nolan principles, the requirements of the Code of Conduct -and what is proper Member behaviour. It also prevents any issues relating to Member behaviour from being visible to the public at large.

9.4. There is also confusion over the appropriate roles of Members and Officers. From the evidence provided it is clear that the Mayor sought to undertake a much more active and direct role in the running of the Authority than the arrangements as set out in the Constitution provide for. Following the departure of Chief Executive in 2016 the Mayor, according to LCC's website, was responsible for the "day to day running of the organisation". While he did not and could not have the statutory title of Head of Paid Services, he chaired management team meetings and sought to cover much of the Chief Executive's responsibilities. The prominent role of the Mayor is evident from the 2018 LGA peer review which concluded that "there is more that could be done for the council to act more corporately and for officers to understand the roles of *servicing the Mayor* and the whole of the council." (emphasis added) While TR has firmly stepped into the Chief Executive role, we have heard testimonies that this confusion over the boundaries of responsibilities still exists and is not confined to the Mayor.

Scrutiny

9.5. It is against the background of the behaviours outlined above that scrutiny takes place. In LCC there are 9 scrutiny committees each with their own area of responsibility and 4 standing task groups as well as ad hoc scrutiny panels. A list of the committees and task groups and their terms of reference can be found at <http://councillors.liverpool.gov.uk/mgListCommittees.aspx?bcr=1> At present there are 6 Officers providing committee support whereas we are informed that this has been reduced from 24 Officers over time .

9.6. Some of the scrutiny work that we have seen is exemplary, such as, the Fractional Investment Scrutiny Panel Report²⁴. However, this work was spearheaded by a longstanding Member of the Council and supported by the select committee Chair rather than from the Mayor or his Cabinet also the involvement of LCC Officers was limited . Overall from what the Inspection Team observed and heard a range of issues were identified, Members

²⁴ <http://councillors.liverpool.gov.uk/documents/s245995/FISP%20Report%20Recommendations%20-%20FINAL%20240720.pdf>

found it difficult to push back, substantial papers were circulated late allowing very little time for them to be considered – in one instance during the inspection a report of over 200 pages was circulated on the day of the meeting, scrutiny committee chairs have been prevented from accessing information they had requested, there were examples where ward councillors were not informed of decisions affecting their ward, there is limited planning/strategy of the scrutiny topics and work that the committees would undertake meaning topics for discussion were ad hoc. It is accepted that the officer resources for scrutiny activity are very limited; however, the fractional investment report showed that it is possible to undertake high quality work in LCC. Members need to be encouraged to do more planning of questioning and use of outside advice to achieve a better result.

- 9.7. LCC chooses to brigade the work of an Audit Committee with scrutiny responsibilities and creating a combined Audit and Governance Committee. This has a number of disbenefits. Firstly, an Audit Committee needs the right to report to full Council and to have its recommendations considered by Cabinet. Currently, although the Mayor is not listed as a Member of the Committee, it was practice that both the Mayor and Mayoral advisers attended all meetings and spoke on any item. In one instance reported to the Inspection Team, the Mayor challenged a significant audit report's finding and the process that led to its commissioning. It is worth noting the CIPFA Audit Committee 2018 guidance, which stipulates that:

“Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking”

It follows from this that once this task is complete the Cabinet Member should not take any further part in the proceedings.

- 9.8. It is the Inspection Team's view that the LCC practice is not appropriate and undermines the audit function. In addition, CIPFA urges authorities to ensure that Audit Committees are independent not only of the executive but also the scrutiny functions. This position is adopted in the statutory guidance which requires that authorities “ensure a clear division of responsibilities between the scrutiny function and the audit function”. CIPFA also recommends inclusion of an independent member on the committee with appropriate skills

and knowledge to properly contribute to the committee's role which is not the case in LCC. The blurred audit and financial scrutiny role leaves a material and concerning gap in LCC's governance framework.

9.9. The more fundamental issue that was observed was how scrutiny was treated by the leadership of the Regeneration Directorate. The Inspection Team observed examples of Officers that suggested taking decisions to Cabinet and asking for delegated authority was unnecessary red tape that slowed the process down. Officers within Regeneration also challenged what counted as a key decision and there was no culture of going back to Cabinet when a deal Cabinet had signed off was substantially changed even if the new deal went beyond the bounds of the original delegated authority. On a number of occasions Cabinet reports and DAR's were retrofitted at the end of the deal process – they were treated as a piece of paper that needed to be on a file. When DAR's were produced, they were done at speed based on verbal instructions, putting pressure on legal and finance teams to sign matters off without due consideration and diminishing their ability to be LCC's gate keepers. When legal and finance teams had the ability to challenge, they were often ignored by the Regeneration team and/or unsupported by senior officers when the issues they raised were challenged by the Mayor. There was evidence that lawyers often had to sense, and spell-check documents and Officers reminded that they would be published. Further, DARs often had little substance or justification for proposals put forward making it hard for Members to ask questions or challenge. Overall, it was not clear to the Inspection Team, that in all cases, DARs cleared by legal, and finance were the versions sent to the centre.

Training

9.10. Training for Members is essential to enable them to fulfil their various roles within the Authority properly and effectively. The precise training required by any individual Member will depend on whether they are or have an aspiration to be a Cabinet Member, the Chair of a Committee, or are a member of a regulatory committee or involved in scrutiny. All Members should have the opportunity to receive training on how to be an effective Ward Councillor, the perils and opportunities of social media and their obligations when handling confidential or sensitive information.

9.11. Also essential is training to enable Members to understand their obligations under the Code of Conduct for Members, expected behaviour including the registration of Interests and proper disclosure of gifts and hospitality. An understanding of the proper parameters of the role of a councillors in relation to the role of an elected mayor and the distinction between those and the role and responsibilities of officers is also essential. Member development programmes

developed in other local authorities commonly encompass a wide range of such training for a local authority's Members.

- 9.12. Over the review period we found that LCC provided induction training for all new councillors on their election and asked Members to complete mandatory fraud training. When asked for evidence of any further training none was provided by the council. As noted earlier the ethics of some Members and their declarations of interests clearly showed that more work was required to ensure Members understood their obligations.
- 9.13. The Team also found in LCC that both Members and Officers failed to clearly understand their different roles. It was of note that the LGA Corporate Peer Challenge in 2018 recognised that the current Member-Officer Protocol which seeks to address and provide guidance on some of the key issues around these roles and responsibilities and working together effectively required urgent review and this was accepted by LCC.

The Remuneration Panel and Special Responsibility Allowances

- 9.14. LCC has adopted a Member Allowances Scheme in accordance with the Local Authorities (Members Allowances) (England) Regulations 2003. These allowances are considered by an independent remuneration panel and recommendations made to full Council generally on an annual basis which enables Full Council, following consideration of those recommendations, to set the allowances payable to Members for their work on the Council.
- 9.15. The Scheme provides for a Special Responsibility Allowance (SRA) to be paid to Members who are Mayoral Leads. The Inspection Team have been told that the appointment and designation of Mayoral Leads is at the discretion of the Mayor and that they are directly accountable to him. Their responsibilities are defined by the priorities identified to them by the Mayor. They may also attend Select Committees. It is of note that not all Mayoral Leads are elected Councillors, over the period of the review six non-elected Mayoral Leads have been appointed by the Mayor. They have been appointed to as leads for: City Wellbeing, Heritage and Design, Asylum and Rough Sleeping (3) Instead of being paid the agreed Mayoral Lead SRA most claim payment at a set daily rate. However, the employer of one Mayoral Lead has been reimbursed their salary, and the cost has been substantially i.e., five times, higher than the current annual SRA. It is of note that no formal, recognised processes for the appointment of such non-elected Mayoral Leads appear to have been undertaken. In this regard it would appear that LCC's HR service have failed to advise appropriately about the appointment of non-Member Mayoral Leads.

Elections

- 9.16. As noted in paragraph 3.7 above, LCC currently elects a Mayor for a 4-year term and in three of four years, elects a third of its Councillors. In addition, elections for the Mayor of the City Region Combined Authority means the whole city is in election mode every year.
- 9.17. The Local Government Boundary Commission for England (LGBCE) has recently commenced a review of LCC's electoral arrangements. This independent process sets the number of Councillors to be elected and their ward boundaries so as to broadly achieve electoral equality both now and in the future. At the start of the process LGBCE invites local authorities to consider their electoral cycle and to provide evidence on their preferred view of Council size. LCC approved their Council size submission in January 2021 which suggested no change to current arrangements. Their submission, which was well documented, did not appear to take particular account of the Combined City Region Authority, which would be expected to remove some Member level workload nor the move of work towards a Mayor, which is a characteristic of other Mayoral Authorities. A submission which better reflected this could be expected to produce a slightly smaller number than currently.
- 9.18. More importantly, LCC being in election mode every year provides less opportunity for scrutiny of a Mayor's actions as, whilst they would be bound by 'purdah rules' this need not slow down or pause the decisions they take. Councils in the recovery phase following an Inspection also need a long-term focus by the whole Council on getting things right, recognising that things may get worse before they get better. Embedding the cultural change needed to understand and comply with Nolan principles also needs a longer-term focus. It is the Inspection Team's considered opinion that this is best delivered by LCC moving to "all-out" elections and for the Council size to be reconsidered in the light of all these influences. Moving to an all-out system would also remove the presumption of a uniform pattern of 3 member wards. It would enable LCC to request a single member ward pattern with a consequent significant improvement in accountability of a Councillor to their electorate. There is much evidence to demonstrate that Councils in difficult circumstances need an electoral reset to ensure a changed approach. Specific examples would include LB Tower Hamlets, Anglesey, and Birmingham. It is, however, always difficult to give up what you know and move to a different system, even though post change reports indicate satisfaction.

9.19. The legislation²⁵ which enables these changes to take place requires consultation before moving to an all-out system and requires a full Council decision taken by a 2/3 majority. The way in which these types of issues have been handled by Members during the currency of this Inspection would not inspire confidence that a long-term view taken in the best interests of democratic leadership of the city would prevail. Nevertheless, the team consider that such a reset is a fundamental part of the changes necessary to secure best value and have framed a recommendation, which, if accepted would enable the Secretary of State to secure change.

9.20. It is understood that LGBCE have delayed their current timetable to provide for any consideration to take place and implementation of their final scheme would not be prejudiced.

²⁵ [Local Government and Public Involvement in Health Act 2007](#) and the [Local Democracy, Economic Development and Construction Act 2009](#)

10. Conclusions

- 10.1. Undertaking this Inspection, at a time of COVID based restrictions and overlain by a major police investigation, to meet a timetable impacted by election purdah has been extremely challenging. The Inspection uncovered major gaps in what would be normal documentary evidence to support the decisions and actions of LCC at both Member and Officer level. In the functions subject to the Inspection, compliance with LCC's Standing Orders, regulations and the overriding legislation was clearly not part of the culture of the organisation and is only now being introduced as part of the actions by TR, although some elements are resisting this.
- 10.2. The failure to comply with the rules relating to Key Decisions, Scrutiny, Exempt reports and probity was evident but there appeared to be no action to address this until TR took up post. Processes exist to ensure these matters can be drawn out, even by writing to the external auditor, if it is too difficult to raise internally but there is no evidence this was done. It is clear from the evidence that some middle ranking officers could see what was happening and tried to draw attention to the risks and losses incurred by LCC. In some parts of LCC those concerns could not be seen in the round because of structures/resource limitations/reporting lines and in other parts, there was evidence that those Officers were not supported and exposed to aggressive challenge.
- 10.3. Yet it is possible to make changes and move towards good governance and action. TR took early steps to move functions around to improve control and compliance. This is starting to have an impact. The leadership that TR has provided is becoming evidenced in the most recent actions of LCC and it is clear many officers want to move on and do things properly. However, what TR is doing needs to be supported by wider group of senior officers. The top team are carrying a significant additional load due to the suspensions and arrests and unless additional capacity is found, it will take too long to make improvements happen organically. There is a perceived unwillingness from LCC to consider and act on the necessary reports or to allow interim support to be employed at the top of the organisation. This might be addressed following the completion of the disciplinary process relating to the Regeneration Director. Even so, it is clear that there is insufficient resource at the top and in the corporate centre of LCC to drive changes and embed them Council wide, given the recovery challenge.
- 10.4. LCC delivers some services through a range of LATCo' s. They were not a major focus of this Inspection and the team have only reviewed the two that were integral to the Inspection, LSSL and LFH. What became clear in this Inspection was that the failings reported in the recent non-statutory reviews of Nottingham City Council and London Borough of Croydon are reflected in what

the team noted at LCC.

- 10.5. Had LFH continued in its current form, the accumulation of LCC funded debt based on highly marginal schemes, not forecast to come good for many years, would have presented major problems. Some of the propositions put forward to the LFH board included schemes that LCC had been involved in through the sale and development process and which would not recover their costs if disposed of on the open market.
- 10.6. LSSL is reported on in Section 5. This demonstrates that the principles of good company governance in a local authority context were not understood and best value clearly not delivered. In reality, LSSL looked more like an old-style Highways DLO than a company.
- 10.7. Some councils clearly do understand the purpose and rules for these structures but LATCo's should not be used as a way of hiding a problem the council does not want to deal with in plain sight. This is an issue worthy of wider and further consideration.
- 10.8. The Inspection Team conclude, on the basis of the documentary and oral evidence considered, that LCC have failed to demonstrate compliance with the statutory requirements with respect to best value in the areas of the Inspection. The changes required need to be radical and delivered at pace so as to restore confidence in the integrity of LCC decision taking and implementation.

11. Recommendations

The Secretary of State for Housing, Communities and Local Government is recommended to:

1. Appoint Commissioners to oversee and approve or otherwise, the Council and its officers in preparing and delivering the Improvement journey of LCC, for an initial period of 3 years. This only to be extended if LCC fails to make satisfactory progress in implementing and embedding the changes necessary to deliver best value in its governance and operations.
2. Remove the power of LCC to seek to change its electoral arrangements under the Local Government and Public Involvement in Health Act 2007 and the Local Democracy, Economic Development and Construction Act 2009 and, instead, delegate these powers to the Commissioners to consider and consult upon a proposal to change the LCC electoral cycle to an all-out elections once every 4 years, with a reduced number of Councillors elected on a single member ward basis to be implemented as part of the current boundary review being undertaken by the Local Government Boundary Commission for England.
3. Direct LCC to prepare and implement an Improvement Plan, to the satisfaction of the Commissioners with, as a minimum, the following components:
 - a. In the first 12 months review and implement changes to the Council's constitution which will
 - i. Improve the ethical governance framework to best practice incorporating the LGA model code and a fully functioning Standards Committee.
 - ii. Constitute the Audit Committee as a stand-alone committee with a direct reporting line to Council and a right to have its recommendations considered by the Executive Mayor and Cabinet, with either an independent Chair or an Independent Technical Advisor.
 - iii. To re-establish Scrutiny activity in line with Statutory Guidance ensuring that Councillor leadership of the activity is on a cross party basis and with appropriate officer support.
 - iv. Introduce best practice Standing Orders and Regulations for contracts and property disposals.
 - v. Review the scope, content and reporting of all delegated powers.
 - vi. Establish a specific code of conduct for all Members in connection with dealing with Planning and Licencing matters.
 - vii. Require mandatory training of members in key activities, including behaviours, before participation in Council activities other than full Council.

- viii. Improve the content and updating of declarations of interests and gifts and hospitality, for both Members and Officers.
 - b. Require the consent of Commissioners before LCC at either Member or Officer level agree Heads of Terms for any property transaction and subsequent consent before any legally binding commitment is entered into.
 - c. In the first 24 months, review the roles and case for continuing with each subsidiary company of LCC. For those companies that it is agreed to continue, ensuring that the Directors appointed by LCC are appropriately skilled in either technical or company governance matters to ensure each Board functions effectively under the terms of an explicit shareholder agreement and a nominated shareholder representative. For those companies which it is determined not to continue with in this form, to establish a plan to internalise, close or sell as appropriate.
 - d. To consider and approve a suitable officer structure for LCC which provides sufficient resources to deliver LCC functions in an effective way, including the Improvement Plan and its monitoring and reporting within 6 months.
 - e. To oversee a detailed structure and strategy for the Highways function in short and medium term as set out in the Highways section of this report
 - f. Establish a plan to deliver an effective file management system so that LCC can more easily comply with its statutory and managerial responsibilities.
 - g. Devise and implement a programme of cultural change which ensure both Members and Officers understand their respective roles and the way in which the Council and its activities are regulated and governed and the way in which this is monitored, and breaches rectified.
4. For the direction period, to
- a. Obtain prior agreement of commissioners to any dismissal or suspension of a person who has been designated a Statutory Officer or the Assistant Director Governance, Audit and Assurance or equivalent.
 - b. Ensure any appointments of a person to a position the holder of which is to be designated as a statutory officer or the head of internal audit are conducted under the direction of and to the satisfaction of any commissioners.



Max Caller CBE
Lead Inspector



Viv Geary
Assistant Inspector



Mervyn Greer
Assistant Inspector

12. Case Studies

A : Former Toxteth Community College – 68 Falkner Street L8, Blackburne House

The above property, having been surplus to requirements, was initially marketed in 2012. It had been agreed this would be leased to Blackburne House on a 10 year fully repairing and insuring lease basis. There is a valuation on file, ascribing a capital value and a consequent ground rent to support this proposition.

Blackburne House (BH) is a well-respected registered charity in Liverpool offering a range of services, primarily to women in the education and training fields. It was established in 1983 and has a significant track record.

For whatever reason, the deal noted above seemed to have stalled.

In 2014 an unsolicited offer was received from the Elliot Group (ELG) to construct a multistorey mixed use scheme block providing around 8000sqft of space on the ground floor to provide for BH interest together with 132 apartments. The file notes that as ELG did not express an interest at the time of the 2012 marketing competition would be required to demonstrate best value compliance.

A brief option appraisal was carried out and, although the valuation on the file is prepared on a basis which overestimates the costs and does not reflect the options actually considered, it suggested that there were 3 main options: remarket; accept the ELG offer which would involve a sale of the freehold for £425,000 and the provision of a ground floor space to be leased back to LCC for a term of 999 years at a peppercorn, which would be let on to BH under a 125 year internal repairing and insuring lease; or straight sale producing a receipt of £525,000. An alternative basis for valuation which actually reflects these options could have produced values of some £0.5m more.

The option providing for BH was endorsed at officer level.

A scheme was worked up on this basis, providing for a shell construction of 8052 sq.ft. on the ground floor and some 109 apartments. From correspondence on the file, it is clear that BH believed that they had a side agreement with ELG that in exchange for supporting the scheme and helping with consultation they would get a fitted-out unit in which to carry out their work. They clearly thought that ELG would instruct their professional team to produce a design and deliver the works as part of the main construction. This would have been reinforced by a consultation leaflet produced by the Developer in December 2016 stating that BH were to occupy the GF.

This was not the basis of LCC's proposed deal with ELG. It was a straightforward sale of freehold with a leaseback of ground floor space that could be passed on.

One could criticise BH for being naïve, and not getting, at least, an exchange of letters to confirm their understanding but it is also true that nothing was done to disabuse them of that understanding.

At this stage there did not appear to be any specific Member authority to cover the officer actions. Negotiations were commenced on a proposed lease back arrangement, which from the correspondence were extremely difficult and fractious. Eventually, in March 2016, a Delegated Action Report (DAR) was signed to provide the first authority for the action taken. This provided for the consideration of £425,000 for the freehold sale plus fees, a 125-year leaseback of the ground floor at a peppercorn and BH to be responsible for their own fitout works. This DAR was not submitted to Select Committee as required by Standing Orders so it could not have been scrutinised.

At the same time as this was signed it was clear that in an undocumented negotiation between the Director and ELG the consideration was now £325,000, because 'it was the only way to offset the S106 costs' estimated at around £300,000. So, the DAR was not correct and the officer authorising this must have known this.

Planning consent was granted although subject to a S106 agreement which was not actually completed and signed off until practical completion some two years later. The driver for this completion was in fact due to the Special Purpose Vehicle set up by ELG to deliver this development wanted to sell the completed development to a Jersey based ground rent investment company. This deal was in fact, completed in July 2018 for £1.496m as the S106 was paid up and completed on 29th June 2018.

At this point, BH realised that ELG were not going to keep what BH thought they had been promised. No design had been progressed so the shell construction was to the minimum standards that could be delivered.

BH then sought LCC's help to get a design and works completed to the empty shell that has now been constructed. Officers issue what they call 'a letter of comfort' authorising BH to commit to design expenditure which it is said will be recovered from the developer. This is not in accordance with the property deal entered into by LCC. On the basis of that letter BH run a process that appoints a design and build contractor to fit out their space. LCC make it clear that, whilst they will fund the works up front, they will recover these costs via the ground rent for the underlease they will offer BH.

A second DAR in June 2018 is authorised changing the basis of the lease back from 125 years to 999 years, but the consideration is not corrected to the £325k negotiated between the Director and ELG.

During 2018 it becomes clear that the as built does not match the design brief for the shell and no real assessment had been done of demand on services. There are issues over water supply, drainage, and power. As the costs of the fit out become

clear, LCC/BH realise they are unaffordable for BH alone. This results in BH agreeing to take half the space originally on offer and the remainder being converted into 6 dwellings which would then be passed on to LFH to manage on a market rent basis. None of this appears to be authorised by Members. Various drafts of Cabinet reports circulate during the first quarter of 2019 before being pulled from the agenda due to Purdah!

Eventually Cabinet gets a report which sets some of this out in June 2019 and identifies a capital demand of around £1.1m to pay for both housing and BH works. This is the point that LCC finds out that the freeholder is New Emerald Ground Rent Trustees registered in Jersey and that their consent is required for the works to proceed. By November 2019 it was clear that the costs cannot be contained and Cabinet authority for spend will be exceeded. A significant part of the additional costs arises from the under provision of water supply which could have been anticipated at original lease drafting. A further series of drafts of Cabinet reports appear which provide a range of cost estimates to complete the work, identifying errors in the original report calculations. There are also concerns that at this level of costs it will be a very marginal scheme for LFH to take on as the market rent will not be high enough to guarantee the necessary margin.

Pending consideration by Cabinet of additional funding to complete the build, a further DAR is signed by the Director to enable an interim payment to the builders working on site but, as a result, apparently exceeding the budget previously authorised by Cabinet at this point.

Eventually, in January 2020 a Cabinet report is signed off and the budget is increased to provide authority to spend just under £1.6m to finalise the construction.

B: Tarmacademy

This Case Study concerns the acquisition of 4 areas of industrial land of approximately 2.84ha in total in the Derby Road area of north of Liverpool for over £4m.

In 2015 proposals came forward from Knowsley Construction Ltd trading as King Construction²⁶ (Kings) to develop a training and apprenticeship facility (with classroom, IT suites, changing areas and office space) together with an asphalt plant to be operated by Cemex, in the Derby Road area of North Liverpool. This was known as Tarmacademy. The facility was to provide 45 new jobs for local people and support 1000 trainees from unemployment into jobs and apprenticeships over a five-year period.

In December 2015 Regeneration submitted a report to Cabinet signed off by Legal and Finance about the Tarmacademy proposals noting that a new company had been set up by Kings to deliver and run the training facility (Tarmacademy (Liverpool) Ltd (TLL)). The report states that the initial investment by TLL and Cemex is £2.32m, however, it later transpires that this investment is by Cemex alone). Although Cabinet agrees to assist Kings (and so TLL and Cemex) to acquire sites in the north Docks area of Liverpool and authorises Officers to acquire suitable sites and negotiate suitable leases with Kings (and thereby TLL and Cemex) to deliver the project no clear business case or clear reasoning why the Council should assist Kings (or TLL or Cemex) by purchasing the land or any assessment of risk of providing such support is provided. A budget limited to £3.5 m (funded from borrowing) for the land acquisition is also agreed. Again, no reasoning is provided for the budget proposed and agreed. There is no explanation why Kings or Cemex or the new company, TLL, should receive such preferential treatment and support from the Council and why, if the Council considered the proposal to have merit, it did not consider alternative ways of delivering the training facility or encouraging Cemex to open a new facility in the north Liverpool area.

The £3.5m budget was provided subject to financial, legal and property due diligence, and the submission of robust and sustainable business cases which confirm best consideration for the land and revenue returns which more than mitigate the costs of borrowing within 3 years. When the report is submitted to Cabinet it is asserted that the decision is urgent and so it is not subject to call-in and scrutiny and so no further consideration of the merits of the proposed training facility, desirability of a new asphalt plant or the process for delivery takes place.

What happens next involves the completion of a series of Delegated Action Reports (DARs) ostensibly sanctioning the purchase and disposal of land but which fundamentally fail to comply with the authority delegated by Cabinet, and reveal

²⁶ Kings Construction is now under new ownership and the current owners have no connections with the principals involved at the time.

(inter alia) a complete failure by the Council to show that the best value duty has been complied with.

At the time of the Cabinet meeting, although this is not made clear in the report, four parcels of land had already been identified for purchase. The then owner, C&PS Ltd (CPS) seeks £4m for their interest in the sites. The internal valuation for the sites carried out in December 2014 was between £2.38 and £3.075m. It was noted at that time that one site had previously been marketed at offers in excess of £2m but that this was considered by the valuer to be well in excess of the market value and this is confirmed in a further, external, valuation received in January 2016. The external valuer provided three different valuations based on specific assumptions, therefore if any of those assumptions were incorrect or became unachievable the valuations would inevitably change and whether the Council was achieving best consideration would be adversely affected. The lowest external valuation assumes that three of the sites are cleared of old industrial buildings and values the land at £1.22m. If two of the sites are leased by the Council to Kings and Cemex as planned for £50k per year for each site, with no rent-free periods or break clauses, and 18 wind turbines are installed across the sites an annual income would be generated of £205k and the capital land value rises to nearly £2.3m. However, if initial discussions for a digital advertising display on one of the sites is successful and a lease entered into, the additional income generated of £150k per year increases the value of the four sites to £4.05m.

Ostensibly on the basis of the authority provided by Cabinet, on 22 January 2016, the Regeneration and Finance authorised a DAR which sets out the initial Heads of Terms for the Tarmacademy proposal. The DAR agrees payment for the sites of £3.728m including stamp duty together with the grant of 20-year leases for £50k per year to both Kings and Cemex with initial 6 month rent free periods to be completed back-to-back with the land purchases. On these terms the rent-free period adversely impacts on the valuation of the land, but more specifically the price exceeds the available budget agreed by Cabinet in December. In addition, the report does not provide any evidence of due diligence or the required robust and sustainable business cases to support the best consideration for the land and the income does not mitigate the borrowing costs expected within the requisite 3 years. So, the terms proposed in the DAR exceed the authority agreed by Cabinet the previous month. In addition, although the proposal is to expend over £3.7m this decision was classified as exempt from publication due to commercial sensitivity and was not subject to additional scrutiny through the usual safeguards of the call-in processes.

Despite the terms set out in the DAR, the purchase price of the land continues to be subject to negotiation with CPS. Meanwhile, by March 2016 Cemex has separately negotiated with the Council a longer 12 month rent free period on their proposed lease on one of the sites and the underwriting of their costs of land preparation on the site in the event that they did not finally enter into a lease; the “target date” for the lease referred to in the report was 31 March 2016 (although it actually eventually

completes in May 2017). A further DAR agrees to these changes. However, this further DAR in presenting the financial evaluation of the impact of extra rent-free period misrepresents the basis of the highest external valuation received by failing to correctly state that this was based not only on the absence rent-free periods but also on the generation of £355k per year income through the leases for the land, advertising hoardings and wind turbines referred to above, none of which had been or were close to being successfully achieved. The introduction of the 12-month rent free period fundamentally undermined the borrowing cost recovery within 3 years required by Cabinet. The DAR was expressed as amending the DAR agreed in January but neither DAR complied with Cabinet's explicit preconditions and so did not provide authority for Officers' decisions or actions. Again, the report was expressed to be Exempt and was not subject to Member scrutiny processes.

In the meantime, negotiations for the purchase of the four sites continued and to complete the land transactions the parcels were split into two tranches. On 8 July 2016 a further DAR was authorised by Regeneration and Finance agreeing to the purchase of the largest parcel of land on Brunswick Place for £2m. The DAR again refers to a lease to Kings at £50k per year to mitigate some of the costs and also states that "a further £50,000 per annum will be received from advertising hoarding revenue" even though no agreement with any advertising company had been reached even in principle, and no commercial agreement for the erection of advertising hoarding is ever entered into. The report provides no detail on how the valuation was reached save for reference to a "CBRE Valuation Report- July 2016" which was not attached, cannot be found and CBRE denies was ever made. Again, there is no robust business case or evidence of financial or legal due diligence to support the decision although the report states that consultation has taken place with the City Solicitor, the Director of Finance and Resources, the Mayor and the Cabinet Member for Regeneration. Again, the decision was not subject to any scrutiny by Members, it was declared to be commercially sensitive and so not publicised; further, on this occasion it was stated not to be a Key Decision, not subject to scrutiny call-in and could be implemented immediately. The DAR does not provide any proper authority to purchase the land.

Nonetheless, the land was purchased from CPS the following month, in August 2016, but no back-to-back leases were entered into to secure offsetting income at that point as envisaged by the flawed original DAR, only a license (at no cost) is granted to Cemex in November 2016 to carry out remedial works. Payment was also made of an additional £87.5k for (unverified) bridge repairs undertaken by CPS and mineral rights.

In October 2016 a further DAR is signed by an Assistant Director (apparently in consultation with the Director of Finance and Resources, the City Solicitor and the Mayor) purporting to increase the budget set by Cabinet in December 2015 by £450k plus an amount for stamp duty, to enable delivery of the Tarmacademy. This purports to enable the purchase of the remaining 3 sites for £1.95m. However, it is

not possible for an officer to extend the authority provided by Cabinet. Again, the report is not subject to Member scrutiny. Despite the absence of proper authority, the purchase is completed later that month.

On inspection the report is flawed in so many ways it refers to proposed income from Tarmacademy of £50k from these sites but that is wrong, the Tarmacademy base was to be on the first tranche purchased adjacent to Cemex. Not that TLL ever took the lease so none of Tranche 2 land was required to enable delivery of Tarmacademy which raises the question, why buy it?: the report claims advertising income of £50k which does not exist: the Decision says Cabinet agreed a price (£3.5m) but that was a budget there are no robust business cases or due diligence or back to back leases planned to be entered into as referred to the sites aren't cleared thus affecting value the phantom CBRE valuation is relied on again

On 23 January 2017 a DAR is finally agreed for a 20-year lease to Cemex at £50k per annum for part of the first tranche of land purchased for £2m, land which Cemex has already occupied rent free for several months. However, completion of the lease is to be further delayed until May 2017 thereby providing Cemex with occupation for four more rent free months. The DAR states that rent will become payable on the lease from 1 June 2018 onwards and part of the reasoning is that Cemex has worked on the land at risk. This is not correct as the Council has previously agreed to underwrite Cemex's remediation costs. Cemex has now opened an asphalt plant on the site.

In the five years since the original Cabinet decision to assist Kings to acquire sites to create the Tarmacademy training facility, the Council has itself purchased land for in excess of £4m without evidencing a valuation to support such payments and has incurred ongoing annual borrowing cost, of c£350k with a considerable shortfall in annual income to offset that cost and no lease has been entered into with Kings, TLL or any other body for the training facility. The debt incurred and transactions entered into have not been authorised by Cabinet. Despite the fundamental changes from the position agreed in 2015 there has been no further reference to Cabinet to consider the matter and to determine next steps. Despite the Council's investment no training facility has been set up; the SPV created to support the original proposals never operated and was dissolved in 2016.

All the land transactions linked to this project were outsourced and so the transaction documentation was not held within the Council's Legal Services until the omission was discovered in May 2017 and obtained from the external lawyers.

The Council's Internal Audit team reviewed the transactions referred to above and interviewed the Director of Regeneration in August 2017. Despite the report to Cabinet in December 2015 being submitted in his name and his signing of most of the DARs, the Director stated that specific officers from within Regeneration and Finance had written the reports, that the information in the Cabinet report was

incorrect and also that it was always intended that the occupation of the land was to be rent free. He also stated that he was not aware of an income target for the land.

C: Small Sites Disposal Package 2014

Although this case study starts earlier than the Review Period, it is included because it illustrates the way in which disposal terms were manipulated through the Review Period and the lack of effective oversight by Councillors or compliance with Delegated Powers and Standing Orders.

As part of LCC's approved Housing Strategy 2013-2016, LCC sought submissions from both individuals and organisations to look at acquiring either 1 or 2 small sites or for organisations who wanted a larger portfolio of sites. LCC identified 16 small sites and these were marketed via an advertorial in the Liverpool Echo in early 2014. It was also placed on the Council website and attracted a fair measure of interest. Closing dates for tenders was set in early May 2014 and the offers were opened in accordance with Standing Orders. Despite LCC stating that they were interested in innovative approaches not previously explored, evaluation was quite traditional. Not all sites received a bid and some sites, more than one bid. If the highest offer in each case for the 8 sites that did receive a bid had been accepted a capital receipt of £1,010,000 might have been realised.

One bidder (FG) offered a package for all sites being transferred for £1 for each site with a deal to be negotiated on overage. They did not appear to achieve the highest score on evaluation. Another bidder, employing a local Councillor as a consultant, offered to deliver housing on 4 sites on a profit share basis with a sample calculation to illustrate the potential return.

In September 2014, a DAR was prepared. The DAR relies on the general delegation to the Director of Regeneration to dispose of land and property but use of this delegation is subject to consultation with the Mayor and Cabinet Members, notification of Ward Members and the reporting of the decision (i.e. the DAR) to the next Select Committee and publication in the Members' bulletin.

The DAR reported the LCC valuation as £441,810 and decided to transfer the entire package of 16 sites to FG for a total payment of £552,063 subject to site investigations. The source of this figure is unclear, but no reference is made in the DAR to the nominal payment plus overage in accordance with FG's bid. It recorded that payment would be made on site transfer (i.e., on completion of the sale of the sites) and that transferring the land would save some £16,000 pa on maintenance costs. There is no calculation which seeks to justify why this is best value. However, the analysis in the report does turn the original proposition of seeking new and innovative approaches to housing delivery on its head and rules out everybody else that makes a bid whether conservative or innovative.

There is no reference in the DAR to any consultation or notification of Members as required when using this delegated power and no indication that this was ever

undertaken. Nor is there any indication that use of the DAR was submitted to a Select Committee in the required timeframe.

In the first half of 2015, negotiations were in train to ensure these Heads of Terms were embodied in a contract. It becomes clear at this point that the FG has not offered £552,063 (and in the event no such sum is ever paid). FG is still proceeding on the £1 plus overage basis. As LCC lawyers make clear, this is not really a sale at all but more like an open-ended call option and it is suggested that the whole basis of the DAR is wrong. This provokes the Assistant Director to propose that FB will accept the original DAR proposal but that no payment will be received until the last unit on the last site is sold!

At the same time, two sites were removed from the package as one had already been sold by LCC and the other had title issues which could not be readily resolved. Two different sites were substituted in due course. The changing of sites in the deal becomes a feature.

There is clear legal advice not to do this deal on the basis now proposed. Finance also makes it clear that this will raise issues of State Aid and is not in line with Standing Orders, presumably not being the highest bid received. Further internal consideration ensues and in due course negotiations with the buyer results in a further DAR in August 2015, a year after the original DAR, substantially revising the original terms for disposal and providing for site changes. It provides for the payment of a 5% deposit of the £552,063 “purchase price” on exchange of contracts, payment of a development profit share calculated and paid on the practical completion of the last unit built on each site not on the completion of the sale, and LCC is to be protected by a restriction against disposal by FB registered on each site. The purchase price is also “subject to planning”. There is no provision for the return of the sites following transfer if a development does not proceed.

Eventually contracts are exchanged in August 2015 but for only 14 of the sites and the terms have evolved further during the contract negotiation process. Completion of the sale is agreed to take place when planning permissions are granted; development of housing has to be progressed in a timely way, although there was no absolute obligation to complete the development and so no certainty that the profit share would be payable; the Council receives a 25% profit share but only payable on completion of the sale of the last plot on each site and no certainty that all plots would be sold; and any losses on one site are netted off against profit on another more successful site. Some protection for the Council was expected to be provided by a prohibition on disposal, mortgaging, or charge of the site without the Council’s consent, but in the event, it failed to be registered by the Land Registry and was not pursued.

Later in 2015, it was agreed that the sale could proceed without planning permission for all sites in place and completion on 12 sites took place in January 2016, the 2

outstanding sites completed later. In April 2016 FG wished to sell one of the sites for development by another party and it was agreed that they would not be bound by the profit share arrangements and the obligations would remain with FG. Disposal of sites by FG has continued to be a feature.

At this point, albeit with some changes of sites prior to completion of the disposal, the land transactions derived from the original Small Sites tender process was concluded. However, over a year later, in May 2017 ostensibly under the “Small Sites Build Programme”, a further DAR is signed to dispose of a selection of additional sites to FG in the Lancaster Street/Sterling Way area apparently capable of providing a total of 123 housing units. There is no clear linkage with the original Small Sites disposals although it is asserted that there is and it is apparent that the scale of the potential development on these sites and continued failure to fulfil the original policy aspiration of a new and innovative approach to housing delivery is not consistent with the proposed disposal but there is no further analysis or consideration evident to support this disposal.

The basis of the disposal is the profit share arrangement previously agreed with FG for the earlier sites and this is certified as the best price reasonably obtainable even though no further tender exercise has been carried out to test this premise. As a result, the DAR relies on the General Delegation to the Director of Regeneration to dispose of land and property as referred to above and which is subject to consultation with the Mayor and Cabinet Members, notification of Ward Members, reporting to the next Select Committee and publication in the Members’ bulletin.

The process of disposal by private treaty and not by tender is stated to be authorised by the Property Standing Order (PSO) enabling disposal to a developer proposing a scheme with a regenerating effect and which could be prejudiced by seeking tenders. However, in this instance there is no apparent formal analysis why this approach is appropriate and will achieve the best price, or evidence that the proposed disposal approach was presented to the Mayor and relevant Cabinet Members as required or that the DAR was presented to the Select Committee the relevant timeframe.

This DAR is indicative of a failure to effectively test other options for disposal and redevelopment of these more modest areas of land and continues the disposal of sites to a particular builder (FG) without sound and evidenced reasoning to support the use of private treaty. All this is undertaken without any apparent oversight or challenge through proper scrutiny processes by Members; no opportunity is taken to properly reflect on the appropriateness of the overall model adopted, including the robustness of the profit share structure. Despite this, a short time later, a further disposal takes place with the prospect of 14 houses being built on another modest area of land at Park Street and is authorised by a further DAR purporting to rely on the PSO to sell by private treaty to FB.

Suffice to say, apart from the initial 5% “deposit” paid in respect of the first tranche of sites disposed of, no income has ever been received by LCC from these disposals and at the date of this report 7 sites remain undeveloped or only partially developed. Several sites have in fact been transferred on and either remain vacant or have been developed by others, and an outstanding reconciliation of any potential profit share with FB remains to be undertaken, however the enforceability of the agreed terms for the profit share from FB is untested.

It is notable that to enable housing development on some of the disposed sites LCC has had to make further financial commitments particularly where the properties built or planned to be built could not be sold on the open market as viability reports were produced to show that compliance with normal planning requirements were unaffordable.

Financial support for four of the sites which in the event had been sold on other developers cost LCC a total of £175k in subsidy to aid development because of “significant site abnormal costs.”

LCC’s housing company, LFH was supported with £1.7m funding to acquire the 14 houses built on the Park Street site, one of the last Small Sites disposed of to FG and homes built on Birchfield Street (which had been sold on by FB) were also purchased by LFH supported by funding from the Authority.

In conclusion, despite the positive policy objectives seeking new and innovative approaches to housing delivery expressed when the Small Sites scheme emerged in 2014 this has not been achieved. What is clear is that this extended project has achieved no capital receipt for LCC yet has resulted in material sums being outlaid by the Authority to deliver housing on some challenging sites. In particular, the scheme has enabled a local contractor to construct housing (but only where it chose to) at no risk to itself or its profit margins. This has left numerous sites undeveloped, but now LCC no longer owns or directly controls them.

13. Appendices

Appendix 1: Appointment letter



Ministry of Housing,
Communities &
Local Government

Catherine Frances
Director General, Local Government,
Strategy & Analysis
**Ministry of Housing, Communities
& Local Government**
2 Marsham Street
London SW1P 4DF

Max Caller CBE
By email

17 December 2020

Dear Mr Caller

Appointment under section 10 of the Local Government Act 1999

For some time there have been concerns about planning, highways, regeneration and property management at Liverpool City Council. The current police investigation into these matters has a significant connection to the City Council.

Having had regard to the information below, the Secretary of State has decided to proceed with a best value inspection to provide direct, independent assurance that the council is complying with its Best Value Duty:

- a) The Merseyside Police investigation into fraud, bribery, corruption and misconduct in public office, which involves a significant connection to Liverpool City Council.
- b) The response Liverpool City Council submitted to the department on Friday 11 December 2020 in respect of governance arrangements, oversight and control measures within the Council including details of the measures and controls implemented during the course of the last eighteen months.

It should be noted that having reviewed the information provided by Liverpool City Council, the Secretary of State recognises the steps the council has taken to improve governance and assurance processes, particularly with respect to the authority's planning, highways, regeneration and property management functions, as well as broader measures intended to prevent fraud and corruption. However, the Secretary of State has concluded that, given the seriousness of the issues identified through the police investigation, and to support the council to continue to strengthen its governance, and deliver services

for the people of the city, he would like direct, independent assurance that the council is compliant with its Best Value Duty.

I am therefore writing to inform you that the Secretary of State, in exercise of his powers under section 10 of the Local Government Act 1999, as amended by the Local Audit and Accountability Act 2014 (the 1999 Act), hereby appoints you as the person to carry out an inspection of the compliance of Liverpool City Council with the requirements of Part 1 of the 1999 Act in relation to the authority's planning, highways, regeneration and property management functions and the strength of associated audit and governance arrangements.

The Secretary of State also, in exercise of his powers under section 10(4)(b) of the 1999 Act, gives you the following directions in relation to your undertaking the inspection.

First, in undertaking the inspection in relation to the authority's functions specified above, and without prejudice to the scope of this inspection, you are directed to consider, in the exercise of those specified functions, whether the authority has effective arrangements in place for securing best value in its planning, highways, regeneration and property management functions and the strength of associated audit and governance arrangements.

Second, you are directed to report the findings of the inspection to the Secretary of State by 31 March 2021, or such later date as you may agree with the Secretary of State. The Secretary of State may, following receipt of your report or otherwise, issue further directions to you.

Section 12 of the Local Government Act 1999 provides that the authority to be inspected must pay the Inspector's reasonable fees for carrying out the inspection. As to practicalities of your appointment as inspector, we will provide you with an appropriate administrative team to support you in your role as inspector, and any assistant inspectors whom the Secretary of State may appoint at your request.

Finally, a memorandum of understanding will be developed between Merseyside Police and the Inspector to ensure that:

- a) The inspection is carried out in a way that does not prejudice the ongoing criminal investigation; and
- b) The Inspector(s) share any information that may be relevant to the criminal investigation with the police.

Yours Sincerely

CATHERINE FRANCES

2. Police MOU as released following FOI request.

Protocol of investigative working between

Merseyside Police

and

Max Caller

regarding

Merseyside Police Operation Aloft & The Investigation of Liverpool City Council led by Max Caller on behalf of HM Government

This protocol document recognised that there is not a joint investigation between Merseyside Police and Max Caller and team, but in fact two separate investigations. An information sharing protocol is required so as the investigation led by Max Caller does not prejudice the police investigation.

The operational investigation of the subjects of Operation Aloft is for Merseyside Police to manage. Max Caller has been appointed by the Secretary of State for the Ministry of Housing, Communities & Local Government under the provisions of section 10 of the Local Government Act 1999, as amended by the Local Audit and Accountability Act 2014 (the 1999 Act), as an Inspector to provide independent assurance that the council is complying with its Best Value Duty' or otherwise.

Max Caller and team will treat the sharing of information as an intelligence development process only at this stage.

[REDACTED]

Statement of Intent regarding the investigation

This document records a shared protocol of working between Merseyside Police and Max Caller and team. It relates to the prevention, detection and investigation of offences in relation to fraud, bribery and other serious crimes for Merseyside Police and investigating due process and 'best value' within Liverpool City Council for Max Caller and team

Each organisation will direct the use of its own operational resource by arrangement between the local managers who will ensure the respective skills and resources of each organisation are utilised to best and most efficient effect.

Background

Following [REDACTED] reports produced by Internal Audit, on 16 August 2019 [REDACTED]

[REDACTED] the assessment of this report, the Fraud Investigation Unit

within Merseyside Police's Economic Crime Team commenced investigating allegations of fraud and misconduct in a public office. This formed the basis of the now titled Operation Aloft.

Basis for Disclosure

The fundamental basis for disclosure and data sharing between the Max Caller and Team and Merseyside Police and/or relevant external enforcement agencies relates to issues and procedural irregularities identified as a result of Audit Investigations. In this instance, the relevant legislative provisions are those of GDPR Article 6.1(e) (public task), Article 9.2(g) (substantial public interest) and Data Protection Act 2018 S15 (1)&(2)(a)&(b) and schedule 2, part 1, 2(1)(a) & (b); specifically, the prevention and detection of crime.

It is noted that such a request places no compulsion on Max Caller and Team to disclose information, but should they consider it legitimate and proportionate to provide any requested data, then this should tend to provide necessary reassurance that a disclosure for these purposes is appropriate and in compliance with the Data Protection Act 2018 and UK GDPR.

Operational Objectives

The aim of the Merseyside Police investigation is to:

- Establish the full extent of the suspected criminality;

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED].

The aim of the Inspection is to:

- Proceed with a best value inspection to provide direct, independent assurance that the council is complying with its Best Value Duty.
- Find out whether the authority has effective arrangements in place for securing best value in its planning, highways, regeneration and property management functions and the strength of associated audit and governance arrangements.
- Report the findings of the inspection to the Secretary of State by 31 March 2021, or such later date as they may agree with the Secretary of State.

Information Exchanges

The exchange of information between Merseyside Police and Max Caller and team in respect of the criminal investigation and the statutory inspection shall:

- Be in accordance with the Law and the guidelines issued by Merseyside Police and Max Caller and team.
- Be relevant only to the investigation and aims of the operation to which this protocol applies.

- Merseyside Police and Max Caller and team undertake to store securely all information received under this protocol and only those who have a genuine business need to see the information will have access to it: and
- The information will not be disclosed to any third party unless the owning organisation has been consulted and their authority given in writing.

Disclosure Process

Requests will –

- Be submitted in writing at all times using the DP1 pro-forma using designated and recognised secure email systems.
- State the basis of the request and clearly identify the information required.
- Be lawful and proportionate.
- Be related to the investigation as specified within this protocol.

In response to such a request, Max Caller and team will –

- Consider the request as appropriate in line with its own interpretation of the Data Protection Act 2018 and the UK GDPR.
- Carry out all reasonable endeavours to locate and source requested information.
- Provide a written response to Merseyside Police using designated and recognised secure email systems.
- Maintain appropriate records of the provision, or the decision not to provide, requested information.

In addition –

- Both Merseyside Police and Max Caller and Team will ensure regular meetings take place as agreed by both teams [REDACTED]
- [REDACTED]
- Discussions in relation to the sharing and publication of the final report will be subject to separate discussions.

Data Protection Act 2018 (UK GDPR)

Both Merseyside Police and Max Caller and team shall at all times ensure that they comply with the requirements of the UK GDPR.

Human Rights Compliance

Both Merseyside Police and Max Caller and Team shall consider the implications of the Human Rights Act 1998 where appropriate and shall adhere to its principles of legality, necessity, relevance and proportionality.

Timing

The provisions of this protocol shall commence at the date of signature by both parties and cease upon the conclusion of the case; unless the parties agree otherwise in writing.

Status

This Memorandum of Understanding (MoU) is not intended to be legally binding, and no legal obligations or legal rights will arise between the parties from this MoU. The parties enter the MoU intending to honour all their obligations under the law. This MOU is agreed during a period of post transition of the UK leaving its' membership of the EU. During the lifetime of this agreement the law change from the GDPR (EU 2016/679) to the UK GDPR whereby some aspects of the legislation may change. The parties agree to abide by any new legislation introduced during its use.

Signed on behalf of Merseyside Police by:-

Date:

Signed on behalf of the Max Caller and Team by:-

Date:

Terms of Reference V2.0 (Amended Sept 2018)

Board of Directors

Director (Chair) -	Cllr Wendy Simon (Deputy Mayor)
Director - Neighbourhoods & Waste)	Cllr James Noakes (Cabinet Member for
Director -	Ron Odunaiya (Director of Community Services)

Advisory Officers -

Mike Brown – Chief
Operating Officer Louise
Rice (Human Resources)
Paul Murphy (LSSL
Accountant)
Peter Casterton (Divisional Manager, LCC (Deputy
S151 Officer) Richard Hopkins, LCC (HR)
Gary Wormald, LCC (Legal)

Purpose:

The purpose of the Board of Directors and Chief Operating Officer is to:

1. Develop and maintain the Company Vision and Five Year Business Plan.
2. Provide strategic direction and leadership to the Company in line with the objectives and agreed principles of operation and the approved business plans and budgets.
3. Oversee the running of the Company and be accountable for its success.
4. Be responsible for the Workforce Safety; Health and Environment, including Union and workforce relations. To oversee the activities of the Advisory Officers in respect of managing and addressing Union and workforce related issues.
5. Provide advice, oversight and challenge with regard to the services' performance against the approved business plans and budgets.
6. Hold the officers of the Company (and Advisory Officers) to account for the delivery of the services' business plans, within the approved annual budget and the realisation of the benefits identified.
7. Provide direction in relation to the management of risks and issues that have been escalated by the Advisory Officers, ensuring that effective, mitigating actions are able to be put in place.
8. Request detailed updates as needed from the Advisory Officers or Company Management, particularly where there are concerns about performance.

9. Review and challenge performance and financial monitoring reports quarterly.
10. Resolve operational conflict and remove blockages that have been escalated by the Advisory Officers.

The Role of the Advisory Officer(s)

The advisory officer shall be to:

1. Ensure the effective operation of the Company on a day to day basis.
2. Report to the Board of Directors on all operational issues and matters that may/will impact upon the performance of the Company.
3. Provide technical and specialist advice to the Board so that it can make informed business decisions.
4. Provide annual business plans and report progress against the plans.
5. Manage day to day staffing and workforce matters to ensure the continued performance of the service, including Safety; Health; Environment and Quality of provision.
6. Liaise regularly with the workforce and the Union representatives to ensure matters identified are addressed/ resolved where appropriate for the enhancement and operation of the service.

Signed



Wendy Simon - Deputy Mayor

Director & Chair of Liverpool Streetscene

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By Ben Watts, General Counsel
Zena Cooke, Corporate Director of Finance

To: Governance and Audit Committee – April 23rd 2021

SUBJECT: Review of the Terms of Reference for the Governance and Audit Committee

Classification: **Unrestricted**

Summary: This paper proposes changes to the Terms of Reference for the Governance and Audit Committee

- 1 There have been a number of high-profile issues for local authorities relating to wholly owned companies. Members of the Governance and Audit Committee have repeatedly expressed a desire to receive more information in order that they can scrutinise the actions of the executive relating to the Council's wholly owned companies.
- 2 At the meeting of the Governance and Audit Committee in January and the Policy and Resources Cabinet Committee in March, it was agreed that changes were required to the existing arrangements to simplify accountabilities, increase data and improve reporting to support scrutiny in relation to the oversight of the governance of the companies.
- 3 It had been hoped to organise workshops and training events to further explore the role of the Council as Shareholder, investor and owner in a range of businesses. Unfortunately, it was not possible to arrange these in time so the training including that with external providers will form part of the induction programme for new Members of the Council after the election.
- 4 To secure the changes discussed at the Committee in January (and at Policy and Resources Cabinet Committee), draft amendments to the Constitutional provisions regarding the Committee are attached at Appendix 1 for discussion, amendment and approval by the Committee. The changes are marked in bold text and underlined.

4 Recommendation

The Governance and Audit Committee is asked to:

- 1. DISCUSS and AGREE the amended Governance arrangements for this Committee**
- 2. AGREE that the Monitoring Officer be asked to include these changes as part of the next update to the Constitution to be taken through the Council's governance at the earliest opportunity.**

Appendix 1 – Terms of Reference

Purpose of committee

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 **and;**
- (c) receive ongoing assurance and information to enable the effective scrutiny and oversight of the executive decision-making around shareholder strategy regarding companies in which the Council has an interest**

The Governance and Audit Committee is responsible for ensuring that:

- (a) risk management and internal control systems are in place that are adequate for purpose and effectively and efficiently operated,
- (b) the Council's corporate governance framework meets recommended practice, is embedded across the whole Council and is operating throughout the year with no significant lapses,
- (c) the Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of work to be carried out is appropriate,
- (d) the appointment and remuneration of external auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective,
- (e) the external audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit,
- (f) the Council's financial statements (including the pension fund accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective,

- (g) any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound,
- (h) accounting policies are appropriately applied across the Council,
- (i) the Council has a robust counter-fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit, and
- (j) the Council monitors the implementation of the Bribery Act policy to ensure that it is followed at all times.

(k) the Council has appropriate governance arrangements in place to manage the relationship between the Council and any company in which the Council has majority control

(l) the Council has appropriate arrangements in place to ensure that the commercial opportunities and risks presented through company ownership are managed effectively

By: Zena Cooke, Corporate Director of Finance
Ben Watts, General Counsel (Monitoring Officer)

To: Governance and Audit Committee – April 23rd 2021

Subject: Training Programme for Governance and Audit Committee Members

Classification: Unrestricted

Summary: This report provides further detail on the training programme proposed for Members of the Governance and Audit Committee

FOR DECISION

1. During the past four year electoral cycle, the role and importance of the Governance and Audit Committee has developed as local government changes to meet its new operating environment.
2. The challenges faced by organisations such as Kent County Council are evidenced by the reports into Croydon Council, Bristol City Council, Nottingham City Council, Northamptonshire County Council and Liverpool City Council. They are also clearly evidenced in the discussions held by the Committee and the Annual Governance Statement considered and agreed in October 2021.
3. Over the past four years, the Council has had the benefit of committed and dedicated Members who have understood and developed the role of the Committee. In doing so, they have developed their own understanding of key issues and principles and supplemented that with training from the Corporate Director of Finance, the Head of Internal Audit, External Audit and the General Counsel.
4. In many cases with the current Committee, Members have also brought with them their relevant experience from their private or working lives that has helped them serve the Council. The Council has also successfully added an independent Member who has supported the expertise of elected Members.
5. The planned programme for the year ahead includes a range of key governance activity that includes:
 - a. Governance reset to clarify the roles and responsibilities of those within the KCC Governance infrastructure
 - b. Rewrite of the Council’s Code of Corporate Governance
 - c. Review of the governance addressing the relationship between KCC and companies in which the council holds a significant interest
 - d. Rewrite of the Financial Regulations

- e. Further changes to the Constitution
 - f. Refreshed terms of reference for all Committees
6. As the primary corporate governance committee, the Governance and Audit Committee will have a key role to play in relation to all of these planned activities. The Committee will also continue with their standing agenda and the activity that will undoubtedly follow in reviewing the key unprecedented delivery activity of the past twelve months including (but not limited to) COVID-19 and the arrangements for transition from membership of the EU.
 7. As discussed in January, it is therefore vital that the training provided to Members of the Committee ensures that the Committee is able to undertake its role effectively. This will present a considerable time commitment for any Member wishing to be part of the Committee and it is strongly recommended that the training programme is made mandatory for all Members. Whilst Members may bring expertise from their personal and professional lives, it is a clear learning point from the reports highlighted in paragraph 2 above that appropriate and organised training is needed.
 8. Similarly, as the Committee recognised at the January meeting, the training provided needs to come from a diverse range of sources. Accordingly, whilst the professional advisors to this Committee (General Counsel, Head of Internal Audit and Corporate Director of Finance alongside External Audit) will continue to provide training, that will be supported by investing in external providers and training opportunities for Members.
 9. Members are asked to discuss the time commitment involved which is likely to be at least one full day per month in addition to the increasing requirements for consideration of papers for the meeting.
 10. The programme itself will begin with an informal (in person) kick off meeting after the new Members are appointed to the Committee by relevant parties and before the first Committee meeting. This will agree informally the full programme for the year ahead (to September 2022) and that will then be brought for approval in July 2021 at this Committee.
 11. The programme will include:
 - a. An introduction to the work of local government Governance and Audit Committees from CIPFA
 - b. Workshops from external governance professionals
 - c. Training on the KCC Constitution and Financial Regulations
 - d. External training on pensions and investments held by KCC
 - e. External training on company ownership
 - f. Information Governance training
 - g. External training on the operation, governance and board behaviours of successful organisations
 - h. “Governance Failure” training and how to avoid it
 - i. Training on the role of Internal Audit, Finance and Legal

Recommendation:

The Committee is invited to discuss the paper and:

- a. NOTE and COMMENT on the report
- b. AGREE that the Governance and Audit training programme should be mandatory for Committee Members

Ben Watts
General Counsel
Tel No: 03000 416814
e-mail: benjamin.watts@kent.gov.uk

Appendix 1 – Liverpool Report

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972756/Liverpool_Best_Value_inspection_report.pdf

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By: Jonathan Idle – Head of Internal Audit
To: Governance and Audit Committee – 23 April 2021
Subject: **INTERNAL AUDIT PROGRESS REPORT**
Classification: Unrestricted

Summary:

This Progress Report details summaries of completed Audit reports for the period January to March 2021.

Recommendation:

The Governance and Audit Committee note the Internal Audit Progress Report for the period January to March 2021.

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 during January to March 2021 together with the resulting conclusions, where appropriate.

2. Recommendation

- 2.1 Members are requested to note the Internal Audit Progress Report for the period January to March 2021.

3. Background Documents

Internal Audit Progress Report.

Jonathan Idle, Head of Internal Audit

E: Jonathan.Idle@kent.gov.uk

T: 03000 417840
April 2021

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IACF

Improving Outcomes
Creating Value

**INTERNAL AUDIT PROGRESS REPORT
GOVERNANCE AND AUDIT COMMITTEE**

23 April 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 6 summaries of completed work since the previous Committee in January 2021.

2. Key Messages

- Six audits have been finalised since the previous progress report, which was reported to Members in January 2021. See **Appendix C**
- Audit plan delivery is significantly below target at the end of quarter 4. The reasons for this are provided below in section 3
- It has been agreed that a number of audits can be removed or deferred from the 2020/21 audit plan to account for resource shortfalls
- It has been agreed to extend 2020/21 audit plan delivery up until June 2021
- 63 grants/ certifications have been certified to date
- The report for the Public Sector Internal Audit Standards External Quality Assessment has not yet been finalised, but the draft report details a positive outcome. A more detailed update will be reported to Members at the July 2021 Governance & Audit Committee
- It has been agreed to report the draft 2021/22 annual Audit Plan to the July 2021 Governance & Audit Committee, alongside the annual audit opinion.

3. Updates

3.1 Internal 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

- Care Act Easements
- Additional Highways / Transportation Grant declaration reviews (covering 4 grant awards)
- SHQ Data Centre incident

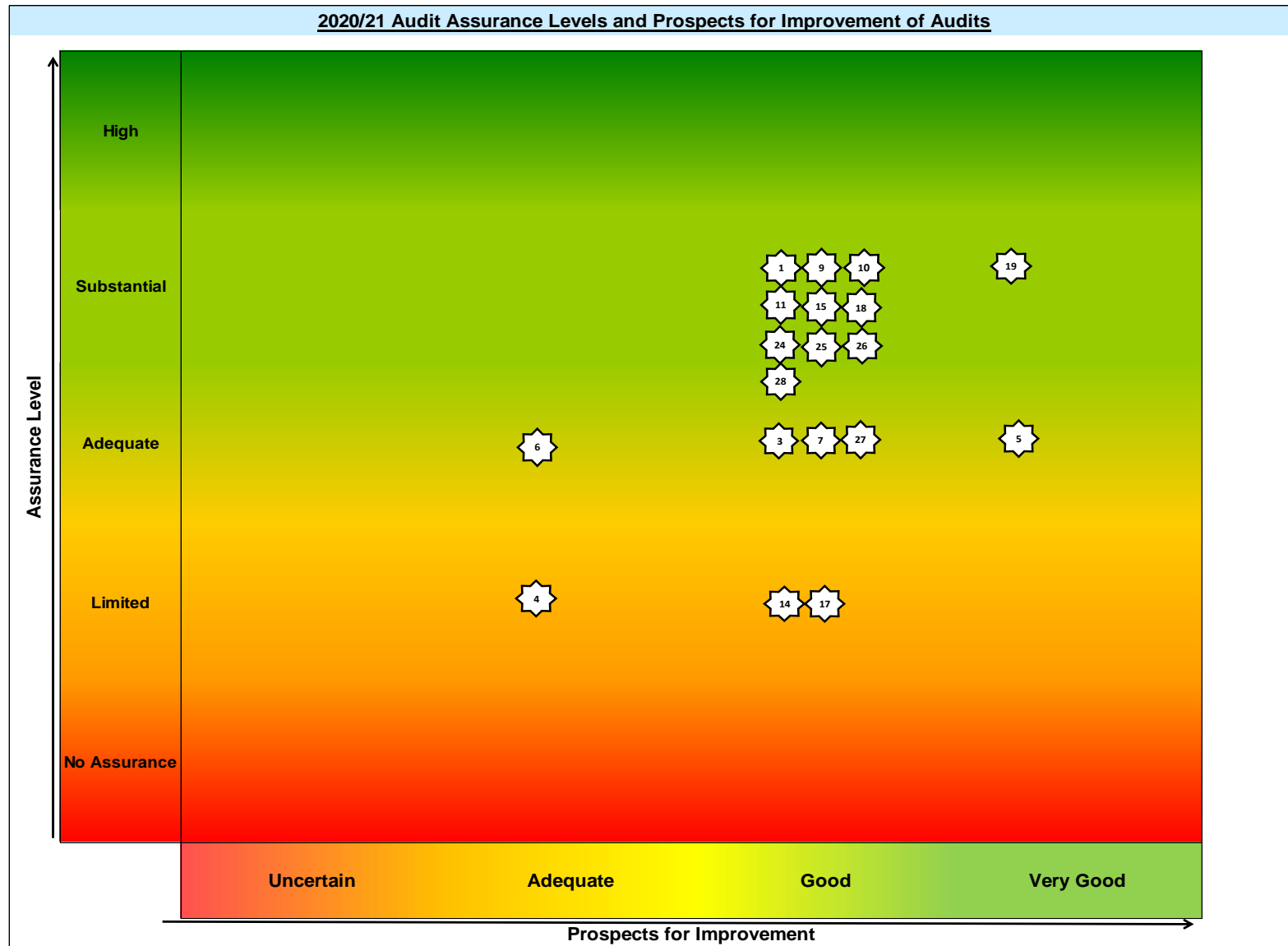
Removals

A review of the Audit Plan in comparison to resources available has identified a significant shortfall in the audit days available to deliver the audit plan. It has therefore been agreed with the Director of Finance & Corporate Services (S151) and the Chair of the G&A Committee to remove a number of audits from the Audit Plan. All audits removed from the 2020/21 Audit Plan, will be risk assessed as part of the 2021/22 audit planning process. These have been illustrated in Appendix A.

It has been necessary to remove / defer audits from the 2020/21 audit plan for the following reasons:

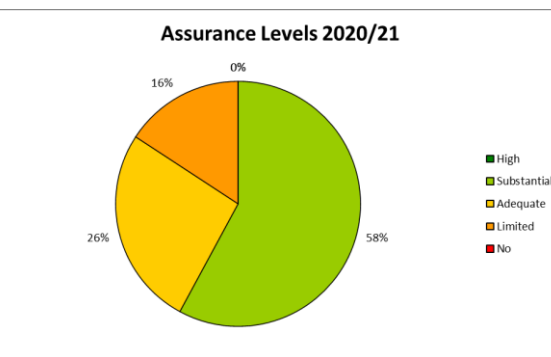
- Insufficient resources to deliver the Audit Plan
- Team resources redeployed to support the Public Sector Internal Audit Standards external quality assessment
- Client led delays on commencing or completing audit reviews
- Client request for audits to be deferred due to competing priorities or staff resource issues
- Responding to client requests for additional audits / consultancy reviews to added to the audit plan in-year
- Additional resources needed for new / unexpected grant work
- Team members redeployed to assist with Operation Fennel
- Unexpected leave / absence
- IT issues

Table 1: Summary of Assurance Levels to Date



<u>Audit Opinion October G&A Committee</u>				<u>Audit Opinion January G&A Committee</u>			
No	Audit	Assurance	Prospects for Improvement	No	Audit	Assurance	Prospects for Improvement
1	PPE	Substantial	Good	6	DoLS	Adequate	Adequate
2	Supplier Relief Payments	N/A	N/A	7	ASCH Covid-19 Response Plan	Adequate	Good
3	Change for Kent Children	Adequate	Good	8	Succession Planning (Mgt Letter)	N/A	N/A
4	ICT Asset Control (COVID-19 IMPACT)	Limited	Adequate	9	Review of COVID-19 Expenditure	Substantial	Good
5	AGS 2019/20	Adequate	Very 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 Application 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
<u>Audit Opinion April G&A Committee</u>							
No	Audit	Assurance	Prospects for Improvement				
24	Children Missing Education	Substantial	Good				
25	Office Cleaning Arrangements	Substantial	Good				
26	ICT Firewall - Management of Rulesets	Substantial	Good				
27	Information Governance - Remote Working Arrangements	Adequate	Good				
28	Information Governance - DSP Toolkit Compliance Review	Substantial	Good				
29	Care Act Easement - Consultancy	N/A	N/A				

Assurance Level	No	%
High	0	0%
Substantial	11	58%
Adequate	5	26%
Limited	3	16%
No	0	0%



3.2 Grant Certification Work:

In 2020-21, the team has audited and certified 63 grant claims, being a mix of EU Interreg grants and grants from central government. Details of all certifications can be seen at Appendix B.

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 of 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. This level of grant certification work is unprecedented at KCC and the requirements that it entails have had a significant impact upon the capacity of management and the team to deliver against the assurance elements of the Audit Plan.

It is also highlighted that the service will be undertaking further new grant certifications in the next year.

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. Members will recall 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.

The Head of Internal Audit has now completed resourcing needs assessment for the service. This has determined that a restructure of the team is required. A restructure proposal has been drafted and is due to be considered by Corporate Management Team. Once agreed a full consultation exercise will commence with the team.

A recruitment campaign, to fill all vacant posts will commence as soon as the team's restructure has been approved. In the meantime, we are using contract auditors to fill some of the resource gaps and two new Principal Auditors have just been appointed and are due to join the team in June 2021.

3.4 External Quality Assessment

Members will recall the Public Sector Internal Audit Standards (PSIAS) external quality assessment (EQA) was scheduled to be completed during February 2021. The EQA has now been completed and the draft report has been provided to the Head of Internal Audit for review and response. The outcome was positive, with a number of matters raised for consideration regarding areas for further improvement to align to best practice. The EQA report will be finalised in the coming weeks and a further update will be provided to Members at the July 2021 Governance and Audit Committee.

3.5 2021/22 Audit Plan

The audit planning exercise for 2021/22 is in progress. Due to audit management capacity issues, a decision to focus resources on delivery of the 2020/21 audit plan delivery and the decision to extend the 2020/21 audit year up until June 2021, it has been agreed with the Director – Finance & Corporate Services (S151) and Chair of the Governance and Audit Committee that the 2021/22 Audit plan will be reported to Members at the July 2021 Committee, alongside the Head of Audit's annual audit opinion report.

3.6 Committee Work & Member Development Programme

The Head of Internal Audit is responsible for reviewing and updating the Committee Work & Member Development Programme and reporting the updated programme to each Governance and Audit Committee. The Committee Work & Member Development Programme will be reviewed for the July 2021 Governance and Audit Committee, with the Monitoring Officer and S.151 Officer and this will include Member induction training.

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. Information Governance – remote working arrangements
2. Office Cleaning Arrangements

B Adult Social Care and Health:

1. Care Act Easement

C Children, Young People and Education:

1. Children Missing Education

D Strategic and Corporate Services:

1. Cyber Security – ICT Firewall Management of Rulesets
2. Information Governance – DSP Toolkit annual audit

E Growth, Environment and Transport:

None

Appendix A – Internal Audit Plan 2020-21 – Status and Assurance Summary

Ref	Audit	Status as at 6/4/2021	Assurance
CA01	Annual Governance Statement Assurance Statement (2019-20)	Final Report	Adequate – GAC Oct 20
CA02	Corporate Governance	In Progress	
CA03	Records Management	Draft Report	
CA04	Risk Management	In Progress	
CA05	Information Governance - DSP Toolkit Annual Audit	Final Report	Substantial
CA06	Information Governance - Advisory/ Attendance at IG Steering Group.	In Progress	
CA07	Information Governance – Remote working	Final Report	Adequate
CA08	Strategic Delivery Plan	Removed	
CA09	Office Cleaning Arrangements	Final Report	Substantial
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	Removed	
CS04	Respite Overpayment - Follow up	Final Report	Substantial - GAC Jan 21
CS05	Schools Financial Services (TEP)	Planning	
CS06	Capital Planning and Prioritisation	Removed	
CS07	Kent Pension Fund Investment Governance - Follow up audit	Final Report	N/A/ - GAC Jan 21
CS08	ACCESS Pool	Planning	
CS09	Payment Project	Removed	
CS10	Finance - Urgent Payments Process	Final Report	Limited – GAC Jan 21
CS11	Covid-19 risk - Supplier Distress Payments - Part 1	Final Report	N/A - Management Letter – GAC Oct 20
CS11(a)	Covid-19 risk - Supplier Distress Payments - Part 2	In Progress	
CS12	Covid-19 expenditure	Final Report	Substantial - GAC Jan 21
RB01	Revised Equality Impact Assessment (EQIA) process	Removed	
RB02	Strategic Commissioning Follow-up	Planning	
RB03	Enterprise Business Capabilities (Oracle)	In Progress	

Ref	Audit	Status as at 6/4/2021	Assurance
RB04	Health and Wellbeing Strategy	Planning	
RB05	Succession Planning	Final Report	N/A - Management Letter – GAC Jan 21
RB06	Data Analytics Development - Payroll		Removed
RB07	Future of Sessions HQ (Project)		Removed
RB08	Property Infrastructure - Functions and Processes Transferred to KCC from Gen2		Removed
RB09	Covid-19 risk - Asset Control of Laptops and Other Equipment	Final Report	Limited – GAC Oct 20
RB10	Covid-19 risk - Procurement and Contracts	In Progress	
RB11	Adults Safeguarding - Assurance Map	Final Report	N/A - Management Letter – GAC Jan 21
RB12	Shaping the Market		Removed
RB13	Quality Assurance Framework		Removed
RB14	Partnership Working – NHS		Removed
RB15	Mosaic - Post Implementation		Removed
RB16	Workforce – Recruitment & Retention of Staff	In Progress	
RB17	Capital Investment in Good Day Program		Removed
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	Complete	N/A
RB21	Charging Arrangements	Final Report	Substantial - GAC Jan 21
RB22	ASCH Contingency	Complete	N/A
RB23	Accommodation for Young People/ Care Leavers	Draft Report	
RB24	Schools Themed Review (Cyber Security)	In Progress	
RB25	Children Missing Education	Final Report	Substantial - See C1 below
RB26	Delivery of Statutory Services – Contract Management - TEP		Removed
RB27	Adoption	In Progress	
RB28	Change for Kent Children	In Progress	
RB29	CYPE Assurance Map - Safeguarding	Final Report	N/A - Management Letter – GAC Jan 21
RB30	Provision of Laptops to service users	Draft Report	
RB31	Establishments Themed Review		Removed
RB32	Resilience and Emergency Planning Service		Removed

Ref	Audit	Status as at 6/4/2021	Assurance
RB33	Gypsy and Traveller Service - Pitch Allocation and Charging	Planning	
RB34	Kent Scientific Service		Removed
RB35	Operation Fennel (EU Transition)	Final Report	N/A - Management Letter – GAC Jan 21
RB36	KCC support to Kent businesses - e.g., Kent and Medway Business Fund		Removed
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.	In Progress	
ICT04	Cyber Security - Management of Firewall rulesets / Anti-virus and Anti-Malware Software	Final Report	Substantial
N/A	Strategic Reset Programme – Programme Governance		Removed
N/A	Strategic Reset Programme – Projects		Removed

B. Work Carried Forward From 2019-20:

Ref	Audit	Status as at 6/4/2021	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	Final Report	Management Letter – GAC Jan 21
4	Change for Kent Children	Final Report	Adequate – GAC Oct 20

C. Additions:

Ref	Audit	Status as at 6/4/2021	Assurance
	Sessions House Data Centre Incident	In Progress	
	Care Act Easement	Final Report	N/A See Appendix C below
	Highways Capital Grants	Complete	N/A
	Annual Governance Statement (2020-21)	In Progress	

Appendix B - Grant Certifications completed since 1/4/2020:

Grant	Description	Status as at 6/4/2021
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.	2 Claims Completed
EU Interreg – Blueprint	Upskill 18 social enterprises to train 2000 disadvantaged individuals with the skills they require to secure new jobs linked to circular economy growth (increased recycling, reverse logistics and secondary markets)	2 Claims Completed
EU Interreg – BoostforHealth Capitalisation	Supporting Kent based life sciences companies with internationalisation and in particular market entry in mainland Europe.	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 – Connected Communities	To develop co-ordinated and integrated services for older people that help make communities more resilient and take early action to prevent or delay the need for long term care.	2 Claims Completed
EU Interreg – Cool Towns	Spatial adaptation for heat resilience in small and medium sized cities to minimise the heat related effects of 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.	2 Claims Completed
EU Interreg - Empower Care	To create resilient communities and reduce individual frailty and loneliness, addressing issues facing the care of our aging population	2 Claims 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.	2 Claims 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.	3 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 – Green Pilgrimage	Protecting natural & cultural heritage whilst developing jobs & growth along pilgrim routes by developing low impact tourism, digitilisation, pilgrim accommodation & strengthening local traditions.	1 Claims Completed plus On the Spot Check

Grant	Description	Status as at 6/4/2021
EU Interreg - H20	Overcoming barriers to integrated water and ecosystem management in lowland areas adapting to climate change.	2 Claims 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	2 Claims Completed
EU Interreg PACE	Providing help to unemployed parents into work by improving access to childcare	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.	2 Claims Completed
EU Interreg - Prowater	Contributing to climate adaptation by restoring the water storage of the landscape via ecosystem-based adaptation measures.	2 Claims Completed
EU Interreg - SCAPE	Developing landscape-led design solutions for water management that make coastal landscapes better adapted and more resilient to climate change.	1 Claims Completed
EU Interreg - SHIFT	Engaging with people over 45 years of age to develop a tailored sexual health and wellbeing model.	2 Claim Completed
EU Interreg - SIE	Evaluating and improving business support services for SMEs specifically related to exporting and internationalisation.	2 Claims and On-the-Spot check Completed
EU Interreg – STAR2Cs	Overcoming the implementation gap faced by local government adapting to climate change.	1 Claim Completed and On The Spot check
EU Interreg – Step by Step	Seeking to increase the impact of the internationally evidenced men's sheds programme in particular employment & health outcomes.	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).	2 Claims Completed On The Spot check in progress
EU Interreg - Triple A	Supporting homeowners to adopt different low-carbon technologies in their homes.	2 Claims 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

Grant	Description	Status as at 6/4/2021
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 – Capital Grant	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
Department for Transport – Capital Funding Grant	Kent County Council Active Travel initiatives - Cycle Lanes	Completed
Department for Transport – Capital Funding Grant	Ashford Sevington (former MOJO site) – development of in-land customs clearance centre	Completed
Department for Transport – Bus Service Operators Grant	Walmer Bus Service operators grant certification.	Completed

Appendix C – Summaries of Completed Audit Reviews

A1 – CA07-2021 Information Governance – Remote Working

Audit Opinion	Adequate
Prospects for Improvement	Good

There is a framework in place to support information governance within the Council. However, a number of enhancements were identified which relate specifically to the current remote working environment. Guidance on some aspects of remote working have been published on Knet although they are not yet embedded into policy and staff understanding of how to manage information governance risks is inconsistent.

Key Strengths

- Guidance has been published on Knet regarding remote working.
- There have been regular Kmail communications to staff regarding elements of remote working arrangements.
- The majority of the KCC workforce has up to date training for Information Governance and Data Protection.
- Training is available to staff on the Delta platform relating to Cyber Security and 'top tips' for home working, although this is not a mandatory training requirement.
- There are adequate mechanisms in place to monitor and report Data Breaches.
- A staff perception survey undertaken for this audit identified good awareness of requirements to lock their work screen when unattended and 89% felt they had adequate guidance for working remotely.

Areas for Development

- Policies and Procedures have not been reviewed during the prolonged period of remote working.

- The staff perception survey identified a number of areas where staff awareness was.
- The completion of mandated Information Governance training is fairly high at 84% however there is scope for improvement. A small number of staff have not undertaken this training for over 5 years.
- There has been no specific risk assessment of the workforce shifting to a remote working environment.
- A small number of devices do not contain the most recent update of the Corporate VPN. These exceptions should be investigated to confirm their status and update them if necessary.
- The number of data breaches has increased since moving to a remote working environment. Data breaches was raised as an audit issue in a previous audit, so the issue has not been repeated in this report.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- There are established Information Governance Groups (Cross Directorate Information Governance Group and Corporate Information Governance Group) in place to discuss and address Information Governance issues.

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	5	5	NA
Low Risk	0	0	NA

A2 - CA09-2021 Office Cleaning Arrangements

Audit Opinion	Substantial
Prospects for Improvement	Good

In response to the Covid-19 pandemic and to support staff returning to KCC premises, an enhanced cleaning specification was put in place. This aligns with guidance from central government and the Health and Safety Executive (HSE) and there are sound processes to monitor performance and quality of cleaning.

Internal Audit interviewed members of staff working at 4 KCC Covid-secure sites - Invicta House, Worrall House, Montague House and Thistley Hill. Staff are generally aware of their responsibilities as part of the enhanced cleaning specification and do not have concerns over the availability of cleaning products and hand sanitiser. However, there is a general lack of understanding from KCC staff regarding how to appropriately raise issues relating to cleaning with the TFM helpdesks.

Key Strengths

- KCC staff are generally aware of their responsibilities under the enhanced cleaning specification.
- The TFM contractors and sub-contractor clearly understand their roles and responsibilities and this has been communicated to their staff.
- The enhanced specification aligns to central government and HSE guidance.
- Performance against the cleaning elements of the TFM contracts is monitored and KPI data verified.
- Complaints are reviewed and action taken where appropriate.
- The quality of cleaning is monitored by KCC Infrastructure teams, TFM contractors and the sub-contractor.
- Additional cleaning products are stored securely.

- Cleaning audits are fully completed including checking quality against the enhanced specification and level of consumables.
- At the sites visited during the audit, hand sanitiser and antibacterial wipes are readily available to staff and replenished frequently.

Areas for Development

- 25% of staff interviewed highlighted instances where cleaning could be improved, such as dust levels on unused desks, however, staff had not raised these concerns with the TFM helpdesks.
- There is a lack of awareness by KCC staff regarding how to raise a concern if they needed to.

Prospects for Improvement

- During the audit, the quality of cleaning at one site was found not to be in line with the cleaning specification. However, remedial action was swift and continues to be monitored to ensure ongoing consistency.
- Management were engaged throughout the audit and have responded positively to the issue raised

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	n/a	n/a
Medium Risk	1	1	0
Low Risk	0	n/a	n/a

B1 – AD07-2021 Care Act Easement - Advisory

Introduction

Under the Coronavirus Act 2020 (CvA 2020), some duties on local authorities imposed by the Care Act 2014 were lifted. These are known as the Care Act easements. Government guidance accompanying the CvA 2020, required local authorities only to exercise the Care Act easements under specific circumstances. The guidance included a 4-stage decision-making process, with the first two stages seeing the local authority operating under the pre-amendment Care Act. In the latter two stages, the local authority operates under the Care Act easements.

Internal Audit agreed to review the service area sitreps and identify Stage 2 reported circumstances. Internal Audit assessed the extent to which each service area provided assurance that Stage 2 reported circumstances had not escalated to Stage 3, for example reporting against agreed escalation triggers.

Executive Summary

During the two waves of the Covid-19 pandemic (Spring 2020 and Winter 2020/21), none of the daily situation reporting from ASCH's Service Areas Council flagged the need for the Council to apply Care Act easements to prioritise urgent or acute needs that were at risk of not being met. KCC's Principal Social Worker and Director of Adult Social Services requested that Internal Audit conduct a limited review of the situation reporting to test the extent to which Service Areas were reliably reporting they were able to meet the Council's Care Act duties in full.

Internal Audit reviewed the collated responses from 47 sitreps submitted on 14 April 2020 and 51 sitreps submitted up to 13 January 2021. The provided information did not provide enough insight into the performance of the Service Areas to afford Internal Audit the means to assess confidently that the Service Areas were meeting their respective duties under the Care Act (prior to amendment by the Coronavirus Act 2020). Furthermore, Internal Audit could not determine the proximity that Service Areas were to operational boundaries where Care Act easements would have been required.

C1 – RB25-2021 Children Missing Education

Audit Opinion	Substantial
Prospects for Improvement	Good

Internal Audit found that the controls in place to identify, track and support children who are reported missing back into education are operating effectively. There are very good process documents in place.

Internal Audit acknowledges that since March 2020, following the spread of Covid19 there has been a significant increase in CME cases and referrals, which has had a major impact on staff and resources.

Key Strengths

- Written policies and procedures, including roles and responsibilities, have been formally agreed, are regularly reviewed and updated have been and communicated to staff.
- The Digital Front Door is a single point of access for reporting CME referrals
- Internal and external networks and key points of contacts are established.
- A database is in place for recording and monitoring CME cases
- Procedures are in place for safeguarding concerns to be reported to the appropriate authorities.
- There are robust multi-agency systems in place to identify and track children missing from education, or at risk of doing so.
- There are adequate processes in place to ensure that appropriate full-time education is arranged once the child has been located.
- Annual reports are produced for CME. In addition, on a termly basis a report is compiled of various stats and shared with relevant stakeholders.
- There are links and attendance on external groups both regional and national to ensure that any cross-group issues can be discussed and understood.
- The number of CME complaints received is minimal.

Areas for Development

- Procedural documents could be amended to include guidance on the processes to be followed regarding dormant cases and the checks carried out regarding data quality accuracy.
- Inaccuracies have been identified with regards to the reporting element of Synergy which do not reflect the details retained within the actual system.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- The CME team has continually functioned despite a significant increase in CME cases and referrals, which has had a major impact on staff and resources.
- The issues raised within this audit report have been accepted and action plans provided to address these.
- Testing of open CME cases identified occasions whereby there have been significant delays with responses being received from Special Educational Needs team (SEN) and in some cases this has been as long as 10 months. Monthly reports are issued to the SEN of such cases. The CME team are aware of these delays and are working towards improving this.

Summary of Management Responses

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	0
Medium Risk	2	2	0
Low Risk	0	0	0

D1 – ICT04-2021 ICT Firewall Management of Rulesets

Audit Opinion	Substantial
Prospects for Improvement	Good

KCC is migrating its services from its Data Centres to the Cloud (Microsoft Azure), as per its ICT Strategy. Firewalls protect the perimeter of KCC's network and systems in its data centres, on-premises and within the Cloud.

This year, ICT successfully responded to the pressures brought about by the Pandemic, including the overnight transition in the way users accessed KCC systems and data to support wide-spread remote working. There has been a multiple increase in user traffic across the firewalls, with focus on meeting that new capacity requirement and providing a stable platform for users. Two additional firewalls, purchased prior to the Pandemic as a contingency for Brexit, were configured to support the existing devices.

Internal Audit found that the firewall equipment is monitored regularly, event logs are analysed, and changes made to respond to external threats. All changes were formally risk assessed, supported with detailed implementation plans and appropriately authorised. Some issues were identified in relation to review of the firewall rules, replacement of the current firewall software and treatment of the low-risk vulnerabilities identified during the last IT Health Checks.

Key Strengths

- Policies and Procedures are up-to-date and available to staff.
- Experienced and knowledgeable staff.
- External firewalls were placed in clustered pairs for resilience.
- All firewall changes are formally risk assessed, reviewed and authorised.
- Rules could be tracked back easily to the change request.
- The firewall logging and audit features are enabled.
- Complex passwords are used on all perimeter network equipment

- Morning checks are carried out on the status of the firewalls by both KCC ICT and CBS.
- Event logs are analysed using a security incident event management tool and action is taken to investigate threats and reported incidents.
- Unique, complex, extra-long
- Annual IT penetration testing and a review of the firewall rules are carried out.
- No Critical, High or Medium risk vulnerabilities were found on the firewalls during the most recent (October 2020) penetration testing.

Areas for Development

- Firewall software is at the end of its life. No plan for its replacement has yet been created.
- The regular exercise to identify and remove any unused rules has not been carried out since June 2019 and no action has been taken to treat the low-risk vulnerabilities identified by the last IT Health Checks.

Prospects for Improvement

- Adequate resources were in place for the management and monitoring of the firewalls.
- All staff interviewed were eager to further increase the security and resilience of the network perimeter equipment.

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	1	1	0

D2 CA05-2021 - Data Security and Protection Toolkit Compliance Review

Audit Opinion	Substantial
Prospects for Improvement	Good

There is a clear submission framework which details roles and responsibilities, timetable, allocation of assertions to 'owners', process for gathering the evidence, guidance to complete the toolkit and governance arrangements.

Internal Audit found that for the 10 sub-assertions tested in detail, the quality of evidence provided to support the Council's submission and self-assessed rating was generally good and up to date. An assessment of the rating for these sub-assertions is attached in Appendix C to this report.

Key Strengths

- The SIRO and Deputy SIRO are responsible for the submission of the DSP Toolkit 2020/21
- This is an approved submission framework which enables the assignment of roles and responsibility (with deadlines) to assertion owners
- An on-going assertion evidence update regime is in place, to ensure the relevance of the evidence held during the year
- Dedicated support staff administer the Toolkit, including archiving of the MS Teams tool and SharePoint DSP Toolkit information
- The support team adapted quickly to late changes in requirements by NHS Digital – including changes to some assertions.
- There is strong communication between all staff involved. Tools such as MS Teams and Sharepoint are used effectively to evidence updates and respond to queries.
- Testing of a sample of 10 sub-assertions found that generally the evidence available was up to date and sufficient. There was only one where Internal Audit considered that the information provided could be enhanced (see Areas for Development below).

Areas for Development

- Testing of a sample of 10 sub-assertions identified one area which could be further enhanced to support the toolkit requirements:
 - Sub-Assertion 7.2.1 - The response to this assertion did not make reference to the server room incident on 30th January 2021, with a further outage on the 1st February 2021, which acted as a 'real life' test of data and cyber security aspects of the business continuity plan.

Prospects for Improvement

- The Council has a good track record of completing previous submissions of the toolkit in line with the deadlines set by NHS Digital.
- The approved submission framework is reviewed annually to incorporate and reflect changes prescribed by NHS Digital
- The administration of management of the DSP Toolkit submission (using Microsoft Teams linked to a SharePoint site) has been improved year-on-year.
- A formal review of evidence by the SIRO and Deputy SIRO is planned before final submission of the DSP Toolkit in June 2021.
- If an assertion is not fully completed, the Council has the opportunity to provide an Improvement Plan to address these areas, which will be assessed by NHS Digital.
- There is an ongoing process to ensure that the evidence held remains current and relevant.

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

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By: James Flannery – Counter Fraud Manager
To: Governance and Audit Committee – 23rd April 2021
Subject: **COUNTER FRAUD UPDATE**
Classification: Unrestricted

Summary:

This report details:

- The Counter Fraud activity undertaken for period April 2020 to December 2020, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for 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 & 3 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 3 of 2020/21, there were 89 reported financial irregularities (trend analysis shown in tables below) reported to the Counter Fraud Team. This brings the total of reported financial irregularities to 223 for the period April 2020 to December 2020. 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 & 3 of 2020/21 was £44,541, with prevented fraud losses for at was £463,707.00. Prevented fraud losses will fluctuate depending on the nature of cases referred.

Direct Payments

- 1.4 There have been a further 15 cases referred in Quarter 3 of 2020/21 bringing the total number of referrals to 30 for 2020/21. Compared to a total of 15 cases for 2019/20, the nature of these referrals are 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.

Blue Badges

- 1.5 Referrals for Blue Badge misuse for Quarter 3 have increased to 55 (47 in Q2) bringing the total number of referrals for 2020/21 to 107. This compares to 176 referrals in 2018/19 and 277 referrals in 2019/2020. Engagement with parking managers continues through virtual meetings to

manage the situation of enforcement during this lock down period and the planning for enforcement activity when non-essential business open in a Covid safe way.

- 1.6 The Counter Fraud Team progressed a blue badge prosecution during quarter 3. A press release was issued to help raise awareness and act as a deterrent to others via KCC's press office, it was also reported on a local news website.
- 1.7 The defendant, who used their deceased mothers' blue badge was caught by Civil Enforcement Officers on two occasions in different locations in Kent. They admitted the offences of using the badge at interview and pleaded guilty at the first hearing. They were sentenced to 40hrs community service, £1,000 court costs and £90 victim surcharge.
- 1.8 This demonstrated that the Magistrates Bench took the matter seriously by imposing that level of community service (they also took a third off the sentence for the early guilty plea). We also received a contribution to the overall costs of the investigation and prosecution to alleviate the cost from the Council Tax payer.

Fraud by Abuse of Position

- 1.9 The Counter Fraud Team also progressed a prosecution for abuse of position by a school finance manager. The case was also reported via KCC's press office and on a local news website.
- 1.10 The case was an abuse of the school's purchase card that the defendant was issued with. We identified a number of control weakness within the purchase card process that the finance manager had set up which created the opportunity for this abuse to occur. The case was complex, in that the investigating officer needed to obtain admissible evidence from a number of national and international retail providers in order to prove the offence.
- 1.11 In addition to the criminal investigation, the investigating officer also progressed a disciplinary and civil investigation. This resulted in the defendant being dismissed for gross misconduct and full recovery of the £15,065 of personal purchases back to the school.
- 1.12 The defendant received 180 days in prison suspended for two years, 30 days rehabilitation with the probation service and ordered to pay £500 costs and £115 surcharge. Again a third was taken of the sentence for the early guilty plea.

National Fraud Initiative (NFI)

- 1.13 The biennial NFI results have been released for progression. This initiative sees data sets from KCC matched against other data sets held by other local authorities, DWP and police data. A full list of data sets and the number of referrals is shown in **Appendix B**.
- 1.14 In summary, the highest volume of matches relate to concessionary travel passes (4852) & blue badges (3146) matched against DWP deceased data. These matches are cleared through an automated process by the software providers and results in the concessionary travel pass and blue badge being cancelled on the system. For concessionary travel passes this will prevent the pass being accepted when someone uses it on a bus. For Blue Badges this feeds into the 'Manage' system that Civil Enforcement Officers use to check the validity of a badge.
- 1.15 The other matches need to be cleared on a case by case; the matches cover further blue badge cases where the person has two badges from differing issuing authorities. Pensions data to prevent and detect people claiming a pension entitlement they are not entitled to. Payroll matches are done to prevent and detect people who may have two or more substantial job roles. There is also a match against the Police's 'Amberhill' data that detects any false identities used in obtaining blue badges and/ or concessionary fares.

1.16 Social Care data has been excluded from the data sets this round, this is due to the Department for Health and Social Care and the Cabinet Office reviewing the use of social care data within the NFI against the Department for Health and Social Care’s responsibilities on patient data.

Fraud and Irregularity Trends

1.17 The tables below show trends in reported fraud and irregularities:

Table CF1 - Top Seven areas of reported fraud and irregularities over the past 2.75 years

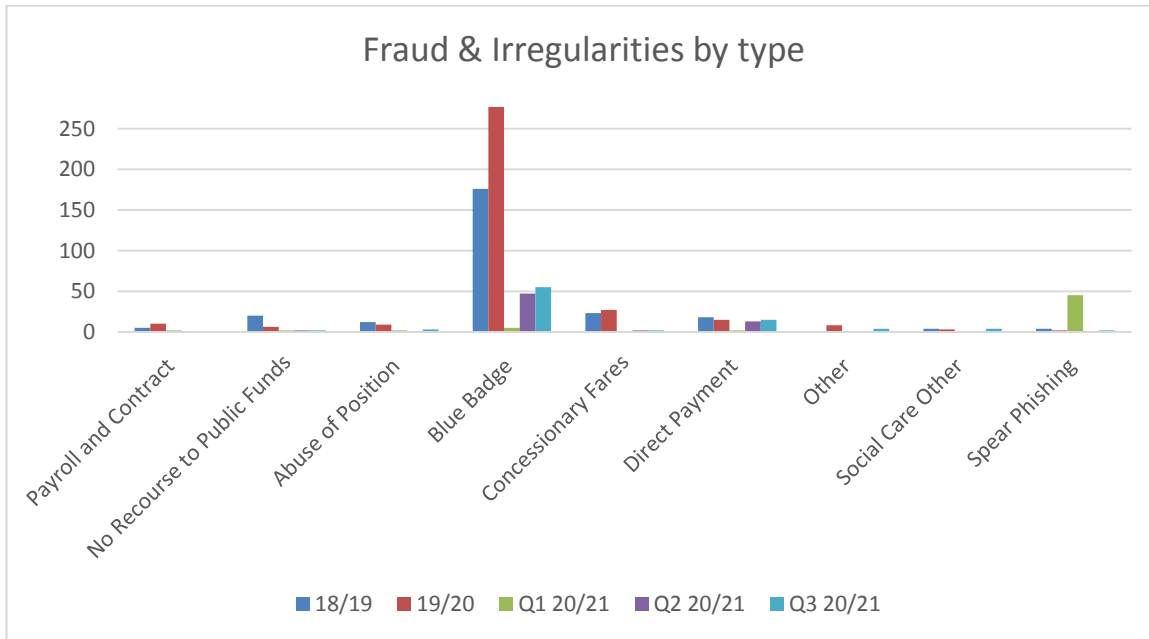


Table CF2 – Number of Irregularities Reported by Month

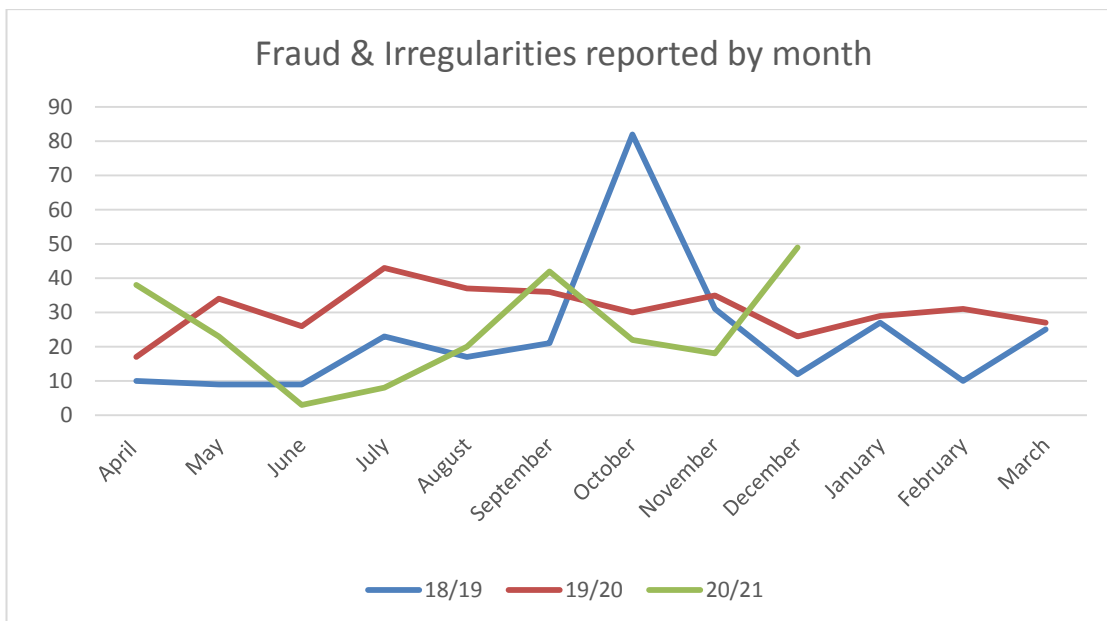
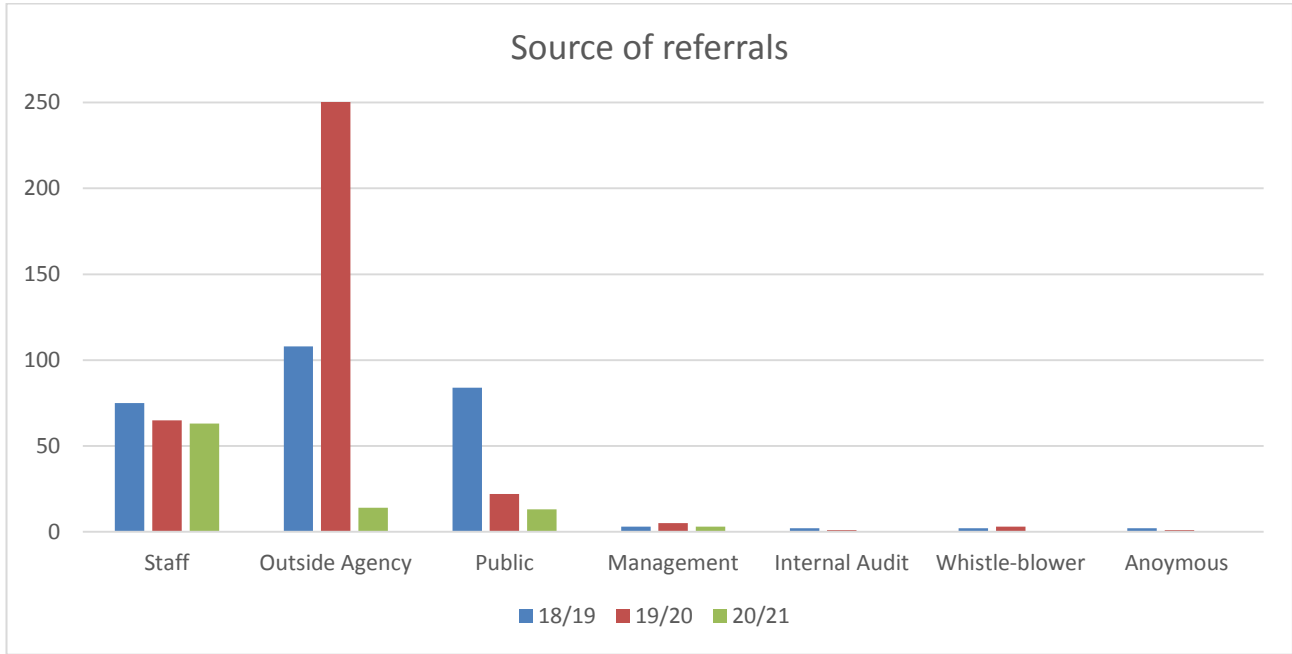
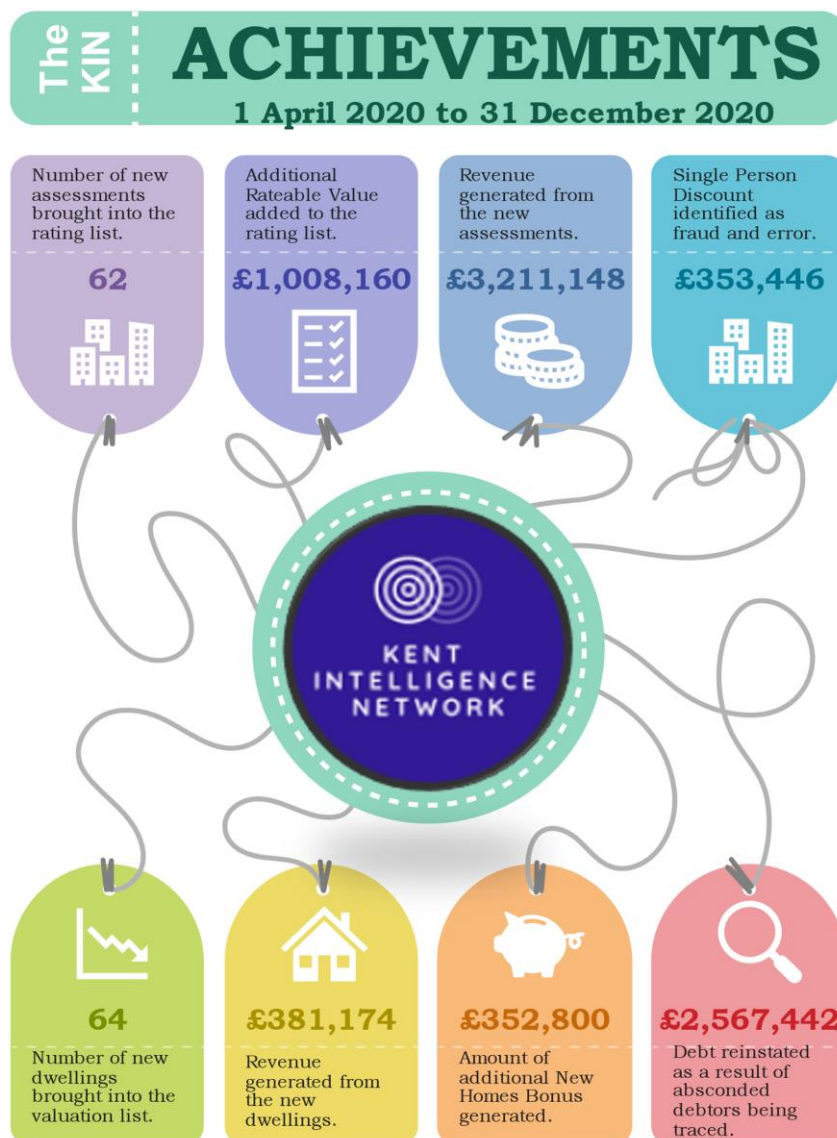


Table CF3 – Referrals by Source



Kent Intelligence Network (KIN)

1.18 The KIN continues to provide support to the District/Borough Councils and the outcomes at the end of Q3, set out below, show some impressive financial returns in the first 9 months of this financial year.



1.19 62 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.

1.20 The additional business rates revenue generated from the identification of these missing properties is £3,211,148, of which broadly 9% comes to KCC, and is a combination of the following:

- The total amount of business rates billed for both the current financial year and previous financial years of £1,680,073; and
 - A 'future loss prevention' provision of 3 years of £1,531,075. This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.
- 1.21 It is also pertinent to highlight that at 31st December 2020, there were a further 33 cases with the Valuation Agency awaiting assessment/valuation.
- 1.22 The KIN has also expanded its remit in 2020/21 and is now starting to identify dwellings missing from the valuation list. So far, 64 dwellings have been identified, the majority of which are self-contained annexes missing from the list.
- 1.23 The additional council tax revenue generated from the identification of these properties is £381,174, of which broadly 73% 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 £115,866; and
 - A 'future loss prevention' provision of 3 years of £265,308. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.
- 1.24 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 64 dwellings identified will generate £352,800 in additional NHB, of which 20% will come to KCC.
- 1.25 It is also pertinent to highlight that at 31st December 2020, there were a further 30 cases with the Valuation Agency awaiting assessment.
- 1.26 In total, the financial benefit to KCC from the initiatives and successes detailed above amounts to £637,820.
- 1.27 The financial returns continue to demonstrate the value of the KIN and as a result, District/Borough 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.
- 1.28 The total amount to be billed to districts at the end of December 2020 is £125,915. 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.
- 1.29 The KIN is also gaining national recognition for the work it is doing. Having already won the ALARM Risk Award for Best Initiative in Combatting Fraud in 2019, the KIN has also been successful in the national awards detailed below:

- Fighting Fraud & Corruption Locally 2020 in the category of Outstanding Proactive Fraud Prevention and Recovery Award (Highly Commended)
- Public Finance Awards 2020 in the category of Outstanding Proactive Fraud Detection and Recovery Awards (Finalist), and
- Credit & Collections Technology Awards 2020 in the category of Best Use of Technology in Credit & Collections, in partnership with Destin Solutions (Finalist).

Counter Fraud Pro-Active Work

1.30 The Counter Fraud Pro-Active Work delivered for 2020/21 includes:

- Supporting the review of Financial Regulations
- Delivering fraud awareness to The Education People's Schools' Financial Service
- Delivering fraud awareness to Kent Schools' Finance Information Group
- Working with Kent Councils' Parking Managers

1.31 Feedback has been provided by Counter Fraud as part of the review of Financial Regulations, this has included a number of enhancements to strengthen the counter fraud culture across the authority.

1.32 Fraud awareness has been delivered to 20+ Schools' Financial Services staff on fraud risks and red flags to support them in their compliance work across Kent maintained schools.

1.33 Counter Fraud have also delivered fraud awareness to over 250 staff who work within Kent schools, including academies.

1.34 Counter Fraud continue to work with Kent Councils' Parking Managers on progressing blue badge enforcement. Due to the working environment over the past 12 months, it has not been possible to work alongside district and borough councils in blue badge enforcement. However, this is being addressed through virtual training sessions as well as joint enforcement days in 2021/22.

Government Counter Fraud Profession (GCFP)

1.35 Counter Fraud are pleased to report that the Government Counter Fraud Professional Board have authorised the 'grandfather' of Kent County Council Counter Fraud Specialists into the profession.

1.36 The Governments Counter Fraud Profession has been introduced by the Cabinet Office and was launched in October 2018 to develop a common structure for developing counter fraud capability across government. It now has 7,000 members across 33 organisations including HMRC, the DWP and Serious Fraud Office.

1.37 The Counter Fraud Team, who have worked alongside other local authorities in the South of England to form a collective application now need to complete a peer review of the learning and development in place that supports officers' professional development.

1.38 A further application is being made to 'grandfather' Counter Fraud Managers into the profession and there should be an update on this in the next report.

Counter Fraud Resources

1.39 We were unsuccessful in filling the vacant apprentice position during a recent recruitment process, we will in due course go back out to the market, however due to the reduction in blue badge referrals we are currently managing the workload within the current staffing structure.

Counter Fraud Action Plan 2020/21

1.40 The Counter Fraud Action Plan has almost been completed for 2020/21. One area of activity that will be deferred into 2021/22 will be the data analytics in purchase cards. This will enable the Counter Fraud Team to include maintained school's purchase card data into the data analytics moving forward. Details of the activity against the action plan can be found in **Appendix A**.

Conclusions

1.41 The Counter Fraud Action plan is being progressed, with some delay due to the new ways of working. 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 new initiatives to respond to the pandemic.

Recommendations

1.42 The Governance and Audit Committee note the Counter Fraud Update report for 2020/21.

James Flannery, Counter Fraud Manager

Internal.audit@kent.gov.uk

Mar 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 2020-21 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. 235 Fraud E-Learning Courses completed Fraud Awareness to 250+ School Finance Officers Fraud Awareness to Schools' Financial Services
CF02 – 2021	NFI	Co-ordinate the Council's and its LATCO's participation in the National Fraud Initiative	Data extraction and upload completed Results received in Jan/ Feb 2021 Results received included in progress report
CF03 – 2021	Review Policies & Procedures <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 & Infrastructure 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	Completed
CF07 2021	Proactive Fraud Exercise - Blue Badges	Provide regular attendance at the parking managers' meetings to inform them of latest guidance, what's working well and what needs improving. Provide enforcement awareness sessions to district CEOs.	Virtual meetings attended, CEO enforcement training deferred to 21/22.
CF08 2021	Proactive Fraud Exercise - Social Care	Review the Financial Abuse Toolkit to support Social Care in identifying and managing financial abuse.	Completed.
CF09 2021	Proactive Fraud Exercise - Commissioning	Work with Commissioning in the 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 256 cleared referrals and investigation in Q1, Q2 & Q3
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. NFI Creditor data due in May 2021 due to technical issues on the upload of data.

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.	Deferred to 2021/22 to incorporate school purchase card data as well.
CF13 – 2021	Covid-19 Fraud Risk Assessments	To update 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 Training provided to Internal Audit on fraud risks and controls in Q3

Appendix B – NFI Data Matches	
Match description	Number of referrals
<p>Pensions/Pension Gratuity to DWP Deceased</p> <p>The purpose of the match is to identify instances where an occupational pensioner has died but the pension is still being paid</p>	271
<p>Deferred Pensions to DWP Deceased</p> <p>The purpose of the match is to identify instances where the former employee has passed away but payment of any widow/dependant entitlement may not have commenced</p>	59
<p>Pensions to Payroll – Matched between KCC pensions data and KCC payroll data</p> <p>To identify pensioners who may have gone back into employment that could result in an abatement of their pension. Generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement.</p>	364
<p>Pensions to Payroll – Matched between KCC pensions data and other public sector bodies payroll data</p> <p>To identify pensioners who may have gone back into employment that could result in an abatement of their pension. Generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement.</p>	310
<p>Payroll to Payroll – Matched between KCC payroll data and KCC payroll data</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	28
<p>Payroll to Payroll – Matched between KCC data and other public sector bodies</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	85
<p>Payroll to payroll phone number – Matched between KCC data and KCC data</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term</p>	4

<p>sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	
<p>Payroll to payroll email address – Matched between KCC data and KCC data</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	1
<p>Payroll to payroll phone Number - Matched between KCC data and other public sector bodies</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	10
<p>Payroll to pensions - Matched between KCC payroll data and other public sector bodies pensions data</p> <p>To identify cases where employees who have gone back into employment after drawing a pension that could result in an abatement of pension.</p>	15
<p>Blue Badge to Blue Badge permit – Matched between KCC data and KCC data</p> <p>The purpose of this match is to identify people who may have committed fraud by obtaining more than one blue badge.</p>	46
<p>Blue Badge Parking Permit to DWP Deceased</p> <p>Individuals who have a blue badge have been matched to deceased records. This will identify cases where a permit holder has died, but the local authority may not have been notified.</p>	3146
<p>Concessionary Travel Passes to DWP Deceased</p> <p>Individuals who have a concessionary travel pass have been matched to deceased records. This will identify cases where a permit holder has died, but the local authority may not have been notified.</p>	4852
<p>Blue Badge to Blue Badge – Matching phone number – Matched KCC Blue Badge data to KCC Blue Badge data</p> <p>The purpose of this match is to identify people who may have committed fraud by</p>	124

obtaining more than one blue badge.	
BB permit to BB permit phone number - Matching phone number – Matched KCC Blue Badge data to other public bodies Blue Badge data The purpose of this match is to identify people who may have committed fraud by obtaining more than one blue badge.	345
Blue Badge to Amberhill Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities. The NFI uses the Metropolitan Police Fraudulent Identity (Amberhill) Data to help identify potential fraud being perpetrated against NFI participating bodies through the use of these false identities including fraud by false representation (Section 2 - Fraud Act 2006).	1
BB to Amberhill Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities. The NFI uses the Metropolitan Police Fraudulent Identity (Amberhill) Data to help identify potential fraud being perpetrated against NFI participating bodies through the use of these false identities including fraud by false representation (Section 2 - Fraud Act 2006).	1
Concessionary Fares to Amberhill Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities. The NFI uses the Metropolitan Police Fraudulent Identity (Amberhill) Data to help identify potential fraud being perpetrated against NFI participating bodies through the use of these false identities including fraud by false representation (Section 2 - Fraud Act 2006).	1

By: Benjamin Watts – General Counsel
To: Governance and Audit Committee – 23 April 2021
Subject: **External Audit Progress Report and Sector Update**
Classification: Unrestricted

Summary: This report from the External Auditors, Grant Thornton UK LLP is presented to the Committee for its consideration.

FOR ASSURANCE

Recommendations

- Members of the Governance and Audit Committee are asked to note the current progress on external audit work for assurance.

Andrew Tait
Senior Democratic Services Officer
03000 416749

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Audit Progress Report and Sector Update

Year ending 31 March 2021

14 April 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Your key Grant Thornton team members are:



Paul Dossett

Key Audit Partner

T 020 7728 3180

E Paul.Dossett@uk.gt.com



Parris Williams

Senior Manager

T 020 7383 5100

E Parris.Williams@uk.gt.com

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 Parris.

Progress at April 2021

2020/21 Financial Statements Audit

We have undertaken our initial planning for the 2020/21 audit of the Council and the Pension Fund in March – April 2021. We expect to begin our work on your draft financial statements in July .

Our interim fieldwork included:

- Updating our understanding of the Council’s and Pension Fund’s control environment
- Updating our understanding of financial systems
- Review of Internal Audit reports
- Understanding how both entities makes material estimates for their financial statements
- Early work on emerging accounting issues
- Initiating our detailed IT review of the new financial system.

The detailed audit plan for Council, Group and the Pension Fund, setting out our proposed approach to the audits the 2020/21 financial statements is attached as a separate items to this agenda.

We will report our work in the respective Audit Findings Reports and currently aim to give our opinion on both Statement of Accounts in October 2021.

2020/21 Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and will make more impact.

Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Further details are provided in slides 9-11.

2019/20 Audit

We will complete the certification of the audit for 2019/20 following completion of the audit of the Whole of Government Accounts return. This work is nearing completion and expect to issue the certificate by the end of the month.

Progress at April 2021 (cont.)

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 certificate work for 2018/19 and the 2019/20 claim is going.

Meetings

In March we met with your Chief Finance Officer in March as part of our regular liaison meetings. At this meeting we discussed a range of topics including the outturn for 2020/21, the budget for 2021/22, the medium term financial plan and strategic risks.

In March, we also met with your Head of Paid services and discussed the challenges of the past year and how the Council, alongside its partners responded to it.

We also continue to meet and be in regular correspondence with Finance Officers at both the Council and the Pension Fund. There has been good engagement between us and your finance teams during the interim audit enabling us to complete work planned.

We continue to liaise on key audit matters such as estimates and in particular, the key estimates attributed to the valuation of property, plant and equipment and pensions.

Financial Reporting Council review of the 2019/20 audit

As part of their annual programme of work, the Financial Reporting Council (FRC) selected the 2019-20 audit of Kent County Council and the Pension Fund for review. This review is currently ongoing and we will share with you their findings at the next Governance and Audit Committee.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were 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 Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 408 264 437">Audit Plan</p> <p data-bbox="120 456 1391 560">We are required to issue a detailed audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	April 2021	Complete
<p data-bbox="120 584 546 612">Audit Findings Report (ISA 260)</p> <p data-bbox="120 632 1312 660">The Audit Findings Report will be reported to the October Governance and Audit Committee.</p>	October 2021	Not yet due
<p data-bbox="120 700 338 729">Auditors Report</p> <p data-bbox="120 748 1189 777">This is the opinion on your financial statements and annual governance statement.</p>	October 2021	Not yet due
<p data-bbox="120 817 450 845">Auditor's Annual Report</p> <p data-bbox="120 865 1391 963">The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The AAR will be taken to the October Joint Governance and Audit Committee.</p>	October 2021	Not yet due

Sector Update

Authorities 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.

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

Lessons from recent Public Interest Reports – Grant Thornton

2020 will be remembered as a tumultuous year in local government. The Covid-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

1 Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.

2 Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

3 Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.

4 Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The Public Interest Reports (PIRs) at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) were the first issued since 2016. All three are clear illustrations of some of the local government issues identified above. The audit reports are

comprehensive and wide-ranging and a lesson for all local authorities. There are some quotes that seem particularly apposite for all councils to consider. Local authorities have a variety of different governance models which range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other councils, it is less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1 The context of local government in a Covid-19 world
- 2 Governance, scrutiny, and culture
- 3 Council leadership

[Lessons from Public Interest Reports \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)



The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

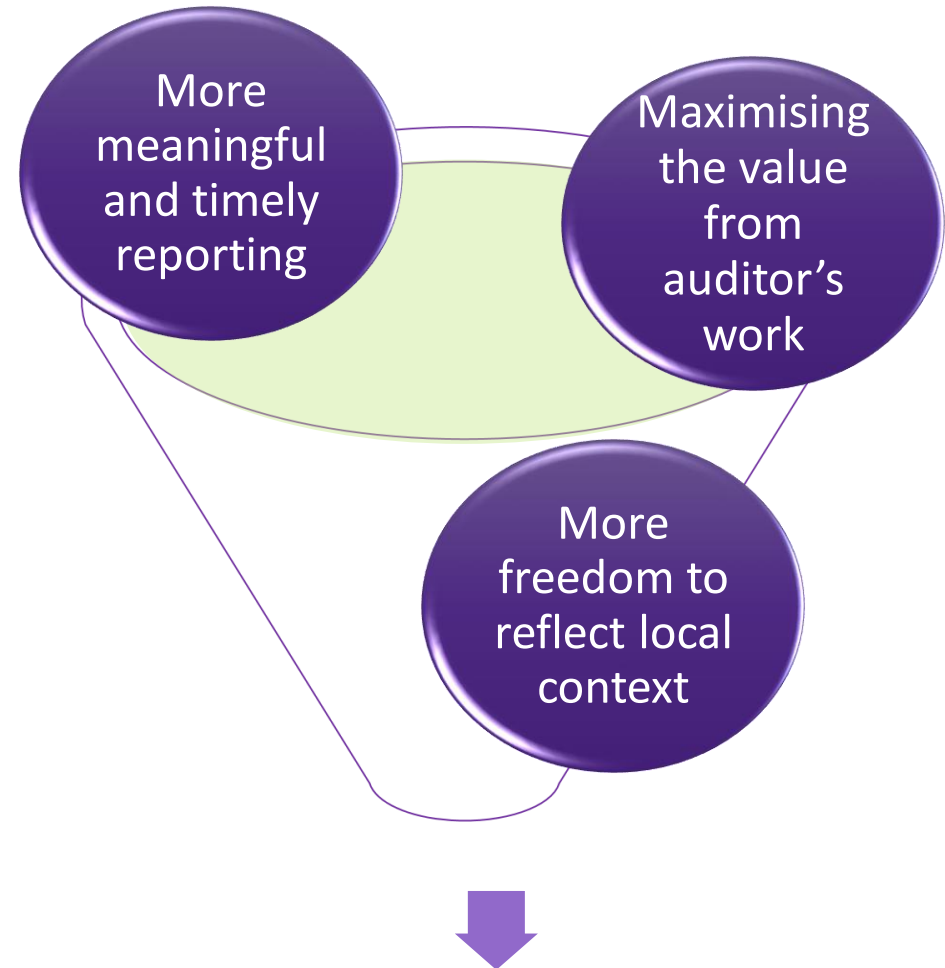
The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that 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 should 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.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:



Local government finance in the pandemic – National Audit Office

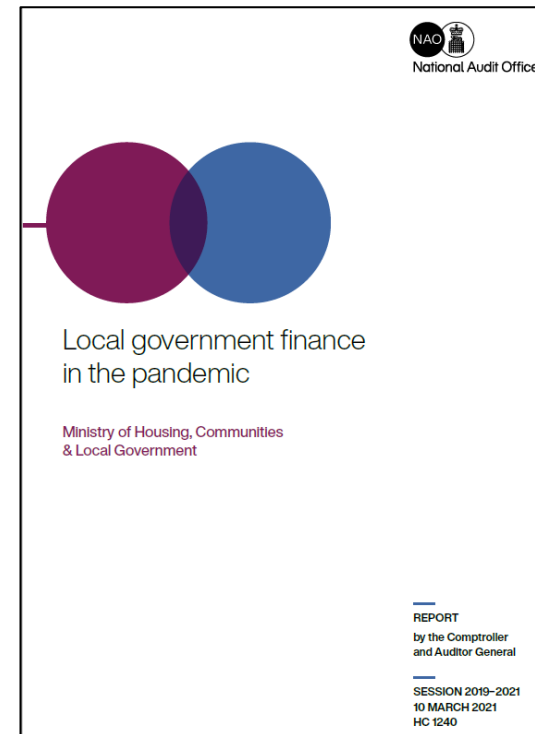
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five to seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>



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By: Benjamin Watts – General Counsel
To: Governance and Audit Committee – 23 April 2021
Subject: **External Audit Plan for Kent County Council**
Classification: Unrestricted

Summary: This report from the External Auditors, Grant Thornton UK LLP is presented to the Committee for its consideration.

FOR DECISION

Recommendations

- Members of the Governance and Audit Committee are asked to approve the audit plan for Kent County Council 2020/21.

Andrew Tait
Senior Democratic Services Officer
03000 416749

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Kent County Council Audit Plan

Year ending 31 March 2021

April 2021
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Your key Grant Thornton team members are:

Paul Dossett

Key Audit Partner

T 020 7728 3180

E Paul.Dossett@uk.gt.com

Parris Williams

Senior Manager

T 020 7728 2542

E Parris.Williams@uk.gt.com

Harpaul Lachhar

Assistant Manager

T 020 7865 2935

E Harpaul.S.Lachhar@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Vision and Strategy

In December 2020, the Council published its Interim Strategic Plan setting out the key priorities for the next 18 months. This, however, was not the original plan. In March 2020, following months of development, the Council was poised to adopt 'Kent's Future – Our Priority' a five-year plan. Sadly, due to the significant impact of the coronavirus pandemic, the Council took the decision to pause and take stock. It recognised that it needed to be agile and respond to the immediate crisis whilst also taking the necessary time to understand the longer term ramifications of the pandemic so that it may plan accordingly. This therefore gave birth to the 18-month strategic plan. Development of a new 5 year plan is due to start later in 2021.

The Interim Strategic Plan sets out the five main challenges the Council believes it is facing over the next 18 months, and what it plans to do to address them:

- ❖ Financial Challenge – addressing the significant budget gap
- ❖ Economic Challenge – support growth and investment during the current and predicted economic downturn
- ❖ Demand Challenge – KCC has an aging demographic increasing demand in several services lines
- ❖ Partnership Challenge – building stronger relationships with partners that endure post pandemic to improve efficiency
- ❖ Environment Challenge – tackling the climate emergency

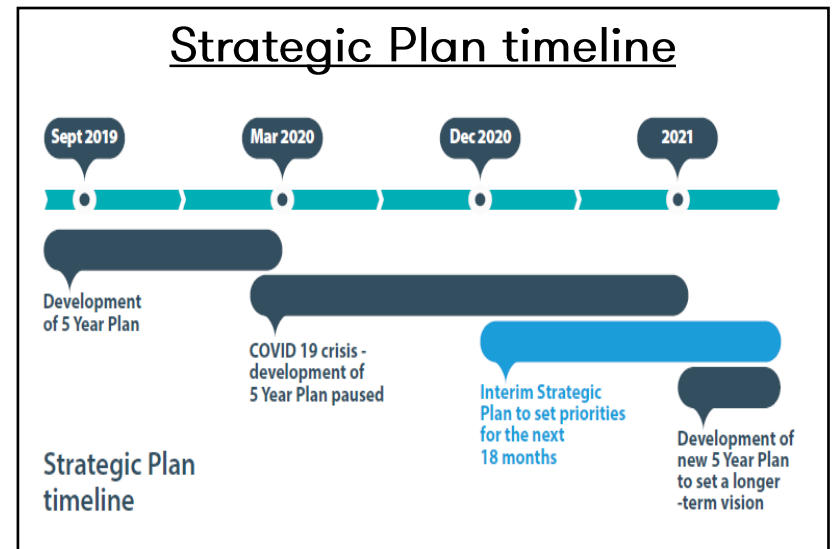
The Interim Strategic Plan is taken forward in two ways. The first is through the Strategic Rest Programme (SRP). The SRP is the drawing together of a number of significant change projects across the Council with the aim of delivering efficiencies, improving service delivery and reducing costs. The second is the Divisional and Service Business Plans. This is where actions not included in the SRP will be taken forward. The monitoring of the Interim Strategic Plan will be carried out through the business as usual governance.

Our response

- As part of our Value for Money work, we will consider your governance arrangements to effectively monitor, scrutinise and the extent of oversight with regards to the delivery of the Interim Strategic plan and the development of a new five year plan which factors in longer term impacts of the pandemic

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Strategic Plan timeline



Key matters cont.

Factors

Finances

The Council's financial position over the coming years is challenging. This was already the case before the Covid-19 pandemic with growth pressures in demand led services, changing economic conditions and a much greater reliance on income generated locally. The pandemic has resulted in additional spending pressures and a hit to the Council's income streams. In the short term the government is providing financial support to meet some of these pressures, but there is little certainty as to how long this funding will continue. The 2020-21 forecast position on the revenue budget as at 31 January 2021 shows an underspend of £25.8m. This is split £14m on baseline directorate budgets and £11.8m on the Covid-19, a budget of £72.2m held corporately but for the use by directorates. Management have stressed that the £14m underspend on baseline directorate spending is not an indication for future spending level nor is it evidence of recurring savings. Whilst the underspend is encouraging, it is primarily caused by Covid-19 and does not fully capture the continued impact of the third lockdown. The school's delegated budget continues to have the highest non Covid-19 overspend (£34.8m) as a result of high demand and high cost per child of High Needs Placements.

The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed. The Fair Funding Review and Business Rate Retention consultations are now due to conclude in 2022/23 at the earliest. In uncertain times, the Medium-Term outlook is based on a number of potential scenarios. In the central case (not necessarily the most likely) the anticipated budget shortfall over the years 2022/23 to 2023/24 is circa £78m. This rises to £175m in the downside scenario. Whilst the level of available revenue reserves is reasonable compared to KCC's nearest neighbours, the prospect of a £175m budget gap would have a significant impact on the Council's financial sustainability.

The Council has closed the budget gap for 2021/22 and is proposing a balanced budget. There are however risks to delivering the balanced budget as it assumes the delivery of £9m of Transformation Savings, £5m of additional income and £10m of efficiencies primarily from procurement. Furthermore, the budget also requires the net one-off use of revenue reserves of £11m and includes the maximum uplift in Council Tax of 4.99%, with the 3% increase for Social Care precept. In our view the Council has demonstrated good practice in that KCC is crystal clear that Government funding assumptions both now and in future are underpinned by all councils taking advantage of the maximum tax rises permitted without a referendum.

In your Interim Strategic Plan, the Council set out four key actions to address issues of financial sustainability:

- ❖ Use evidence and resident feedback to take difficult decisions to find the necessary savings for the 2021/22 budget, while maintaining a longer-term view on our priorities and ambitions for the county. These will be developed in our new 5 Year Plan during 2021 in consultation with residents.
- ❖ Over the medium-term, deliver the Strategic Reset Programme to improve our efficiency and the quality of experience for service users, residents and staff.
- ❖ Learn from other Local Authorities where the spend is lower and they achieve similar outcomes to Kent.
- ❖ Review our capital strategy and deliver a sustainable 10-year capital programme that reflects our strategic priorities, so we invest in the right infrastructure for the future, including highways, economic development and technology.

Our response

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
- We will consider your arrangements for the effective use of data to make informed business decisions as part of our audit in completing of Value for Money work

Key matters cont.

Factors

Transformation and Innovation:

The arrangements to enable the Council to change and adapt are critical to its long-term effectiveness. The pace of change has never been this fast and yet it will never be this slow again. Change is no longer a one-off event but rather it is a core part of business as usual.

The Council is planning to invest over £1bn over the next three years as part of its capital strategy. Much of this business as usual spend to maintain existing services but the Council has identified amounts to invest to deliver long term savings and to deliver a better service to its residents. The arrangements to identify, monitor, report and deliver both financial and non-financial benefits is fundamental to ensuring the Council achieves Value for Money.

Within the Strategic Delivery Plan, (2020-2023), the Council identified a cross-cutting priority entitled 'Modernising the council'. This focuses on business critical activities to transform the Council's property, technology, resident engagement and workforce. Work continues in this area and management are adapting existing projects to take account of the impact of Covid-19.

Change does not just happen at the strategic level via large scale transformation. Innovation, the ability to change or adapt or improve business processes at the local level is fundamental too. Covid-19 has been a catalyst for innovation across all businesses and sectors; as a Council, your staff have found new ways of delivering their service, often digitally enabled. You have put in place arrangements to empower, support and guide this innovation during the pandemic. As the economy moves towards recovery, understanding and deciding which new processes or ways of doing things you wish to 'Adopt, Adapt or Abandon' will enable you to realise the benefits, and reduce any disbenefits, arising from the pandemic.

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has managed to keep critical services going. The Council, alongside its district partners have delivered food parcels, accommodated rough sleepers, boosted hardship funds, assisted tenants struggling to pay rents and service charges, provided further support to residents in receipt of Council Tax Support and replenished food banks.

Since the start of the pandemic, the Council has supported District Councils who have been on the front line in distributing grants to businesses in Kent to help them offset the impacts of Covid-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020, and the Local Restrictions Support Scheme which was introduced with the tier system in late autumn 2020. The Districts have also delivered the 2020/21 business rates holidays promised by the government.

The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.

Our response

- We will consider the Council's arrangements for service transformation, innovation and cultural change as part of our audit in completing of Value for Money work
- We will consider the Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic as part of our audit in completing of Value for Money work

Key matters cont.

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

During 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) 510 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's private equity, private debt and infrastructure and property investments which impacted both the Council's and Pension Fund position. We will monitor the position for the 31 March 2021 valuations.

Woodford:

In our 2019-20 Value for Money work for Kent County Council, we noted the relative lack of progress [at the time] the Council had made in relation to responding to the findings Internal Audit identified as part of their review of the Governance of the Pension fund initiated following the gating of the Woodford fund. Covid-19 was cited as contributing to the delay and so as part of our 2020-21 Value for Money work we will be updating our understanding of progress to date. Although the loss incurred from the Woodford fund is not significant in the context of overall scheme assets, it remains an area of focus for our Value for Money work for the main Council in the context of governance, decision making, use of experts and culture.

Our response

- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice

- We will consider the Council's governance arrangements, including a consideration of the implementation of findings from Internal Audit into the Pension fund governance arrangements as part of the main Council's audit in completing of Value for Money work

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent County Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Kent Holdco Ltd
- EDESCO Ltd
- Kent County Trading Ltd
- Cantium Business Solutions Ltd
- GEN2 Property Ltd
- Invicta Law Ltd
- Commercial Services Kent Ltd
- Kent Top Tempts Ltd
- Commercial Services Trading Ltd

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk that the valuation of land and buildings in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Introduction and headlines cont.



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Materiality

Group

We have determined planning materiality to be £37m for the Group (PY £35m), which equates to approximately 1.5% of your Group prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.85m (PY £1.75m).

Council

We have determined planning materiality to be £36m for the Council (PY 34m), which equates to approximately 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.8m (PY £1.7m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following areas of focus:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements to produce, monitor and ensure delivery of the Strategic Plan
- The Council's governance arrangements including a focus on the Council's response to findings in relation to Woodford
- The Council's arrangements for service transformation, innovation and cultural change.
- The Council's arrangements for the effective use of data to make informed business decisions
- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.

Audit logistics

Our interim visit took place in March 2021 and our final visit will take place in June – September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £191,432 (PY: £173,712) for the Council, subject to the Council delivering a good set of financial statements and working papers. This fee is also subject to agreement with PSAA under the terms of our contract with them.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Kent County Council	Yes		<ul style="list-style-type: none"> We have detailed the risks for the audit of this entity on pages 11 to 13 	Full scope audit performed by Grant Thornton UK LLP
Commercial Services Kent Ltd	No		None	<ul style="list-style-type: none"> Audit of expenditure, carried out by the component auditor, which will then be reviewed by the group audit team.
Kent Holdco Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.

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Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Group audit scope and risk assessment cont.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
EDSCO Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Kent County Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Cantium Business Solutions Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
GEN 2 Property Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Invicta Law Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Kent Top Tempts Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Commercial Services Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.

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Key changes within the group:

- During the year the group structure changed such that all subsidiaries, with the exception of Kent County Council, are consolidated into Kent Holdco Ltd
- Bishop Fleming have now been appointed the component auditor for all subsidiaries.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council and Group	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Council and the Group's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Kent County Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for Kent County Council or the Group</p>	
Management over-ride of controls	Council and Group	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	Council and Group	<p>The Authority revalues its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assess the value of a sample of assets in relation to market rates for comparable properties.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council and Group	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,363 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test 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. • Undertake 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. • Obtain assurances from the auditor of Kent Pension Fund 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.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	Council and Group	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets.</p> <p>Having considered the risk factors relevant to Kent County Council and the Group and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 11 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 11.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Perform testing over post year end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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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?



Accounting estimates and related disclosures cont.

Additional information that will be required

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.

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
- Valuation of investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- The Council's share of the provision for business Rates Appeals
- 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. asset valuations and pensions liabilities. 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 service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 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 detail:

- **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 uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be presented at the Audit and Governance Committee as part of our Informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

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](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £37m (PY £35m) for the group and £36m (PY £34m) for the Council, which equates to 1.5% of your prior year gross revenue expenditure plus interest payable. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for Senior officer remuneration and related party transactions.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

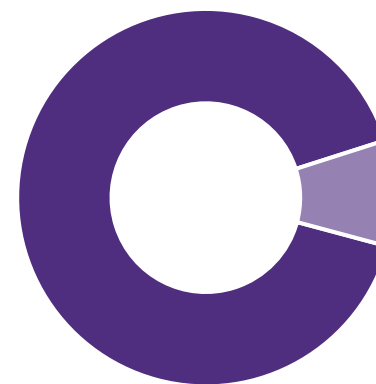
Matters we will report to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £xm (PY £xm).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£2,469m group
£2,441m Council



■ Prior year gross operating costs

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



VFM areas of focus

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements to produce, monitor and ensure delivery of the Strategic Plan
- The Council's governance arrangements including a focus on the Council's response to findings in relation to Woodford
- The Council's arrangements for service transformation, innovation and cultural change.
- The Council's arrangements for the effective use of data to make informed business decisions
- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Paul Dossett, Key Audit Partner



Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Governance and Audit Committee, the Corporate Director and the Chief Financial Officer. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Provide debtor and creditor listings that are the balances outstanding at the year end
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The Council's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- Respond promptly and adequately to audit queries.



Parris Williams, Senior Manager

Parris is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Parris will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Harpaul Lachhar, Assistant Manager

Harpaul will support Parris in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will lead the on-site virtual delivery of the team and be the first point of contact for the finance team. He will also carry out first reviews of the team's work and also oversee the review of the Whole of Government Accounts

Audit fees

PSAA awarded a contract of audit for Kent County Council to begin with effect from 2018/19. The fee agreed in the contract was £120,062. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £28,870. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been shared with the Director of Finance. All fees are subject to approval by PSAA and we would note that MHCLG agreed to provide £15m to fund the increased costs of local audit in its response to the Redmond Review in December 2019.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Kent County Council Audit	£128,862	£173,712	£191,432
Total audit fees (excluding VAT)	£128,862	£173,712	£191,432

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£120,062
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£13,500
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£4,000
Group consolidation	£4,000
Audit fee 2019/20*	£151,062
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£28,870
Increased audit requirements of revised ISAs	£11,500
Proposed increase to agreed 2019/20 fee	£40,370
Total audit fees (excluding VAT)	£191,432

*The final audit fee for 2019-20 includes £22,650 for the impact of Covid-19. This is a one-off issue and therefore is excluded from the baseline fee for 2020/21.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services cont.

Other services

Other services provided by Grant Thornton are detailed below:

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.








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Service	Fees £	Threats	Safeguards
Audit related			
Kent & Medway Active Sports Partnership (2020/21 Audit)	4,000	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 £4,000 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.
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	10,000	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 low 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.
Non-audit related			
CFO insights (Subscription ending September 2021)	12,500	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 £12,500 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.









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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By: Benjamin Watts – General Counsel
To: Governance and Audit Committee – 23 April 2021
Subject: **External Audit Plan for Kent Superannuation Fund**
Classification: Unrestricted

Summary: This report from the External Auditors, Grant Thornton UK LLP is presented to the Committee for its consideration.

FOR DECISION

Recommendations

- Members of the Governance and Audit Committee are asked to approve the audit plan for the Kent Superannuation Fund for 2021/22.

Andrew Tait
Senior Democratic Services Officer
03000 416749

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Kent County Council Superannuation Fund External Audit Plan

Year ending 31 March 2021

April 2021
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Your key Grant Thornton team members are:

Paul Dossett
 Key Audit Partner
 T (0)20 7728 3180
 E paul.dossett@uk.gt.com

Matt Dean
 Audit Manager
 T (0)20 7728 3181
 E Matt.Dean@uk.gt.com

Harpaul Lachhar
 Audit In-Charge
 T (0)20 7865 2935
 E Harpaul.S.Lachhar@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Pension Fund developments

As at 31 December 2020, the Fund's value reached a new high of £7.38bn as the Fund's equities continue to recover from the impact of the global pandemic and Brexit uncertainty. The Fund's value increased by circa 30% from the value as at 31 March 2020 (£5.7bn).

Barnett Waddingham are making progress on the review of the governance of the Pension Fund including the KCC finance support for the Fund. They are expected to complete their review during 2021-22. The Fund will need to ensure recommendations are monitored and implemented.

As at February 2021, the Fund was forecasting a small overspend on Fund management costs driven primarily through additional costs in relation to Equity Protection Consultancy. Following the approval of the 2021-22 business plan, the Fund agreed a £0.27m increase to the 2020-21 budget to meet the forecasted higher costs of KCC finance support.

Guaranteed Minimum Pension (GMP) equalisation and indexation

On 23 March 2021, the Government published the outcome to its GMP Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. The outcome is consistent with the assumptions applied by your pension fund actuary in previous years.

Exit cap legislation

On 12 February 2021 the Government announced that they would disapply the £95k exit cap legislation with immediate effect. Whilst this will have some actuarial impact on the pension fund liability, the key issue for the Fund is the administrative burden this has, and will, continue to have on the Pensions admin team.

McCloud

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. The final remedy is not expected to be published prior to the close of the 2020-21 statement of accounts.

Our response

- We will review the valuation of the Pension Fund Assets as part of our audit of the Pension Fund Accounts

Key matters

Factors

Impact of Covid 19 pandemic

The COVID 19 global pandemic is impacting how people work. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Management and those charged with governance 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 August 2021 and the date for audited financials statements to 30 September 2021.

Woodford:

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In our 2019-20 Value for Money work for Kent County Council, we noted the relative lack of progress (at the time) the Council had made in relation to responding to the findings Internal Audit identified as part of their review of the governance of the Pension fund initiated following the gating of the Woodford fund. Covid-19 was cited as contributing to the delay and so as part of our 2020-21 Value for Money work we will be updating our understanding of progress to date. Although the loss incurred from the Woodford fund is not significant in the context of overall scheme assets, it remains an area of focus for our Value for Money work for the main Council in the context of governance, decision making, use of experts and culture.

In February 2021, the FCA provided an update on their ongoing investigation into the Woodford fund:

“The investigation is being appropriately resourced and is progressing, though there has been some impact on accessing certain documents and witnesses during the pandemic”.

Our response

- As part of our testing over Direct Property level 2 investments, we will test the accuracy of rental income assumptions, with an increased focus this year on collectability in light of the potential economic impact of Covid-19.
- We will consider the Council’s governance arrangements, including a consideration of the implementation of findings from Internal Audit into the Pension fund governance arrangements as part of the main Council's audit in completing of Value for Money work

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach

The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

In the prior year the Pension Fund Valuer of direct property investments reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's private equity, private debt and infrastructure which impacted the Pension Fund position. We will monitor the position for the 31 March 2021 valuations.

Our response

- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice
- We will liaise with the Pension Fund managers to clarify any potential material uncertainties in 2020-21.
- We will continue to provide you with sector updates via our Governance and Audit Committee updates.
- We have engaged our own auditor's expert to assist us in obtaining assurances that the valuation of direct property investments in the Pension Fund is reasonable.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent County Council Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent County Council Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee).

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions (rebutted)
- Management over-ride of controls
- Valuation of level 3 investments (Quarterly revaluation)
- Valuation of directly held property (Level 2, full annual revaluation and indexed monthly)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £57m (PY £57m) for the Pension Fund, which equates to 1% of your prior year net assets as at 31 March 2020. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.85m (PY £2.85m).

Audit logistics

Our interim visit took place in March and our final visit will take place in June – September 2021. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £41,000 (PY: £37,037) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 revenue risk (rebutted)	<p>Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> ▪ there is little incentive to manipulate revenue recognition ▪ opportunities to manipulate revenue recognition are very limited ▪ the culture and ethical frameworks of local authorities, including Kent Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Kent Pension Fund.</p>	
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ evaluate the design effectiveness of management controls over journals ▪ analyse the journals listing and determine the criteria for selecting high risk unusual journals ▪ test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration ▪ gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence ▪ evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified cont.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Quarterly revaluation)	<p>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider 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 request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in asset valuation. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls. • as part of our assessment of key controls over hard to value investments, we will identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.
Valuation of Directly Held Property (Level 2 Investment) (Annual revaluation)	<p>The Fund revalues its directly held property on an annual basis, and indexed on a monthly basis with the relevant property sector index, to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at December 2020</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate 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 request year-end confirmations from investment managers and the custodian • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding/engage 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. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets.</p> <p>Having considered the risk factors relevant to Kent County Council Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 6 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 6.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Perform testing over post year end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

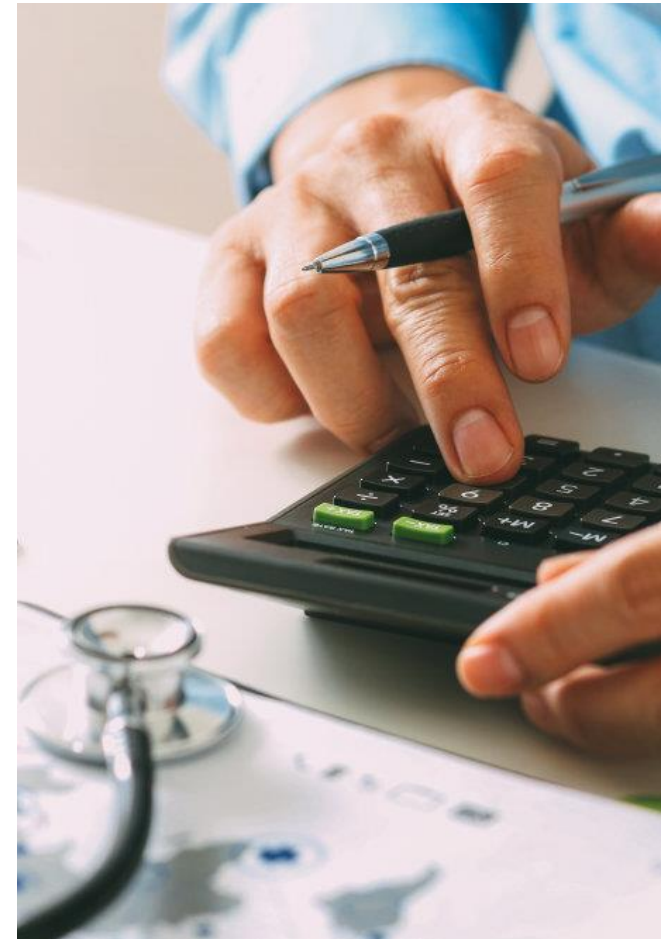
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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?



Accounting estimates and related disclosures

Additional information that will be required

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.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund'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 Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. 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 Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- Page 192
- 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 detail:

- **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 uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have sent enquiries to the management that will be presented at the Audit and Governance Committee as part of our informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

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](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

The Pension Fund is administered by Kent County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - Issuing a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £57m (PY £57m), which equates to 1% of your prior year net assets.

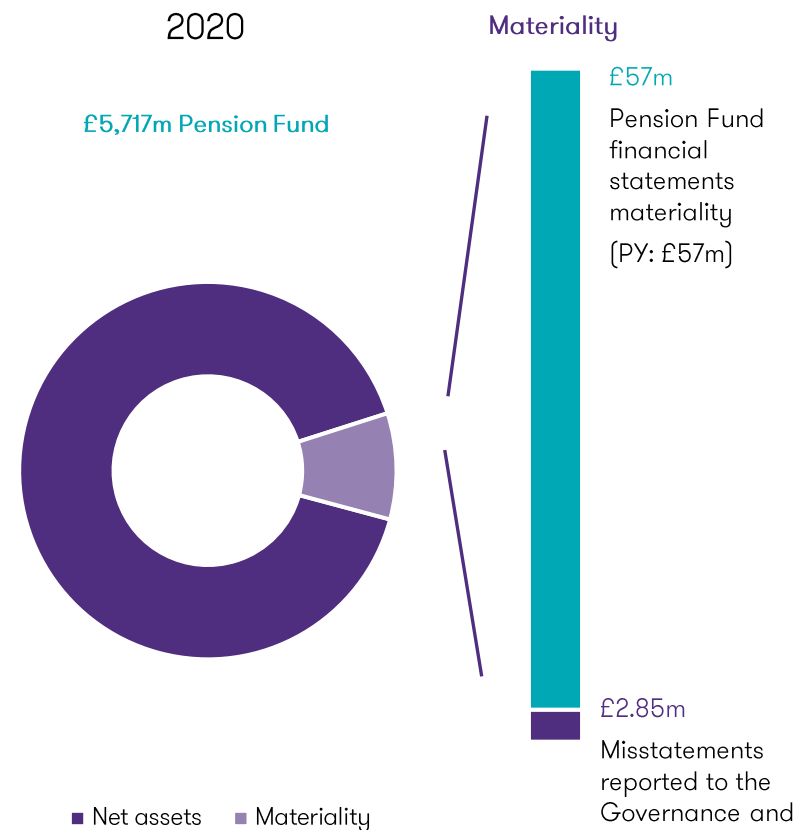
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.85m (PY £2.85m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Net assets as at 31 March 2020



Audit logistics and team



Paul Dossett, Key Audit Partner



Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Governance and Audit Committee, the Corporate Director and the Chief Financial Officer. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes and the Annual Report which is compliant with requirements.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Provide debtor and creditor listings that are the balances outstanding at the year end
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The Pension Fund's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- Respond promptly and adequately to audit queries.



Matt Dean, Senior Manager

Matt is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Parris will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Harpaul Lachhar, Assistant Manager

Harpaul will support Parris in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will lead the on-site virtual delivery of the team and be the first point of contact for the finance team. He will also carry out first reviews of the team's work.

Audit fees

PSAA awarded a contract of audit for Kent County Council Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £23,537. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for direct property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been shared with the Director of Finance. All fees are subject to approval by PSAA and we would note that MHCLG agreed to provide £15m to fund the increased costs of local audit in its response to the Redmond Review in December 2019.

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Kent County Council Pension Fund Audit	£24,337	£37,037	£41,000
Total audit fees (excluding VAT)	£24,337	£37,037	£41,000

Audit fees – detailed analysis

Scale fee published by PSAA	£23,537
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Directly held Property	£6,750
Enhanced audit procedures for Investments	£1,750
Audit fee 2019/20*	£34,537
<i>New issues for 2020/21</i>	
Increased audit requirements of revised ISAs	£6,463
Total audit fees (excluding VAT)	£41,000

*The final audit fee for 2019-20 includes £2,500 for specific work performed around the accounting of Woodford. This is a one-off issue and therefore is excluded from the baseline fee for 2020/21.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

This service is not subject to contingent fees.

Service	Description	Fees £	Threats	Safeguards
Audit related				
Provision of IAS 19 Assurances to Scheme Employer auditors	As Auditor of the pension fund we are required to provide assurance to the auditors of scheduled bodies. This is an additional requirement this year in addition to the work required to provide assurance for the pension fund financial statements. As this additional work is to support the IAS 19 for admitted bodies, the Pension Fund will need to determine whether to recharge the cost to these bodies. £3,00 fixed fee plus £550 per scheduled body letter (expected to be 18)	12,900	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 £12,900 in comparison to the total fee for the audit of £41,000 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.









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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From:	Peter Oakford, Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services
To:	Zena Cooke, Corporate Director of Finance Governance and Audit Committee – 23 April 2021
Subject:	Treasury Management quarterly update 2020-21
Classification:	Unrestricted

Summary:

This report provides a review of Treasury Management Activity 2020-21 to end February 2021

Recommendation:

Members are recommended to note this report.

FOR DECISION

1. Introduction

- 1.1 This report covers Treasury Management activity for the 11 months to 28 February 2021.
- 1.2 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. This report provides an additional quarterly update as set out in the Council's Treasury Management Strategy.
- 1.3 The Council's Treasury Management Strategy for 2020-21 was approved by full Council on 13 February 2020.
- 1.4 The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. 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. External context

- 2.1 The spread of the coronavirus pandemic and the management of the roll out of vaccines has continued to dominate during the period as countries around the world tried to contain 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. A Brexit trade deal was agreed on 24 December and passed into UK law on 30 December.

- 2.2 The Bank of England (BoE) maintained Bank Rate at 0.1% and in November extended its Quantitative Easing programme by £150 billion to £895 billion.
- 2.3 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs extended in March 2021 to September 2021, as well as grants and loans to businesses.
- 2.4 Having grown by 16% in Q3 (Jul – Sep) GDP grew by 1% in Q4 (Oct – Dec) exceeding expectations due to a surge in spending ahead of Brexit and the tighter pandemic restrictions. A steep decline in GDP was anticipated in Q1 2021 as a result of the lockdown restrictions. Construction, services and production output all rose significantly during Q3 and to a lesser extent in Q4.
- 2.5 The headline rate of UK Consumer Price Inflation (CPI) increased slightly to 0.7% year/year in January still below the Bank of England’s 2% target. This low level reflected falling energy prices earlier in 2020 combined with the effects of the pandemic on the economy.
- 2.6 In the three months to January 2021, labour market data showed the unemployment rate fell marginally to 5.0%, 1.1% higher than a year earlier. In the same period the employment rate was 75%, a 1.5% decrease on the year. The extended Coronavirus Job Retention Scheme and new Job Scheme is mitigating the impact of weaker economic activity on the labour market.
- 2.7 The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.
- 2.8 Equity markets continued to rise, with the Dow Jones climbing above its pre-crisis peak on the back of continued outperformance by a small number of technology stocks. The FTSE indices continued to perform well, with the more internationally focused FTSE 100 getting back to around 60% of its pre-March level while the more UK-focused FTSE 250 was closer to 80% of its previous peak over the same period. Central bank and government stimulus packages continue to support asset prices, but volatility remains.
- 2.9 Ultra-low interest rates continue to prevail 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 from 0.09% to 0.06% during January (with much volatility in between) and the 10-year gilt yield has also bounced around ending at 0.45% in January.

3. Local context

- 3.1 On 31 March 2020 the Council had £381m 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

3.2 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.

3.3 The treasury management position on 28 February 2021 and the change over the eleven months is shown in the following table.

	31.3.20 Balance £m	2020-21 Movement £m	28.2.21 Balance £m	28.2.21 Rate %
Long-term borrowing	883.8	-29.9	853.9	4.52
Total borrowing	883.8	-29.9	853.9	4.52
Long-term investments	157.3	+15.3	172.6	4.26
Short-term investments	137.4	+35.8	173.2	0.40
Cash and cash equivalents	86.7	-9.0	77.7	0.04
Total investments	381.4	+42.0	423.4	1.51
Net borrowing	502.6	-71.9	430.5	

4. Borrowing update

4.1 As previously reported HM Treasury published details of new PWLB lending terms in November 2020 and 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.

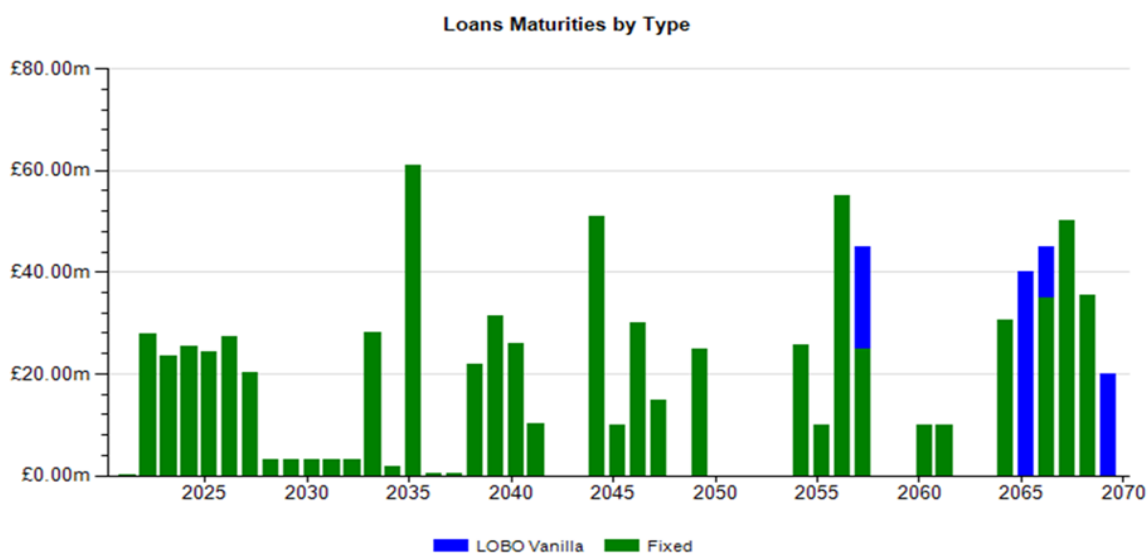
5. Borrowing Strategy during the period

5.1 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.

- 5.2 In keeping with these objectives no new borrowing was undertaken and £29.9m of existing loans were allowed to mature without replacement. On 28 February the Council had total external debt of £854m.
- 5.3 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.
- 5.4 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.
- 5.5 The Council's borrowing activity in the 11 months to 28 February 2021 is as follows.

	31.3.20	2020-21	28.2.21	28.2.21	28.2.21
	Balance	Movement	Balance	Weighted average rate	Weighted average maturity
	£m	£m	£m	%	years
Public Works Loan Board	473.28	-23.67	449.61	4.83	16.03
Banks (LOBO)	90.00	0.00	90.00	4.15	42.96
Banks (Fixed Term)	291.80	0.00	291.80	4.40	37.59
Streetlighting project	28.75	-6.18	22.57	1.30	10.28
Total Borrowing	883.83	-29.85	853.98	4.52	26.08

5.6 The maturity profile of the Council's outstanding debt is as per the following chart.



5.7 The following table shows the maturity profile of KCC debt in 5 year tranches.

Loan Principal Maturity Period	Total Loan Principal Maturing	Balance of Loan Principal Outstanding
Opening Balance 28/02/2021		£853,984,292
Maturity 0 - 5 years	£79,865,787	£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	£853,984,292	

6. Treasury investment activity

6.1 The Council's average investment balances to date have amounted to £429m representing income received in advance of expenditure plus balances and reserves held. During the 11 months to end of February 2021, the Council received total additional central government funding of £95m in relation to COVID-19. This was temporarily invested in short-dated, liquid instruments such as call accounts and money market funds and had mostly been disbursed by the end of February.

6.2 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.

6.3 In the light of the pandemic crisis and the likelihood of unexpected calls on cash flow the Council continues to hold significant balances 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.

6.4 On 28 February 2021 the Council had lent £46m to other local authorities. 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. During the 11 months the Council also made loans totalling £5.2m to the no use empty loans programme achieving a return of 1.5% which is available to fund general services.

6.5 The Council's investments during the 11 months to the end of February 2021 are summarised in the table below and a detailed schedule of investments as at 28 February 2021 is in Appendix 1.

	31.3.20	2020-21	28.2.21	28.2.21	28.2.21
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Bank Call Accounts	30.0	-9.9	20.1	0.09	A+
Money Market Funds	56.7	0.9	57.6	0.01	AA-
Local Authorities	50.0	-4.0	46.0	0.25	A+
Covered Bonds	84.9	-5.2	79.7	0.64	AAA
DMO Deposits (DMADF)	0.0	40.0	40.0	0.01	AA-
Icelandic Recoveries o/s	0.4	-0.4	0.0		
No Use Empty Loans	0.0	5.2	5.2	1.50	
Equity	2.3	0.0	2.3		
Internally managed cash	224.2	26.6	250.8	0.27	AA
Strategic Pooled Funds	157.3	15.3	172.6	4.26	
Total	381.4	42.0	423.4	1.94	

7 Externally managed investments

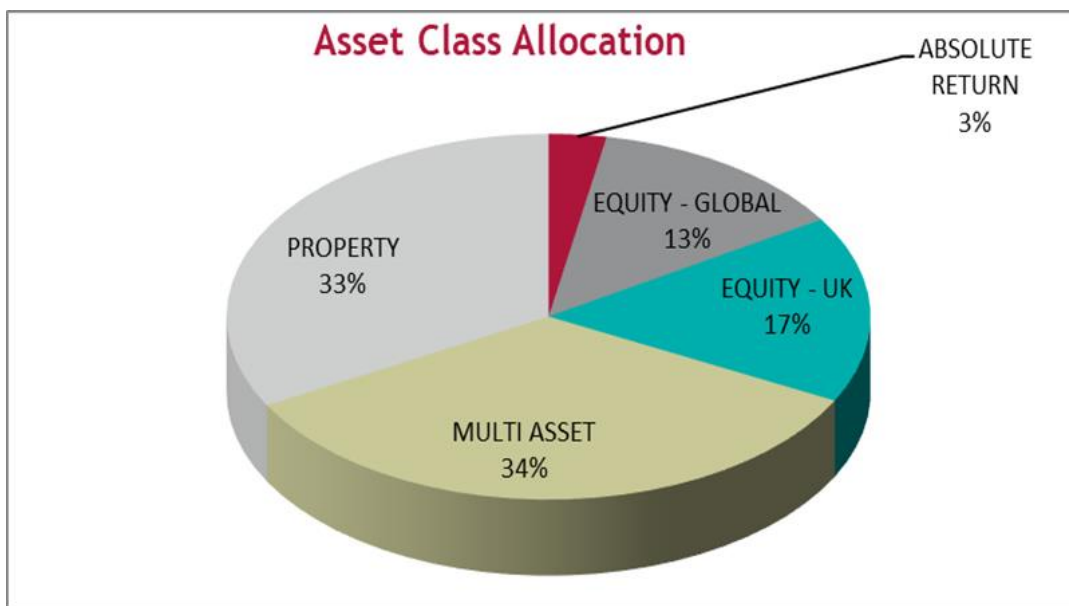
7.1 The Council is invested in equity, multi-asset and property funds. Since March 2020 financial markets have recovered with our holdings increasing in value to £172.6m at the end of February 2021, a gain of £15.3m (9.7%). All the equity and multi asset funds show gains while the CCLA LAMIT Property Fund continues to lag its 31 March value reflecting the ongoing challenges in real estate.

7.2 During the 11 month period, we achieved an income return of 4.26% as funds continued to pay dividends albeit at a lower level than before Covid. Details of the externally managed funds are shown in the following table.

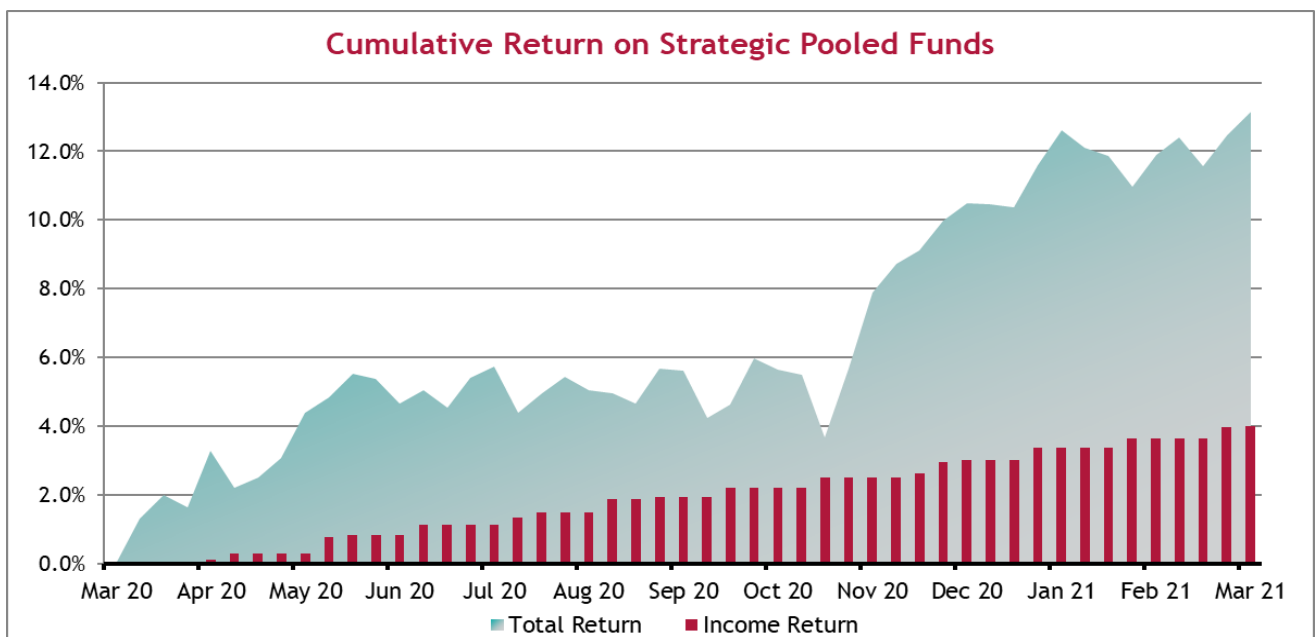
Investment Fund		31.3.20	2020-21	28.2.21	28.2.21	
	Book cost	Market Value	Movement	Market Value	11 months return	
					Income	Total
	£m	£m	£m	£m	%	%
Aegon (Kames) Diversified Monthly Income Fund	20.0	16.9	2.85	19.75	4.09	20.93
CCLA - Diversified Income Fund	5.0	4.6	0.32	4.92	2.81	10.57
CCLA – LAMIT Property Fund	60.0	57.9	0.81	57.09	4.00	2.63
Fidelity Global Multi Asset Income Fund	25.0	23.7	0.77	24.47	4.21	7.44
Investec Diversified Income Fund	10.0	9.2	3.05	12.25	2.75	45.57

M&G Global Dividend Fund	10.0	8.6	1.50	10.10	3.76	13.59
Pyrford Global Total Return Sterling Fund	5.0	4.7	0.29	4.99	1.80	7.62
Schroder Income Maximiser Fund	25.0	15.8	3.24	19.04	8.58	29.30
Threadneedle Global Equity Income Fund	10.0	8.4	2.14	10.54	3.35	28.26
Threadneedle UK Equity Income Fund	10.0	7.6	1.86	9.46	3.42	28.14
Total Externally Managed Investments	180.0	157.3	15.31	172.61	4.26	13.96

7.3 A breakdown of the external investments by asset class is as follows:



7.4 The following chart tracks the returns earned on the pooled funds over the 11 months.



- 7.5 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.
- 7.6 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.

8 Investment benchmarking at 31 December 2020

- 8.1 The Council's treasury advisor, Arlingclose, monitors the risk and return of some 130 local authority investment portfolios. The metrics over the 9 months to 31 December 2020 have been extracted from their quarterly investment benchmarking.
- 8.2 As shown in the table below the risk within the Kent internally managed funds has been consistent throughout the 9 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 – 31.12.2020	3.51	AA-	37	224	0.25
Similar LAs	4.40	AA-	45	879	0.37
All LAs	4.73	A+	63	17	0.16

- 8.3 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. All authorities saw a fall in the capital values of their strategic funds during 2020 resulting in negative total returns for the year. The returns do not take account of the further improvement in the financial markets in the 3 months to 31 March 2021.

	Rate of Return – Income only %	Total Rate of Return %
Strategic Funds at 31.12.2020		
Kent	4.19	-6.09
Similar LAs	3.58	-4.25
All LAs	3.41	-4.02
Total Investments at 31.12.2020		
Kent	1.79	-0.59
Similar LAs	1.00	-0.12
All LAs	0.77	0.00

9 Forecast outturn

- 9.1 The forecast return on the Council's investment portfolio is £7m, 1.6%, which is used to support services in year.
- 9.2 The forecast average rate of debt interest payable in 2020-21 is 4.59%, based on an average debt portfolio of £879.3m.

10 Recommendation

10.1 Members are recommended to note this report.

Alison Mings

Acting Business Partner – Kent Pension Fund Ext: 03000 416488

March 2021

Investments as at 28 February 2021

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	0.17%	21/06/21
Fixed Deposits	Conwy County Borough Council	3,000,000	0.17%	30/06/21
Fixed Deposits	Conwy County Borough Council	3,000,000	0.17%	30/06/21
Fixed Deposits	Thurrock Borough Council	10,000,000	0.35%	04/05/21
Fixed Deposits	Thurrock Borough Council	10,000,000	0.35%	04/07/21
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
Total Local Authority Deposits		46,000,000		
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	20,000,000	0.005%	10/03/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	20,000,000	0.005%	11/03/21
Total DMADF deposits		40,000,000		
Call Account	National Westminster Bank plc	75,000	0.01%	
Call Account	Santander UK plc	15,000,000	0.12%	
Call Account	Lloyds Bank plc	5,000,000	0.01%	
Total Bank Call Accounts		20,075,000		
No Use Empty Loans		5,173,000	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	948	0.50%	
Money Market Funds	SSgA GBP Liquidity Fund (Stable NAV)	5,553	0.01%	
Money Market Funds	HSBC Sterling Liquidity Fund	6,727	0.04%	
Money Market Funds	LGIM Sterling Liquidity Fund 4 KCC	17,594,984	0.01%	
Money Market Funds	Insight Liquidity Funds PLC	271	0.01%	
Money Market Funds	Aberdeen Liquidity Fund (Lux) KCC	19,996,509	0.42%	
Money Market Funds	Northern Trust Sterling Cash Fund	19,995,164	0.01%	
Money Market Funds	Aviva Investors Sterling Liquidity Fund 3 GBP Inc	948	0.06%	
Money Market Funds	Deutsche Managed Sterling Platinum	5,554	0.02%	
Total Money Market Funds		57,600,156		
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	4,484,701	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	4,203,756	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	2,502,518	0.88%	15/02/2024
Floating Rate Covered Bond	Lloyds	2,501,641	0.24%	27/03/2023
Floating Rate Covered Bond	Lloyds	2,502,190	0.24%	27/03/2023
Floating Rate Covered Bond	Nationwide Building Society	3,996,908	0.76%	10/01/2024
Floating Rate Covered Bond	Lloyds	4,500,000	0.65%	14/01/2022
Floating Rate Covered Bond	Australia and New Zealand Banking group	3,000,000	0.73%	24/01/2022
Floating Rate Covered Bond	Santander UK	2,002,022	0.74%	12/02/2024
Floating Rate Covered Bond	Nationwide Building Society	4,502,710	0.26%	12/04/2023
Floating Rate Covered Bond	Bank of Montreal	5,003,003	0.28%	17/04/2023
Floating Rate Covered Bond	Santander UK	3,750,250	0.23%	13/04/2021
Floating Rate Covered Bond	Lloyds	5,003,869	0.24%	27/03/2023
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce	5,012,165	0.21%	10/01/2022
Floating Rate Covered Bond	Santander UK	5,001,516	0.49%	16/11/2022
Floating Rate Covered Bond	Nationwide Building Society	5,583,412	0.25%	12/04/2023
Total Bonds		79,670,858		

Total Internally managed investments	£ 250,844,244
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2. Externally Managed Investments

Investment Fund	Book Cost	Market Value at	8 months return to	
			28 February 2021	
			Income	Total
	£	£		
Aegon (Kames) Diversified Monthly Income Fund	20,000,000	19,747,434	4.09%	20.93%
CCLA - Diversified Income Fund	5,000,000	4,924,048	2.81%	10.57%
CCLA – LAMIT Property Fund	60,000,000	57,085,107	4.00%	2.63%
Fidelity Global Multi Asset Income Fund	25,038,637	24,467,319	4.21%	7.44%
Investec Diversified Income	10,000,000	12,250,961	2.75%	45.57%
M&G Global Dividend Fund	10,000,000	10,103,428	3.76%	13.59%
Pyrford Global Total Return Sterling Fund	5,000,000	4,986,803	1.80%	7.62%
Schroder Income Maximiser Fund	25,000,000	19,035,267	8.58%	29.30%
Threadneedle Global Equity Income Fund	10,000,000	10,544,063	3.35%	28.26%
Threadneedle UK Equity Income Fund	10,000,000	9,463,256	3.42%	28.14%
Total External Investments	180,038,637	172,607,686	4.26%	13.96%

3. Total Investments

Total Investments	£423,451,925
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GLOSSARY

Local Authority Treasury Management Terms

Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest

	250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

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By: Peter Oakford - Deputy Leader and Cabinet Member for
Finance, Corporate and Traded Services
Zena Cooke – Corporate Director of Finance

To: Governance and Audit Committee – 23 April 2021

Subject: Revised Accounting policies

Classification: Unrestricted

Summary: This report asks Members to approve the revised accounting policies.

FOR INFORMATION AND DECISION

1. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".
2. For 2020-21 there is only one change to the accounting policies to report.
 - 2.1 **DSG deficit balances**
 - 2.1.1 The School and Early Years Finance (England) Regulations 2020 came into force on 21 February 2020 and are applicable to local authority accounting periods beginning on 1 April 2020.
 - 2.1.2 The regulations state that a deficit must be carried forward to be funded from future DSG income.
 - 2.1.3 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 came into force on 29 November 2020. This amendment allows where a local authority has a deficit in respect of its schools budget for the financial year beginning on 1 April 2020, 2021 or 2022, the authority:
 - a) Must not charge to a revenue account an amount in respect of that deficit; and
 - b) Must charge the amount of the deficit for an account established, charged and used solely for the purpose of recognising deficits in respect of its schools' budget.
 - 2.1.4 This means that the deficit will be transferred to a new Unusable Reserve called the DSG Adjustment Account. Unusable Reserves are not available to use to support service delivery and arise from statutory adjustments in order to comply with legislation. Our 'Accounting for Schools' accounting

policy has been amended to reflect this change. The amended accounting policy is shown in appendix 1.

3. Recommendation

- 3.1 Members are asked to approve the amendment to the accounting policy as presented.

Cath Head
Head of Finance Operations
Ext: 416934

Emma Feakins
Chief Accountant
Ext: 416082

Accounting for Schools

Accounting Policy

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

Accounting for Schools

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

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