

# **GOVERNANCE AND AUDIT COMMITTEE**

**Thursday, 22nd July, 2021**

**2.00 pm**

**Council Chamber, Sessions House, County Hall,  
Maidstone**







## AGENDA

### GOVERNANCE AND AUDIT COMMITTEE

**Thursday, 22nd July, 2021, at 2.00 pm**  
**Council Chamber, Sessions House, County**  
**Hall, Maidstone**

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

#### **Membership (10)**

Conservative (7)      Mrs R Binks (Chairman), Mr N J D Chard, Mr D Jeffrey,  
Mr R A Marsh, Mr H Rayner, Mr R J Thomas and Mr S Webb

Labour (1)              Mr A Brady

Independents (Green      Mr M Hood  
Party) (1)

Independent Member      Dr D A Horne  
of the Governance  
and Audit Committee  
(1)

#### **UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting
2. Substitutes
3. Election of Vice-Chair
4. Declarations of Interest in items on the agenda for this meeting
5. Terms of Reference of the Committee

*Membership: 9 Members; Conservative 7, Labour 1, Green/Independents 1 plus, 1 independent member.*

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.

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.

*Please note that Selection and Member Services Committee has recommended changes to these Terms of Reference which will be considered by the County Council. Any agreed changes will be reported to a future meeting of the Committee.*

6. Minutes (Pages 1 - 6)

23 April 2021

27 May 2021



7. Extension of appointment of the Independent Member of the Governance and Audit Committee (Pages 7 - 8)
8. Training Programme for Governance and Audit Committee Members (Pages 9 - 12)
9. Draft Statement of Accounts 2020-21 (Pages 13 - 190)
10. Treasury Management Annual Review 2020/21 (Pages 191 - 208)
11. Internal Audit - External Audit Quality Assessment 2021 (Pages 209 - 254)
12. Annual Counter Fraud Report 2020/21 and proposed Counter Fraud Plan 2021/22 (Pages 255 - 300)
13. Internal Audit Annual Report and Opinion for 2020-21 (Pages 301 - 352)
14. Internal Audit Progress Report (Pages 353 - 382)
15. Internal Audit Plan 2021/22 (Pages 383 - 416)
16. External Audit Progress Report TO FOLLOW
17. 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

**Wednesday, 14 July 2021**

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

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## KENT COUNTY COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Online on Friday, 23 April 2021.

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

ALSO PRESENT: Mr P J Oakford

IN ATTENDANCE: Mr B Watts (General Counsel), Ms Z Cooke (Corporate Director of Finance), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mrs C Head (Head of Finance Operations), Miss E Feakins (Chief Accountant), Ms S Bubb (Audit Manager), Ms F Smith (Audit Manager) and Mr A Tait (Democratic Services Officer)

### UNRESTRICTED ITEMS

#### **16. Minutes -12 January 2021** (Item 4)

RESOLVED that the Minutes of the meeting held on 12 January 2021 are correctly recorded and that they be signed by the Chairman.

#### **17. The Future Role of the Governance and Audit Committee** (Item 5)

(1) The General Counsel introduced the report which provided further detail on developing the future role of the Governance and Audit Committee to meet current and future challenges.

(2) The Committee amended the recommendations to include a mid-year review of the Annual Governance Statement for assurance purposes; and “deep dives” of key risks identified by statutory officers and Internal and External Audit. The format of these deep dives was to be determined by the Monitoring Officer in consultation with the Head of Internal Audit and the Chairman of the Committee.

(3) RESOLVED that:-

- (a) the Best Value Report Liverpool City Council be noted;
- (b) the Committee will prepare an Annual Report to the County Council and that the Monitoring Officer be instructed speak to the Chairman in order that this will be added to the Committee’s forward agenda;

- (c) the Committee will undertake a mid-year review of the Annual Governance Statement for assurance purposes; and
- (d) the Committee will undertake deep dives of key risks identified by Internal/External Audit and statutory officers. The format of these deep dives will be determined by the Monitoring Officer in consultation with the Head of Internal Audit and the Chairman of the Governance and Audit Committee.

## **18. Review of the Terms of Reference for the Governance and Audit Committee**

*(Item 6)*

- (1) The General Counsel introduced the report which proposed changes to the Committee's Terms of Reference. These were set out in Appendix 1 to the report.
- (2) The Committee amended paragraph (l) of the draft Terms of Reference through the deletion of the word "commercial."
- (3) RESOLVED that subject to (2) above, the Monitoring Officer be requested to include the draft changes to the Committee's Terms of Reference set out at Appendix 1 to the report as part of the next update to the Constitution to be recommended to the County Council at the earliest opportunity.

## **19. Training Programme for Governance and Audit Committee Members**

*(Item 7)*

- (1) The General Counsel introduced the report which provided further detail on the proposed training programme for Members of the Governance and Audit Committee.
- (2) The Committee amended the recommendations by specifying that the training should also be mandatory for substitutes.
- (3) RESOLVED that the report be noted and that the Governance and Audit Committee training programme should be mandatory for Members and substitutes of the Committee.

## **20. Annual Review of the Council's Code of Governance and Annual Governance Statement - Oral Presentation by Monitoring Officer**

*(Item 8)*

- (1) The Monitoring Officer gave a presentation. The accompanying slides are contained in the electronic papers for this meeting on the County Council's website.
- (2) RESOLVED that the report be noted.

## **21. Internal Audit Progress Report**

*(Item 9)*

- (1) The Audit Managers presented the report which detailed summaries of completed Audit reports for the period January to March 2021. They informed the Committee that the resource gap within the Internal Audit Team was proposed to be

addressed through the recruitment of two new Senior Internal Auditors. A further update on the Team's restructure would be reported to the Committee at its next meeting.

(2) The General Counsel informed the Committee that a report would be submitted to the Policy and Resources Cabinet Committee on data breaches.

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

## **22. Counter Fraud Progress Update**

*(Item 10)*

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

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

## **23. External Audit Progress Report and Sector Update**

*(Item 11)*

(1) Mr Paul Dossett from Grant Thornton UK LLP presented the report.

(2) RESOLVED that the current progress on external audit work be noted for assurance.

## **24. External Audit Audit Plan for Kent County Council**

*(Item 12)*

(1) Mr Parris Williams from Grant Thornton UK LLP introduced the draft Audit Plan for Kent County Council 2020/21.

(2) During discussion of this item, the Committee agreed that an informal "walk through" of the accounts should be arranged for Members of the Committee,

(3) RESOLVED that approval be given to the External Audit Plan for Kent County Council 2020/21.

## **25. External Audit Audit Plan for Kent Superannuation Fund**

*(Item 13)*

(1) Mr Paul Dossett from Grant Thornton UK LLP introduced the draft audit plan for the Kent Superannuation Fund.

(2) RESOLVED that approval be given to the External Audit Plan for the Kent Superannuation Fund 2020/21.

## **26. Treasury Management Quarterly Update 2020/21**

*(Item 14)*

(1) The Treasury and Investments Manager provided a review of Treasury Management activity 2020/21 to end February 2021.

(2) In response to Members' questions, the Treasury and Investments Manager stated that investments in other Local Authorities were always undertaken under advice and after considerable thought.

(3) The Treasury and Investments Manager reported that the external assessor had completed the review of the Pension Fund Investment Governance and that 10 of the 15 recommended actions had now been implemented. A significant training package had also been produced for the Board.

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

## **27. Revised Accounting Policies**

*(Item 15)*

(1) The Chief Accountant presented a report requesting an amendment to the Accounting for Schools Policy.

(2) RESOLVED that approval be given to the amendment to the accounting policy set out in the Appendix to the report.

## **28. Audit Risk Assessment**

*(Item 16)*

(1) The Chairman agreed to accept this as an Urgent item.

(2) The Corporate Director of Finance Director introduced the report which summarised management's responses to questions on the County Council's processes in relation to general enquiries of management, fraud, law and regulations, going concerns, related parties and accounting estimates.

(3) RESOLVED that agreement be given to the management responses provided to Grant Thornton UK LLP.

## KENT COUNTY COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Mote Hall Leisure Centre, Maidstone, Kent, ME15 7RN on Thursday, 27 May 2021.

PRESENT: Mrs R Binks, Mr N J D Chard, Mr D Jeffrey, Mr R A Marsh, Mr R J Thomas and Mr S Webb

IN ATTENDANCE: Mr J Cook (Democratic Services Manager)

### UNRESTRICTED ITEMS

#### **29. Election of Chair**

*(Item 3)*

(1) It was duly proposed and seconded that Mrs R Binks be elected Chairman of the Committee.

*Carried Unanimously*

(2) RESOLVED that Mrs Binks be elected Chairman of the Committee.

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

To: Governance and Audit Committee – 22 July 2021

Subject: **EXTENSION OF APPOINTMENT OF THE  
INDEPENDENT MEMBER OF THE GOVERNANCE  
AND AUDIT COMMITTEE**

Classification: Unrestricted

**Summary:** This report is asking to agree an extension to the appointment of the independent member to this Committee for a further 2-year period.

**Recommendation: FOR DECISION**

## Introduction

1. At the January 2019 meeting of this Committee the 'in principle' decision to appoint an independent member to this Committee for a trial period of 2 years subject to further work on the appointment process and firming up the person specification was agreed.
2. As a reminder in 2018 CIPFA updated its Position Statement on Audit Committees and as a matter of good practice recommended that authorities consider the appointment of an independent member. The advantages of having an independent member on the Committee are:
  - a) Greater levels of apolitical independence
  - b) Bridging certain skills gaps and expertise

## Appointment of Independent Member

3. Following on from the meeting the person specification for the role was amended to take account of feedback from Members and changes were made to the Terms of Reference and Constitution of the Committee.
4. A recruitment exercise was conducted successfully and the Independent Member started his two-year tenure with the January 2020 meeting of this Committee.
5. The Independent Member has played an important role in the Committee and has provided independent scrutiny and challenge, attending all Committee meetings and training events.
6. Following the recent election, the Committee now has a number of new Members, including the Chairman, so the extension of the appointment of the current Independent Member will provide some continuity of knowledge, skill and experience.
7. It is therefore proposed that the tenure of the current Independent Member be extended for a further two years to contribute to that continuity.

## **Recommendations**

8. Members are asked to agree to extend the appointment of an Independent Member for a further two years on the same terms.

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

To: Governance and Audit Committee – 22 July 2021

Subject: Training Programme for Governance and Audit Committee Members

Classification: Unrestricted

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Summary: This report provides an outline of the training programme proposed for Members of the Governance and Audit Committee

**FOR DECISION**

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1. At the Governance and Audit Committee meeting held on 27<sup>th</sup> May 2021, members of the committee agreed that a full and varied programme of training is needed to enable the committee to undertake its role effectively, and that this training must be mandatory for all committee members and their substitutes.
2. Training sessions for Committee Members have already begun and, in addition to the Introduction to Audit Committee training delivered on 19 July, the following training sessions will be provided between now and the next meeting of the Committee as these are considered time critical:
  - a. The Annual Governance Statement
  - b. Statement of Accounts
3. As a result of reviewing the work programme, the Chairman of the Committee has agreed to an additional meeting of the Committee in September 2021 and the full training programme (to September 2022) will be brought for approval at the September meeting. Topics that will form the training programme over the term of the committee are set out in [Appendix 1](#).
4. Recognising the requirement that training for Committee members is mandatory, it is likely that the majority of the training programme can be delivered virtually over MS Teams. All virtual training sessions will be recorded and made available for Committee members via KNet for them to access at a later date, if they are unable to attend on the day.

**Recommendation:**

The Committee is asked to:

- 1) AGREE to the training sessions set out in paragraph 2.
- 2) NOTE and COMMENT on the proposed training programme set out in Appendix 1 report.
- 3) AGREE to receive a further report setting out the proposed training programme and delivery approach.

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## Appendix 1:

### **Content of the Governance and Audit Committee training programme, 2021-25**

- 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. Internal and 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
- j. Statement of Accounts
- k. Annual Governance Statement
- l. Improving Audit Committee Effectiveness
- m. Assurance for an Audit Committee
- n. Risk Management
- o. Public Sector Internal Audit Standards and EQA
- p. Assurance Arrangements for Transformation and Major Projects
- q. Commissioning and Partnership Governance

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

To: Governance and Audit Committee – 22 July 2021

Subject: DRAFT STATEMENT OF ACCOUNTS 2020-21

Classification: Unrestricted

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Summary: This report asks Members to consider and note the draft Statement of Accounts for 2020-21.

## **FOR INFORMATION**

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### **1. INTRODUCTION**

- 1.1 The draft Statement of Accounts of the County Council for 2020-21 follows this report. The Accounts and Audit (Amendment) Regulations 2021 state that;

... the publication date for final, audited accounts will move from 31 July to 30 September 2021. The authority must, following the conclusion of the period of public inspection, in the following order:

- i) consider, either by way of a Committee or by the Members meeting as a whole, the Statement of Accounts;
- ii) approve the Statement of Accounts by a resolution of that Committee or meeting;
- iii) ensure that the Statement of Accounts is signed and dated by the person presiding at the Committee or meeting at which that approval was given;

- 1.2 The audit of the accounts has commenced and the public inspection period is due to conclude on 11 August 2021. The draft Statement of Accounts attached to this report are for comment and review; and the final audited accounts will be brought back to this committee for consideration and approval on 7 October 2021.

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

- 1.4 The Committee's Terms of Reference set out the Committee's responsibilities in relation to the accounts as follows:

- (a) to ensure the Council's financial affairs are properly and efficiently conducted and;

- (b) the Council's financial statements (including the pension fund accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective,
- (c) any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound,
- (d) accounting policies are appropriately applied across the Council.

1.5 It is therefore essential that Members are provided with the appropriate training and support to enable them to fulfil their responsibilities in relation to the Council's Statement of Accounts. Accounts related training is being arranged as part of the Committee's training programme and this will provide Members with the opportunity to review the accounts, raise any queries and seek any clarification as required. The training will be provided in advance of the October Committee to ensure it is undertaken before the Statement of Accounts needs to be approved.

## **2. STATEMENT OF ACCOUNTS - CONTENTS**

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.
- 2.2 The Statement of Accounts for 2020-21 is prepared on an International Financial Reporting Standards (IFRS) basis.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

### **Narrative Pages 3-20**

- 2.4 The narrative provides clarification on the relationship between the Statement of Accounts and other financial information that the Council reports on externally. The 2020-21 narrative provides information on the funding strategy applied during 2020-21 and the direction of travel for 2021-22 onwards.
- 2.5 We are required to report the impact of Coronavirus including Covid-19 related specific grants in the narrative section. This can be found on pages 13 and 14.
- 2.6 The details of the revenue outturn are shown on pages 11 and 12. This shows an underspend of £70.0m before roll forwards against the non-schools' budgets. Details of underspends within the directorates have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which was considered by Cabinet on 24 June.



After committed roll forwards and bids approved by Cabinet on 24 June, the resulting underspend was £27.5m.

- 2.7 The level of general revenue reserves remains at £37.2m. The Corporate Director of Finance deemed this to be an acceptable level of general reserves based on the current budget, and the Council's identified risks.
- 2.8 Capital expenditure excluding that incurred by schools under devolved arrangements was £184.9m less than the latest revised cash limits. Of this, £175.3m reflects re-phasing of capital expenditure plans across all services and £9.6m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2021-22 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.9 The 2020-21 IAS 19 report shows an increase in the Pensions Reserve deficit of £272m. See Paragraph 2.19 for more information.

### **Statement of Responsibilities Page 21**

- 2.10 This statement sets out the respective responsibilities of the Council and the Corporate Director of Finance in relation to the production of the final accounts.

### **Financial Statements Pages 22-27**

#### **Comprehensive Income and Expenditure Statement**

- 2.11 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by a council during the financial year. As councils do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.
- 2.12 The CIES has two sections:
- i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the council as a result of incurring expenses and generating income.
  - ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the council as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

#### **Movement in Reserves Statement (MiRS)**

- 2.13 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The unusable reserves are required due to accounting practices

and are not cash-backed. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have increased by £119m in 2020-21. The main movements are:

	<b>£m</b>
S31 Grant Compensation for Covid-19 related Business Rate Reliefs	26
Earmarked reserve to support future year's budget – as agreed in MTFP	22
School Budget Deficit transferred to Adjustment Account	21
Increase in Schools Reserves due to surplus Schools Balances	21
Covid-19 Reserve – emergency funding to support ongoing impact of Covid-19.	18
Kings Hill development smoothing reserve	13
Rolling Budget Reserve – to cover roll forward requests	11
S31 Grants Compensation for irrecoverable Business Rates and Council Tax Losses	7
Public Health reserve – to meet eligible spend in future years	5
Unapplied Capital Grants, reflecting use of reserve to fund capital project	-27
<b>Total of major movements in usable reserves</b>	<b><u>117</u></b>

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

- i) The increase or decrease in the net worth of the council as a result of incurring expenses and generating income.
- ii) The increase or decrease in the net worth of the council as a result of movements in the fair value of its assets.
- iii) Movements between reserves to increase or reduce the resources available to the council according to statutory provisions.

## Balance Sheet

- 2.15 The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local councils do not have equity, the bottom half consists of reserves that show the disposition of a council's net worth, falling into two categories:
- i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and
  - ii) Unusable Reserves, which include:
    - unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
    - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).
- 2.16 Property, Plant & Equipment has increased by £150m. This includes revaluation increases of £126m.
- 2.17 Current assets increased by £190m. Cash and cash equivalents increased by £87m which is in part due to additional emergency funding for COVID-19 measures and reduced expenditure as a result of lockdowns. Liquid investments increased to enable agility in response to any pick-up in demand. Short-term debtors increased by £78m this is in part related to an increased level of grant income, most significantly the S31 Compensation Grants.
- 2.18 Current liabilities increased by £125m. Temporary borrowing increased by £47m due to the value of loan principal maturing in 2021-22, including LOBO loans with options in 2021-22, and interest accrued on borrowing. Creditors increased by £76m this includes £37m relating to the 2020-21 Collection Fund deficit and £35m of specific grants mainly in respect of Covid-19 received in advance.
- 2.19 Long term liabilities have increased by £266m. Long-term borrowing decreased by £78m which predominately relates to borrowing transferring to temporary borrowing and the fluctuations in the maturity profile. The pension liability increased by £272m which is related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 38 from page 112 of the Accounts.
- 2.20 Net worth has decreased from a surplus of £843m to a surplus of £792m. This is mainly due to the pension liability increase explained in paragraph 2.19.

## **Cash Flow Statement**

- 2.21 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

## **The Expenditure and Funding Analysis**

- 2.22 The Expenditure and Funding Analysis detailed on pages 28 to 29 shows how the Council's expenditure is allocated for decision making purposes between the directorates. It also shows how the annual expenditure is used and funded from resources by the Council compared with the resources consumed or earned in accordance with generally accepted accounting practices.

## **Significant Notes to the Accounts pages 30-131**

### **Adjustments between accounting basis and funding basis under regulations**

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

## **Officers Remuneration**

- 2.24 Note 6 on pages 35-45 provides details of officers' remuneration over £50,000 and details on exit packages in bands of £20,000 split between compulsory redundancy and other departures.

## **Note to the Expenditure and Funding Analysis**

- 2.25 Note 10a on pages 47 to 50 provides an analysis and explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund and Adjustments between the Funding and Accounting Basis that were set out in the Expenditure and Funding Analysis explained in paragraph 2.23.

## **Property, Plant and Equipment**

- 2.26 Note 17 on pages 57-73 shows the movements on these assets, which have increased in value (relatively) from £3.01bn to £3.16bn.



## **Reserves**

- 2.27 Details of reserves can be found in the following notes, usable reserves in Note 23 which also include earmarked reserves, unusable reserves in Note 24, and earmarked reserves in Note 25. Earmarked reserves have increased by £127m; the remainder of usable reserves have decreased by £7.8m and unusable reserves have decreased by £170m.

## **Pension Fund Accounts pages 132-160**

- 2.28 Pages 132 to 160 contain a summarised extract of a more detailed statement produced for the Pension Fund.

## **Glossary**

- 2.29 A glossary of some of the terms used within the Accounts is provided on pages 168 - 165.

## **3. RECOMMENDATION**

Members are asked to:

- 3.1 Consider and note the Statement of Accounts for 2020-21.
- 3.2 Note that the approval of the Letters of Representation will be required at the October Committee.

**Emma Feakins**  
**Chief Accountant**  
**Ext: 416082**

**Cath Head**  
**Head of Finance Operations**  
**Ext: 416934**

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## Narrative

The purpose of this Statement of Accounts (Accounts) is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees, and other interested parties clear information on the financial performance for the year 2020-21 and the overall financial position of the Council.

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

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

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

- Narrative - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2020-21.
- The Statement of Responsibilities - this details the responsibilities of the Council and the Corporate Director of Finance concerning the Council's financial affairs and the actual Statement of Accounts.
- The main Accounting Statements, comprise:
  - ~ The Comprehensive Income and Expenditure Statement (CIES) - this provides a high level analysis of the Council's spending. It brings together all the functions of the Council and summarises all of the resources that the Council has generated, consumed and set aside in providing services during the year. (See pages 22 and 23)
  - ~ The Movement in Reserves Statement (MIRS) - this statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves', which are held either for statutory purposes or to comply with proper accounting practice. (See pages 24 and 25)
  - ~ The Balance Sheet - this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets/liabilities of the Council (assets less liabilities) are matched by the reserves held by the Council. (See page 26)
  - ~ The Cash Flow Statement - this summarises the changes in cash and cash equivalents of the Council during the reporting period. (See page 27)
- The Expenditure and Funding Analysis - this note brings together the Council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund presented on the basis of how the Council is structured for decision making purposes. (See pages 28 to 29)
- Accounting Policies - notes relating to specific accounting statement lines as identified in the main statements of the accounts include the corresponding accounting policy. Note 2 - General Accounting Policies details the policies where there are not accompanying notes.
- The Pension Fund Accounts - the Kent County Council Superannuation Fund (Kent Pension Fund) is administered by the Council, however, the Pension Fund has to be completely separate from the Council's own finances. (See pages 132 to 160)
- The Independent Auditor's Report to the Council - this is provided by the external auditors, Grant Thornton UK LLP, following the completion of the annual audit. (See pages 161 to 167)
- The accounting arrangements of any large organisation such as Kent County Council are complex, as is local government finance. The Accounts are presented as simply as possible, however it is still a very technical document. A glossary of terms is provided on pages 168 and 169 to make the Statement of Accounts more understandable for the reader.

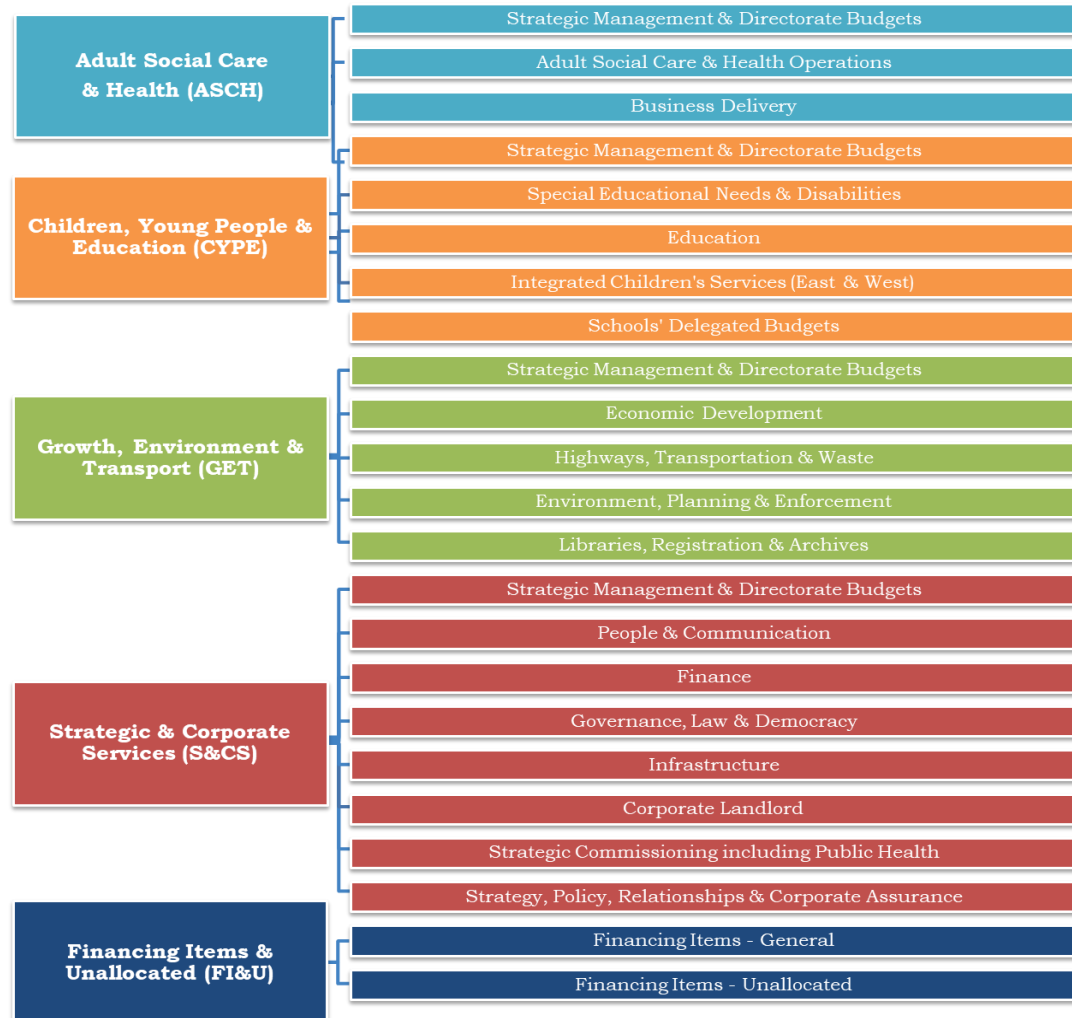
## Changes to financial reporting requirements and accounting policies

The Code of Practice is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. These Statement of Accounts for 2020-21 are prepared on an IFRS basis.

There are no significant changes to accounting practice to report for 2020-21

## Organisational Overview

Kent County Council (KCC) operates under the legislation set out in the Local Government Act and provides statutory and discretionary services. KCC is organised on a directorate and divisional basis as set out below:



## Strategic and Corporate Plans

The 'Strategic Delivery Plan' (SDP) is our single business plan for 2020-2023 and brings our key activities together in one place. Due to the unprecedented impacts of Covid-19 on us and our activities, the SDP was revised to focus on the critical activities for 2020-21.

'Setting the Course' is our Interim Strategic Plan for 2021 and the first half of 2022 and was approved by County Council on 10 December 2020. The plan explains the immediate challenges the Council faces, and the actions we will prioritise to lead Kent through 2021 and into 2022. These actions in many cases will be the groundwork for longer-term change. The Plan sets out the challenges and vital opportunities we will focus on addressing to support the county to recover and build resilience and reset.

During 2019 and early 2020, we developed a draft 5 Year Plan. Due to the huge and unprecedented impact of COVID-19 this plan was not adopted and the decision was made to pause whilst we took time to understand the new circumstances that Kent faced in responding to and recovering from the pandemic. The priorities that came out of the 5 year Plan consultation remain highly relevant and have strongly influenced the Interim Strategic Plan.

A new 5 Year Plan setting out the council's longer-term direction of travel and political priorities will be developed in 2021, aligning our strategic and financial planning cycles.

## Financial Report

### Setting the Revenue Budget for 2020-21 - the budget strategy

The Council has a tremendous financial track record and has delivered a small net surplus on its revenue budget in each of the last 20 years up to 2019-20. This is built on a robust approach to budget setting and medium-term financial planning, combined with a rigorous budget management and monitoring regime. Together these are designed to ensure the budget reflects the Council's core strategic objectives but at the same time builds in financial prudence and resilience.

In previous years KCC has faced an enormous and unprecedented financial challenge. This challenge arose from a combination of rising spending demands/costs, coupled with reductions in central government funding and freezes/limits on raising council tax. Combined, this has led the Council to make annual savings averaging around £72m each year since 2010 (totalling £683.6m over the 9 years between 2011-2 to 2019-20). The scale of savings has lessened in recent years as we have started to see increases in the Council's budget in cash terms. However, these cash increases should not be confused with real-term increases and are nowhere near enough to fund rising demands and costs.

2020-21 represented a departure from the pattern of the preceding 9 years. Although the settlement was only confirmed for one-year this was a rollover from the previous year with no reduction in the main core settlement funding assessment (comprising the baseline for business rates retention and revenue support grant), additional grants for social care services, and council tax increases up to but not exceeding 2% referendum limit and a further 2% increase for adult social care. This combination resulted in the largest increase in Core Spending Power in 10 years, and the first time in that period where grants from central government increased.

A high level presentation of the changes between the approved revenue budgets for 2019-20 and 2020-21 is shown in the table below. This presentation shows the change in the council's net budget requirement and the change in net funding from central government and local taxation.

	£m		£m
Additional spending growth	107.5	Council tax and business rates	39.9
Savings, income and reserves	-30.2	Net govt. grant increases	37.4
<b>Change in Net Budget</b>	<b>77.3</b>	<b>Change in Net Funding</b>	<b>77.3</b>

The one-year settlement from Government for 2020-21 meant that it was not appropriate to publish a medium-term financial plan (MTFP). The Chartered Institute of Public Finance and Accountancy (CIPFA) advises that while there is statutory requirement to set an annual budget, a longer-term perspective is also essential if local authorities are to demonstrate their financial sustainability. CIPFA recognises that while formal publication of the MTFP may only reflect government settlements, it is the responsibility of the leadership of the organisation to have a long-term financial view. A summary of the longer-term scenarios was included in the report to Cabinet on 27 January 2020, which can be found on the Council's website, Kent.gov.uk.

## Narrative

The final budget was approved by full Council on 13 February 2020. This included a net revenue budget of £1,063.6m for 2020-21 and a capital programme of £1,014.3m over the three years 2020-21 to 2022-23. This represented the culmination of a long evolution process starting in May 2019 with Corporate Management Team (CMT) and Cabinet, and included public consultation in the autumn and cabinet committee scrutiny of the final draft proposals. The budget was prepared and approved before the Covid-19 outbreak was announced as a pandemic on 11 March 2020.

In response to the pandemic Cabinet agreed on 22nd June 2020 that the 2020-21 revenue budget and 2020-23 capital programme should be reviewed, and an amended budget should be presented to full Council on 10 September 2020. This review and amendment included additional revenue spending associated with response to and recovery from the pandemic, delays to savings included in the original budget due to the pandemic, loss of income due to the pandemic, as well as changes to business as usual activities arising since the original budget was agreed. In total these amounted to a gross impact of £116.7m with mitigations totalling £80.4m leaving a change in the net budget of £36.3m. This increased the net budget from the original £1,063.6m to £1,099.9m.

The revenue amendment also included the additional un-ringfenced Covid-19 grant made available by government in the first three tranches and additional ring-fenced specific grants. The first tranche of emergency grant was received in 2019-20 with a balance of £37.4m held in a Covid-19 reserve at year end. Tranche 2 (£27.9m) and tranche 3 (£10.3m) were included as additional funding towards the increased net revenue budget, together with £0.6m of changes in other un-ringfenced grants confirmed after the original budget was approved, and forecast £2.5m loss of funding from the retained business rate growth in the Kent pool. In total the additional funding was sufficient to balance the £36.3m increase in net revenue budget.

The revised high level presentation of the change in revenue budget and funding between 2019-20 and 2020-21 following the amendment is:

	£m		£m
Additional spending growth	196.5	Council tax and business rates	36.9
Savings, income and reserves	-82.9	Net govt. grant increases	76.7
<b>Change in Net Budget</b>	<b>113.6</b>	<b>Change in Net Funding</b>	<b>113.6</b>

The capital programme did not require an amendment and any impact on delivery of projects and programmes were reported through the usual monitoring process.

## Risk Strategy

Please refer to the draft Annual Governance Statement on Kent.gov.uk for details of the Council's governance arrangements.

The operating environment for local government has become increasingly challenging over the past decade, in terms of growing and complex service demand, additional statutory requirements and increasing resident expectations, all set against a backdrop of local government funding restraint. This continuing trend requires greater collaboration, system-wide planning and a strong understanding of risk across public services. In addition, the coronavirus pandemic and its major social and economic impacts is fundamentally changing the risk environment, with it likely to be even more volatile, complex and ambiguous for a number of years. The risks arising in this environment will often have no simple, definitive solutions and will require whole-system-thinking, aligned incentives, positive relationships and collaboration, alongside relevant technical knowledge, to support multi-disciplinary approaches to their effective management. The operating environment will also require the Council to continually review its risk appetite, not only to ensure the right balance is struck between risk, innovation and opportunity, but to consider how much control can be exerted over risks, many of which cannot be directly mitigated by the Council alone. In the context of continual and fast-paced change, our elected Members will need to make challenging policy and budgetary decisions, while maintaining a longer-term view, so officers will need to provide the right balance of evidence, insight, advice and understanding of risk and opportunity.

### Revenue Strategy

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

- Funding estimate - Government Grants, Council Tax, and Business Rates
- Spending growth forecasts
- Savings and income options
- Consultation and engagement.

### Funding Estimate

#### Original Budget

The early funding estimates for 2020-21 were difficult to predict in the absence of an indicative settlement from government and consequently were based on a prudent approach. The forecasts included:

- 1% increase in the council tax base (the increase in the final tax base estimate for 2019-20 had been 1.58%)
- Council tax referendum limit would allow an increase up to but not exceeding 2%
- The social care council tax levy that had been allowed in the previous 4 year settlement would not increase further
- No in-year collection surplus or deficit on council tax or business rate collection
- Retained business rates and business rate top-up grant would increase in line with inflationary uplifts to the business rate multiplier
- Revenue support grant (RSG) would be phased out by 2021-22
- All other un-ringfenced grants frozen at the same level as 2019-20

These assumptions resulted in an initial flat cash scenario with total funding roughly the same as the final total 2019-20 funding of £986.4m. The Chancellor of the Exchequer announced the outcome of the 2019 Spending Round (setting out government spending plans for 2020-21) on 4 September 2019. This included a general increase in council tax of up to but not exceeding 2% and additional funding for social care through grants and an extension of the adult social care council tax levy of a further 2% for 2020-21. All other grants (including RSG) were assumed to be rolled over at the same amount as 2019-20. This early announcement enabled funding forecasts to be increased to approx. £1,054m (an increase of 6.9%) including a revised forecast council tax base increase of 1.2% and forecasts for collection fund balances.

The provisional local government finance settlement was published on 20 December 2019. KCC's draft budget was published on 6 January 2020 although this had been prepared before the provisional settlement was published and thus still included estimated grant allocations and showed a total funding estimate of £1,054.3m. This included KCC's estimate for council tax base, retained business rates and collection fund balances as estimates had not been received from all district councils in time for publication.

The final local finance settlement was confirmed on 6 February 2020 and included no changes from the provisional settlement although some grants were still to be confirmed. KCC published the final draft budget book for County Council approval on the same day showing a final funding of £1,063.654m. This included the council tax base and retained business rates estimates as well as estimated in-year collection fund balances provided by districts. A full reconciliation of the funding changes between 2019-20 and 2020-21 is shown below.

## Narrative

	2019-20	2020-21 Estimate	Movement
	£'000	£'000	£'000
<b>Council Tax</b>			
Tax Base (incl previous year tax increase)	659,345	669,278	9,933
General increase up to referendum level		14,376	14,376
Social Care Levy	50,651	65,790	15,139
Collection Fund Balance	7,475	3,898	-3,577
<b>Local Share of Business Rates</b>			
Business Rates	54,319	55,938	1,619
Business Rates Collection Fund surplus/(deficit)	150	2,563	2,413
<b>Un-ring fenced grants</b>			
Revenue Support Grant	9,487	9,641	154
Business Rate Top-Up (Tariff)	136,210	138,429	2,219
Business Rate Compensation Grant	7,665	12,662	4,997
New Homes Bonus	6,388	6,430	42
Improved Better Care Fund	42,380	48,544	6,164
Social Care Support Grant	10,531	34,367	23,836
Other Grants	1,773	1,738	-35
<b>Total</b>	<b>986,374</b>	<b>1,063,654</b>	<b>77,280</b>

The council tax base notification from District Councils shows a 1.51% increase over 2019-20. The tax base includes new dwellings and mandatory discounts as well as the impact of local decisions on the level of Council Tax discounts for working age tax payers in receipt of benefits/on low incomes through the Council Tax Reduction Scheme (CTRS) and other additional local discretion on Council Tax discounts and exemptions on empty properties permitted under the Local Government Finance Act 2012.

Households had an increase in the County Council's element of council tax of 1.995% plus the additional 1.995% for the Social Care precept levy for 2020-21. This increased the charge for a typical band C household (the most common band in Kent) from £1,155.04 in 2019-20 to £1,201.12 in 2020-21.

### Budget Amendment

The budget amendment included the following additional un-ringfenced grants:

	£'000
Tranche 2 Covid-19 Emergency Grant	27,934
Tranche 3 Covid-19 Emergency Grant	10,313
2019-20 Business Rate Compensation reconciliation	182
	<b>38,429</b>

The amendment also included confirmation of revised amounts for other grants and business rate retention from the proceeds of the business rate pool.

	£'000
Extended Rights to Free School Travel	369
Retained Business Rates	-2,543
	<b>-2,174</b>
<b>Total increase in funding</b>	<b>36,255</b>

This represented a total increase of funding of £36,255k compared to the original budget, taking the total funding for the amendment to £1,099,909k

## Narrative

### Spending, Savings and Income

#### Original Budget

Forecasts for spending demands are based upon a combination of in-year monitoring of budgets and estimates for the impact of anticipated changes over the forthcoming year. The impact of needing to replace one-off actions from reserves and underspends agreed as part of setting the 2019-20 budget is also shown as additional spending.

The final budget showed £107.5m of additional spending growth in 2020-21, the breakdown is as follows:

- £31.7m for staff pay awards, contractual price increases and negotiated contracts
- £21.9m for local service strategies and improvements
- £21.2m for forecast increases in demand and demographic changes
- £21.1m to replace one-offs used to fund base budget spending in 2019-20
- £10.2m for net budget realignments to reflect previous year activity/costs (realignments can reduce as well as increase spend reflecting past performance)
- £1.4m reduction in specific grant

### Savings and Income

Although the 2020-21 funding settlement represented a significant improvement over previous years with additional funding both from government grants and local taxes, the total increase of £77.3m was not sufficient to fully fund the additional spending growth of £107.5m. Additional savings and income of £30.2m were required in order to balance the budget:

- £14.1m financing savings (including £8.4m planned draw-down from corporate and directorate reserves)
- £7.9m from service transformation (improved outcomes at lower cost)
- £6.3m income generation
- £5.2m from efficiency savings from staffing, contracts and managing premises (doing the same job for less money)
- £1.8m increases in specific grants
- £1.1m policy savings (service reductions)
- -£6.2m removal of one-off specific grants and transfer of grant income into un-ringfenced grants

#### Amended Budget

The budget amendment included additional revenue spending associated with response to and recovery from the pandemic, delays to savings included in the original budget due to the pandemic, loss of income due to the pandemic, as well as changes to business as usual activities arising since the original budget was agreed. These were separated between the impact of Covid-19 and business as usual and between one-off and recurring impacts (which would affect future year's budgets). The changes to spending, income savings and reserves in the budget amendment are summarised in the table below.

	<b>TOTAL</b>	<b>Covid-19</b>		<b>Business as Usual</b>	
		<b>Recurring</b>	<b>One-off</b>	<b>Recurring</b>	<b>One-off</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Additional spending (including rollforward)	89.0	20.8	50.4	9.4	8.4
Loss of income	20.1		18.2	1.9	
Delays to Savings	7.6		6.9	0.7	
<b>Sub Total (Gross)</b>	<b>116.7</b>	<b>20.8</b>	<b>75.5</b>	<b>12.0</b>	<b>8.4</b>
Drawdown from Reserves	-43.6		-37.4		-6.2
In-year underspends	-24.0		-24.0		
Additional Savings	-12.8				-12.8
<b>Change in Net Budget</b>	<b>36.3</b>	<b>20.8</b>	<b>14.1</b>	<b>12.0</b>	<b>-10.6</b>

Throughout the year the impact of Covid-19 on the Council's budget has been monitored and reported separately. This includes regular reports to the Ministry of Housing Communities and Local Government (MHCLG) as well as internal monitoring reports to Cabinet and regular financial updates to Policy and Resources Committee.

### Budget Consultation and Engagement

Consultation on the original budget strategy was launched on 16 October 2019 and was open for 6 weeks until 25 November 2019. The consultation sought views on council tax and spending priorities to help shape and balance the 2020-21 Budget. Responses were considered by elected Members (Councillors) at Cabinet Committee meetings during January 2020 in advance of the budget debate and approval by County Council on 13 February 2020. A full report on the responses can be found at:

[https://kccconsultations.inconsult.uk/gf2.ti/-/1073826/61281381.1/PDF/-/Budget\\_Campaign\\_Consultation\\_2020\\_21\\_final\\_report\\_v.final.pdf](https://kccconsultations.inconsult.uk/gf2.ti/-/1073826/61281381.1/PDF/-/Budget_Campaign_Consultation_2020_21_final_report_v.final.pdf)

Consultation on the budget amendment was launched on 13 July 2020 and was open for 6 weeks until 9 August 2020. The consultation sought views on the impact of Covid-19 on the Council's budget and the additional funding made available from government. The responses were considered as part of the full County Council debate and approval on 10th September. A full report of the responses can be found at:

<https://kccconsultations.inconsult.uk/Budget2021amendments/consultationHome>



## Narrative

### Revenue Budget and Outturn

In February 2020 the Council approved a net revenue budget for 2020-21 of £1,063.6m. In September 2020 the Council approved a budget amendment and an additional £36.255m was added to the budget. We also received £17.7m additional emergency grant funding for Covid-19 and £11.3m Sales, Fees and Charges Compensation grant. The final outturn position for the year against the revised budget is set out in the table below, together with the sources of income from which the Council's net revenue expenditure was financed.

DIRECTORATE		Budget £000's	Outturn £000's	Variance £000's
Adult Social Care & Health including Disabled Children's Services	<b>ASCH</b>	418,731	414,625	-4,106
Children, Young People & Education	<b>CYPE</b>	261,470	260,046	-1,424
Growth, Environment & Transport	<b>GET</b>	182,746	182,227	-519
Strategic & Corporate Services including Public Health	<b>S&amp;CS</b>	96,453	93,562	-2,891
Financing Items & Unallocated	<b>FI&amp;U</b>	169,465	111,412	-58,053
		1,128,865	1,061,872	-66,993
Schools' Delegated Budgets	<b>CYPE</b>	0	8,937	8,937
		1,128,865	1,070,809	-58,056
FUNDED BY:				
Formula Grant		-9,642	-9,642	0
Council Tax Yield including Collection Fund		-753,342	-753,342	0
Local Share of Business Rates & Business Rate Collection Fund		-58,957	-58,957	0
Local Share of Business Rates & Business Rate Collection Fund - Impact of Covid-19		3,000		-3,000
Business Rate Tariff		-138,429	-138,429	0
Business Rate Compensation Grant		-12,844	-12,883	-39
New Homes Bonus (NHB) & NHB Adjustment Grants		-6,430	-6,430	0
Improved Better Care Fund (iBCF)		-48,544	-48,544	0
Social Care Support Grant		-34,367	-34,367	0
Covid-19 Emergency Grant		-55,947	-55,947	0
Sales, Fees and Charges Compensation Grant		-11,256	-11,256	0
Compensation for Covid-19 related Business Rate Reliefs Grant		-25,613	-25,613	0
Compensation for Covid-19 related Business Rate Reliefs - Transfer to Reserv		25,613	25,613	0
Compensation for irrecoverable Local Taxation Losses Grant		-7,535	-7,013	522
Compensation for irrecoverable Local Taxation Losses - Transfer to Reserves		7,535	7,013	-522
Other Un-ringfenced Grants		-2,107	-2,107	0
Total Funding		-1,128,865	-1,131,904	-3,039
NET OUTTURN POSITION		0	-61,095	-61,095

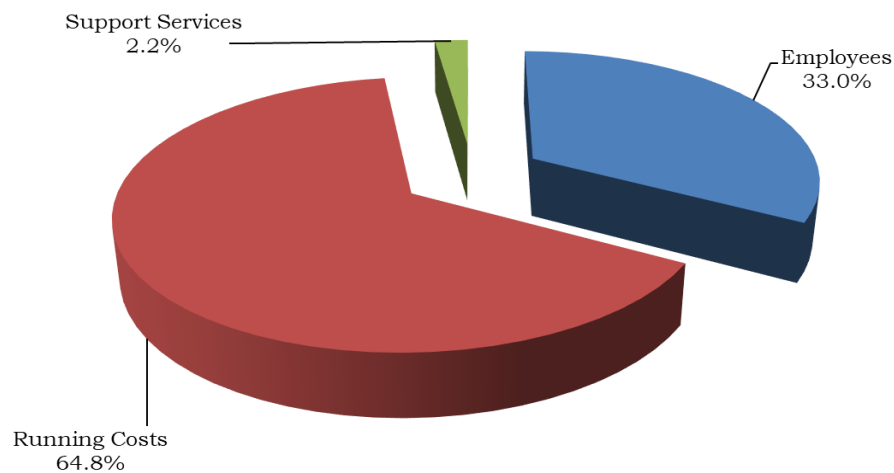
The net underspending within the directorates is £70.032m, being -£66.993m and -£3.039m funding variance (excluding £8.937m delegated schools overspend) of which £42.484m are roll forward requests and will be added to the 2021-22 budget to support the rescheduling of projects. This leaves an underlying underspend of £27.548m, £26.773m of Covid-19 emergency grant which will support further Covid-19 spend and £0.775m that is being transferred into reserves to support resilience.

It should be noted that the above position included the impact of Covid-19 and more information can be found on pages 13 to 14.

## Narrative

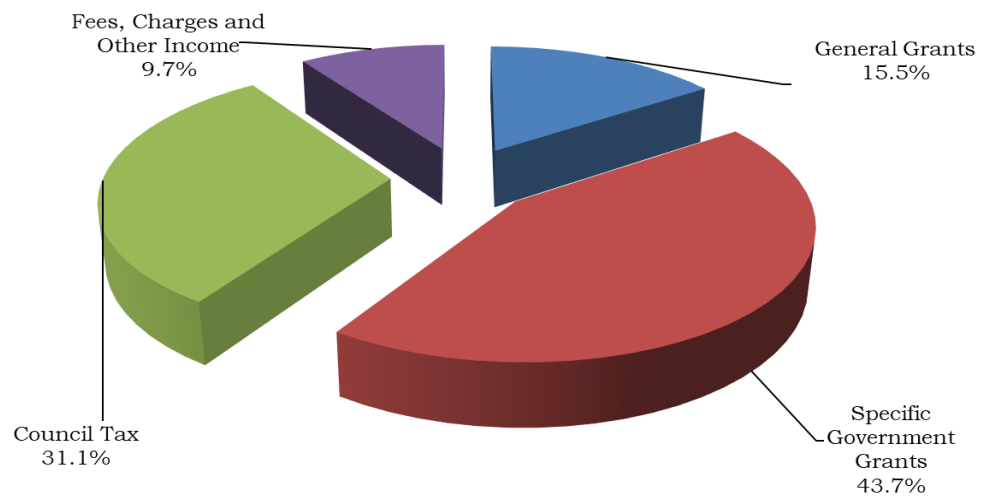
The charts below present a breakdown of the figures shown in the table above:

### What the money is spent on



Employees costs account for 33.0% (35.4% in 2019-20) of the Council's expenditure. Running costs including cost of premises, transport, supplies and services, and third party payments account for 64.8% (62.3% in 2019-20) of the expenditure.

### Where the money came from



43.7% of our income came from Specific Government Grants which includes the Dedicated Schools Grant (41.9% in 2019-20), 31.1% of our income came from residents through council tax (32.3% in 2019-20), 15.5% of our income came from general grants, including business rates (14.4% in 2019-20), and 9.7% of our income came from users of our services (11.1% in 2019-20).

## Impact of Covid-19

### Expenditure and Income in response to Covid-19 Outbreak in 2020-21

Of the £70,032m underspend £55.583m related to the impact of Covid-19 and has been transferred to a specific Covid-19 reserve. Of the underspend there are £28.810m of roll forward requests to be added to the 2021-22 to support the rescheduling of Covid-19 projects. The remaining underlying underspend of £26.773m will be used to support future Covid-19 related spend.

During 2020-21 the authority faced additional expenditure but the pandemic had a direct impact on the delivery of our services leading to an underspend of £53.037m that could be directly seen as a consequence of Covid-19.

Emergency funding of £94.9m was received from MHCLG in March, April, August and November of 2020, the amounts provided were £39m, £27.9m, £10.3m and £17.7m respectively. Of the £39m received in 2019-20 £37.3m was transferred to a specific Covid-19 reserve to be used to support the additional spending/income shortfalls during 2020-21. The table below sets out the 2020-21 Covid-19 position:

	£'000
<b>Covid-19 2020-21 Emergency Grant Allocation</b>	<b>92,924</b>
<b>Categories</b>	
Real spend	30,292
Underspends	-53,037
Loss of income	18,108
Unrealised savings	5,343
Market sustainability - one off payments	18,428
Payments for undelivered services (variable fee)	9,727
	<b>-64,063</b>
Contribution to Public Health Reserve	1,182
Contribution to Reserves	7,298
<b>Covid-19 Variance</b>	<b>-55,583</b>
Roll forward requests	28,810
<b>Revised Variance</b>	<b>-26,773</b>

The significant areas of additional Covid-19 related expenditure or income shortfall in 2020-21 includes:

- £17.207m of one-off payments in ASCH. Supporting the Residential and Homecare markets by providing £13.5m, the equivalent of 2 weeks payments. Providing financial support to the VCSE (Voluntary, Community and Social Enterprise) sector through additional contracts totalling £3.7m.
- £7.462m of additional spend in ASCH relating to the cost of supporting additional demand for services including: equipment to support clients in the community, additional care packages after hospital discharge, increases in bad debts, essential system improvements and domestic abuse.
- £3.650m shortfall of income in ASCH mainly due to reduced activity as a result of Covid-19.
- £3.310m unrealised savings in ASCH mainly due to the directorate being unable to realise the planned Whole System Change saving.
- £4.232m where additional spend in CYPE across a range of services including increase costs of placing looked after children due to the reduced availability of foster care provision, increase support for children with a disability and an increase number of Education Health and Care Plan referrals.
- £2.589m shortfall of income in CYPE mainly due to 16+ travel saver and adult learning services.
- £9.322m of additional spend in GET for a range of additional services including emergency mortuary and associated staffing costs. Increased waste-related areas of expenditure including: increase in kerbside tonnes being presented at Waste Transfer Stations, additional support to districts for Waste Collection, impact on commodity prices for recycled materials and costs associated with closing and re-opening Household Waste Recycling Centres.
- £9.443m shortfall of income in GET including the Kent Travel Saver, reduced operations at Libraries, Registration and Country Parks.
- £4.023m in GET to maintain financial stability mainly in public transport.
- £9.245m of additional spend in S&CS for additional council-wide costs including: provision of PPE and sanitiser across all services, additional staffing to handle increased call volumes in the Contact Centre and additional ICT infrastructure to enable staff to work from home. Costs related to the re-opening of buildings ensuring they are Covid-19 secure.

**Specific Covid-19 Grants received in 2020-21**

As well as the MHCLG emergency grants we received specific grants amounting to £135.471m. These have been used to fund additional activity. We also received additional S31 compensation grants and these have been set aside to fund the collection fund deficit. The table below sets out the grant received and the accounting treatment:

<b>Grant Name</b>	<b>Amount Received</b>	<b>Principal/ Agent</b>
	<b>£'000</b>	
Covid-19 Test & Trace grant	1,309	Principal
Covid-19 Adult Social Care Infection Control grant	18,154	Principal
Covid-19 Adult Social Care Infection Control grant - tranche 2	16,644	Principal
Covid-19 NHS Hospital Discharge claim	8,848	Principal
Covid-19 Bus Services Support Grant	4,295	Principal
Covid-19 Emergency Active Travel Fund (tranche 1)	470	Principal
Covid-19 Bus Services Support Grant Restart scheme	620	Principal
Covid-19 Emergency Assistance Grant for Food & Essential Supplies	1,669	Principal
Covid-19 School & College Transport Capacity funding	4,214	Principal
Covid-19 Targeted support for UASC	794	Principal
Covid-19 Wellbeing for Education Return project	206	Principal
Covid-19 Contain Outbreak Management Fund	8,434	Principal
Covid-19 Compensation for Loss of Sales, Fees & Charges	11,256	Principal
Covid-19 Winter Grant Scheme	4,470	Principal
Covid-19 Clinically Extremely Vulnerable	4,624	Principal
Covid-19 NHS Hospital Discharge claim Part 2	1,736	Principal
Covid-19 Asymptomatic Community Testing	7,193	Principal
Covid-19 Adult Social Care Rapid Testing Fund	4,686	Principal
Covid-19 Adult Social Care Workforce Capacity Fund	3,082	Principal
Covid-19 Compensation for irrecoverable local taxation losses (local tax income guarantee for 2020-21)	7,013	Principal
Covid-19 Compensation for Covid related business rate reliefs	25,613	Principal
Covid-19 Operation Barton (targeted testing for South African variant)	63	Principal
Covid-19 Working in Partnership to support the vaccination delivery programme	78	Principal
	<b>135,471</b>	

The unspent balances of the Wellbeing for Education Return project and Critically Extremely Vulnerable grants of £0.121m and £3.211m respectively have been requested to roll forward to support the rescheduling of these projects.

The £11.256m Compensation for Loss of Sales, Fees and Charges grant has been transferred to an earmarked reserve to support the 2021-22 budget.

The Compensation for irrecoverable local taxation losses and Compensation for Covid-19 related business rate reliefs grants of £7.13m and £25.613m respectively have been transferred to earmarked reserves to fund the deficit on the Collection Fund Accounts. These reserves are not available to support services.

### Financial Assessment of Impact and Resilience

A review of our reserves has been undertaken and the impact on our resilience index will be completed in the autumn.

### Schools

In total, schools' reserves have increased by £20.607m, this amount is made up of a reduction of £0.715m for local authority schools converting to academies, a decrease in the value of schools' deficit balances of £1.415m and an increase in schools' surplus balances of £19.907m.

In addition, there was a £29.544m net overspend on the Central DSG Reserve made up of £32.560m overspend on High Needs budgets, £1.374m underspend relating to pupil growth and falling rolls and other net underspends of £1.642m.

Schools reserves, including the Central DSG reserve, have therefore reduced by £8.937m in 2020-21 (£20.607m schools reserves less £29.544m Central DSG). Schools now have £55.950m of revenue reserves as reflected in note 23 on page 89 and there is a deficit balance of £51.048m in the Central DSG Reserve as reflected in note 24 on page 90.

### Earmarked Reserves

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

Revenue earmarked reserves are £359.786m and Note 25 on pages 98 to 103 provides an explanation of the purpose of each significant reserve along with the balance held at 31 March 2021. The general reserve position at 31 March 2021 is £37.213m, which is unchanged from the position as at 31 March 2020.

At 31 March 2021 the Council has usable capital reserves of £80.207m as shown on page 89.

Certain reserves are held to manage the accounting processes for such items as capital assets, collection fund and retirement benefits and these are unusable reserves of the Council. The Council also has a number of provisions set aside to meet known liabilities. The main provisions are for insurance claims and redundancies. Provisions held at 31 March 2021 totalled £29.216m, see Note 26 on page 104.

The level of the County Council General Fund is consistent with the overall financial environment and the key financial risks faced by the Council. Our Corporate Director of Finance, who is responsible for setting the level of reserves, has deemed the level to be 'adequate' given the level of risk that we face. A thorough review of our reserve policy and balances was undertaken in 2020-21.

## Narrative

### Capital

Capital expenditure is defined as expenditure on the purchase, improvement, or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure is incurred. Capital expenditure is funded from a variety of sources including: grants, capital receipts, borrowing, external contributions including developer contributions, and revenue contributions. Capital expenditure for the year was £354.961m. The expenditure analysed by portfolio was:

	Revised Budget £'000s	Outturn £'000s	Variance £'000s
PORTFOLIO			
Children, Young People & Education	155,983	121,085	-34,898
Adult Social Care & Health	5,243	1,330	-3,913
Growth, Environment & Transport	295,441	213,263	-82,178
Strategic & Corporate Services	71,536	7,634	-63,902
	528,203	343,312	-184,891
Devolved Capital to Schools	10,500	11,649	1,149
TOTAL	538,703	354,961	-183,742

Expenditure excluding that incurred by schools under devolved arrangements was £184.891m less than cash limits. Of this, £175.296m reflected re-phasing of capital expenditure plans across all services and £9.595m was due to real variations on a small number of projects. Rephased capital resources will be carried forward into 2021-22 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2020-21 was £11.649m.

Details of the financing of capital expenditure are on pages 92 and 93.

### Insurance Fund

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

Based on current estimates of the amount and timing of fund liabilities, the insurance provision at 31 March 2021 is established at a level sufficient to meet all known insurance claims where the likely cost can be estimated and there is reasonable certainty of payment. It is therefore in accordance with the requirements of IAS 37. Details can be found on page 104.

### Pension Fund

Local Authorities are required to comply with the disclosure requirements of IAS 19 - Employee Benefits. Under IAS 19, the Council is required to reflect in the primary statements of the Accounts, the assets and liabilities of the Pension Fund attributable to the Council and the cost of pensions. IAS 19 is based upon the principle that the Council should account for retirement benefits when it is committed to give them even though the cash payments may be many years into the future. This commitment is accounted for in the year that an employee earns the right to receive a pension in the future. These disclosures are reflected in the Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

**IAS 19**

The 2020-21 IAS 19 report shows that the Kent County Council Pension Fund now has a deficit of £1,635m. This is an increase in the deficit of £272m in year.

**Current Borrowing & Capital Resources**

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2020-21, earlier years and for future years. The balance currently stands at £865m (short- and long-term) as shown on the balance sheet on page 26. Future capital expenditure will be financed from revenue contributions, sale of surplus fixed assets, capital grants and contributions, borrowing, and relevant funds within earmarked reserves.

**East Kent Opportunities**

East Kent Opportunities LLP (EKO) is a 'Jointly Controlled Operation' and in 2020-21 the transactions and balances of EKO relating to KCC have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

**2021-22 onwards**

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

The 2021-22 budget was agreed by the County Council on 11 February 2021. The 2021-22 budget was prepared against the highly uncertain background following the outbreak of the Covid-19 pandemic which meant that aspects of the budget that can usually be predicted with a reasonable degree of accuracy such as spending demands and council tax base were much more uncertain. Coupled with this was a one-year settlement from government for 2020-21 which meant for the second successive year we had no indicative settlement on which plans could be based. As a consequence, the budget was developed based on different scenarios for spending projections, funding assumptions and savings/income necessary to continue to set a balanced budget. These scenarios resulted in a wide range of possibilities.

Consultation on the budget was launched on 14 October 2020 and was open for 6 weeks until 24 November 2020. The consultation identified the wide range of possibilities with spending growth ranging between £70m to £120m, council tax collection losses of between £10m to £20m in 2020-21, council tax base reductions for 2021-22 of between £25m to £40m, and business rate reductions of between £5m to £8m. This represented a budget challenge of between £110m to £188m to be resolved by a combination of council tax increases, government settlement and savings/income.

The Chancellor of the Exchequer announced the outcome of Spending Review 2020 (SR2020) on 25 November 2020. For local government this included another rollover of existing grants, a further extra grant to support demands on social care services, additional compensation for business rates reliefs, no new legacy payments through New Homes Bonus and council tax referendum principles allowing up to 2% general increase and up to a further 3% through the social care levy (all or some of which could be deferred until 2022-23). The government estimated this would amount to an average 4.6% increase in the Core Spending Power (5.5% for KCC) compared to 2020-21. However, this assumed council tax base growth consistent with pre-pandemic levels.

In addition SR2020 also included a further round of Covid-19 grants in 2021-22 to support additional spending associated with the pandemic, compensation for council tax losses (in addition to the ability to write collection fund deficits off over 3 years) and compensation for loss of income from sales, fees and charges. The provisional local government finance settlement was published on 17 December 2020 confirming the individual allocations of grants following SR2020 announcement.

## Narrative

KCC published the draft budget report for 2021-22 on 6 January 2021. The report set out the national and local context, details of the local government finance settlement, and council tax and budget spending and savings/income proposals. These were summarised as follows:

<b>Change in Net Spending</b>	<b>£m</b>	<b>Change in Net Funding</b>	<b>£m</b>
Proposed additional spending	98.0	Changes in un-ringfenced govt. grants	54.5
Proposed savings from spending reductions	-37.4	Change in council tax base	-7.8
Proposed changes in income	-2.5	Proposed increase in council tax rate	37.0
Changes in specific govt. grants	-2.6	Change in retained business rates	-7.2
Proposed net change in reserves	9.2	Change in collection fund balances	-11.8
<b>total Change in Net Spending</b>	<b>64.7</b>	<b>Total Change in Net Funding</b>	<b>64.7</b>

The final local government finance settlement was published on 4 February 2021. This included no changes from the provisional local government finance settlement although guidance on the accounting arrangements for compensation for collection losses on business rates and council tax required presentational changes with grants paid into reserves in 2020-21 and drawn down to fund 2021-22 budget. The final net revenue budget approved by County Council on 11 February 2021 was £1,132.4m and comprised of the following key changes from the original 2020-21 budget of £1,063.6m:

<b>Change in Net Spending</b>	<b>£m</b>	<b>Change in Net Funding</b>	<b>£m</b>
Proposed additional spending	110.1	Changes in un-ringfenced govt. grants	51.2
Proposed savings from spending reductions	-34.4	Change in council tax base	-7.8
Proposed changes in income	-2.5	Proposed increase in council tax rate	37.0
Changes in specific govt. grants	-2.6	Change in council tax collection fund	-6.9
Proposed net change in reserves	-1.8	Drawdown from reserves for S31 compensation grant for tax losses	2.5
		Change in retained business rates	-4.1
		Change in business rate collection fund	-29.8
		Drawdown from reserves for S31 compensation grant for tax losses	26.7
<b>total Change in Net Spending</b>	<b>68.8</b>	<b>Total Change in Net Funding</b>	<b>68.8</b>

The provisional and final local government finance settlements only relate to funding identified for local government from MHCLG and does not include funding from other departments via ring-fenced specific grants e.g. Department for Education, Department for Health and Social Care, Department for Transport, etc. KCC's policy is to contain spending on functions supported by these specific grants within the funding allocated.

The council tax decisions resulted in the KCC element for a band C household (the most common band in Kent) increasing from £1,201.12 in 2020-21 to £1,261.12 in 2021-22. The increase was agreed as necessary to help to fund rising spending growth and to avoid the need to find further savings which would impact on front-line services. Increases up to the referendum level and for social care were supported by more of the respondents to KCC's budget consultation than those opposed to council tax increases. The increases are also in line with the Government's published spending plans in the Core Spending power calculation.

The Council also needs to support a significant capital programme. The Council has identified a pressing need to provide additional school places through the Kent Commissioning Plan to meet the rapidly growing demand, particularly in the secondary sector. Loan funding has been made available within the programme to support the existing schools commissioning plan and at this stage it is assumed that future basic need grant settlements would be sufficient to fund the places needed in future plans. The Council also faces a pressing need to provide capital funding to maintain other buildings and assets, including roads, in order to ensure these remain safe and in usable condition.



## Narrative

The budget includes an assessment of the main financial risks that have not been included in spending plans. The highest rated risks include:

- Ongoing impact of the Covid-19 pandemic on revenue and capital spending
- Ongoing rises in demand to support children and young people with Special Educational Needs and Disability (SEND). This demand is rising much faster than increases in High Needs funding within the Dedicated Schools Grant. The Council has developed and implemented an SEN Action Plan, but this will also require a response from government to provide additional funding for SEND in the short and medium term, and introduce structural reforms to help curb demand
- Shortfalls in capital grants for highways asset management
- Backlog in demand for social care services for clients awaiting assessments
- Ongoing increases in the cost of providing care packages due to demographic changes and market financial sustainability concerns
- Rental costs for premises currently not subject to lease agreements

The outlook beyond 2021-22 remains highly uncertain. We have no detailed spending plans from central government or indicative settlement. The trajectory of recovery from the pandemic is also uncertain at this stage. The 2021-22 budget report to County Council on 11 February 2021 included high level projections of spending, funding and savings under different scenarios. It is likely that future spending will need to be based on a number of scenarios for the foreseeable future. The scenarios presented to full council were similar to those used by the Office for Budget Responsibility (OBR) identifying an upside scenario (recovery from the pandemic is secured following successful roll-out of vaccine programme and suppressing the virus), a downside scenario with continued periods of lockdown, and a central case. A summary of these scenarios was published in the final budget report to council.

	<b>Upside Scenario</b>		<b>Central Case</b>		<b>Downside Scenario</b>	
	<b>2022-23</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2022-23</b>	<b>2023-24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Spending Growth Forecasts</b>						
Business as usual	57.0	57.0	68.0	68.0	79.0	79.0
Covid-19			14.0	7.0	21.0	21.0
Replace one-offs from unstable sources in 2021-22	13.0		13.0		13.0	
Remove One-ff spending in 2021-22	-10.0		-10.0		-10.0	
Existing savings and policy	-27.0	-20.0	-27.0	-20.0	-27.0	-20.0
<b>Total Spending Growth</b>	<b>33.0</b>	<b>37.0</b>	<b>58.0</b>	<b>55.0</b>	<b>76.0</b>	<b>80.0</b>
<b>Funding Change Forecasts</b>						
Council Tax Base	15.6	16.5	7.8	8.2	-15.6	7.9
Assumed 2%+2% Tax increases	31.8	33.7	31.5	33.0	30.5	30.5
Government Core Grants	12.5	13.1	0.8	0.8	-12.5	-13.1
Covid-19 Grants	-46.7		-46.7		-46.7	
<b>Total Funding Change</b>	<b>13.2</b>	<b>63.3</b>	<b>-6.6</b>	<b>42.0</b>	<b>-44.3</b>	<b>25.3</b>
<b>Gap</b>	<b>19.8</b>	<b>-26.3</b>	<b>64.6</b>	<b>13.0</b>	<b>120.3</b>	<b>54.7</b>

We will not have any additional certainty until the outcome of the Spending Review anticipated sometime in 2021. The Fair Funding review of relative needs and resources (which affects the redistribution of business rates and remaining Revenue Support Grant (RSG) and the review of business rates retention have both been deferred. These reviews are considered essential along with sufficient funding within the settlement to better reflect spending demands on council services and to improve financial planning. We are also anticipating reforms to the funding of social care services, New Homes Bonus and fundamental review of the basis for business rates in the future. We have also requested government to consider reforms to council tax arrangements. These potential reforms add to the uncertainty.

### **The Council's Stewardship, Responsibilities and Financial Management Policies**

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

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

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

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

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

Telephone (03000) 416082 or E-Mail [emma.feakins@kent.gov.uk](mailto:emma.feakins@kent.gov.uk).

### **The Council's Responsibilities**

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Finance;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to approve the Statement of Accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 7 October 2021 on behalf of Kent County Council and have been re-signed as authorisation to issue.

**Councillor Rosalind Binks**  
**Chairman of the Governance and Audit Committee**

### **The Corporate Director of Finance's Responsibilities**

The Corporate Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2021.

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

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

The Corporate Director of Finance has also:

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

I confirm that these accounts give a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31 March 2021.

### **Certificate of the Corporate Director of Finance**

**Zena Cooke**  
**Corporate Director of Finance**

## Comprehensive Income and Expenditure Statement

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

	Notes	Year ended 31 March 2021		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Service				
Adult Social Care & Health	ASCH	640,735	211,602	429,133
Children, Young People & Education	CYPE	1,344,341	971,555	372,786
Growth, Environment & Transport	GET	455,001	159,682	295,319
Strategic & Corporate Services including Public Health	S&CS	227,697	119,104	108,593
Financing Items & Unallocated	FI&U	5,201	13,926	-8,725
<b>Cost of Services</b>		<b>2,672,975</b>	<b>1,475,869</b>	<b>1,197,106</b>
Other operating Expenditure	13			45,242
Net Surplus on trading accounts	34			-2,993
Financing and Investment Income and Expenditure	14			62,408
Taxation and Non Specific Grant Income	15			-1,195,949
- S31 75% Tax Income Guarantee and Business Rate Relief compensation grants	15			-32,626
<b>(Surplus) or deficit on Provision of Services</b>				<b>73,188</b>
(Surplus)/deficit arising on revaluation of non current assets				-169,605
Remeasurement of the net defined benefit liability				148,166
(Surplus)/deficit from investments in equity instruments designated at fair value through other comprehensive income				-950
<b>Other Comprehensive Income and Expenditure</b>				<b>-22,389</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>50,799</b>

## Comprehensive Income and Expenditure Statement

Service	Notes	Year ended 31 March 2020		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Adult Social Care & Health	<b>ASCH</b>	546,037	152,595	393,442
Children, Young People & Education	<b>CYPE</b>	1,270,897	936,785	334,112
Growth, Environment & Transport	<b>GET</b>	329,495	57,135	272,360
Strategic & Corporate Services including Public Health	<b>S&amp;CS</b>	202,469	98,641	103,828
Financing Items & Unallocated	<b>FI&amp;U</b>	29,280	3,262	26,018
<b>Cost of Services</b>		<b>2,378,178</b>	<b>1,248,418</b>	<b>1,129,760</b>
Other operating Expenditure	<b>13</b>			61,452
Net Surplus on trading accounts	<b>34</b>			-4,509
Financing and Investment Income and Expenditure	<b>14</b>			95,159
Taxation and Non Specific Grant Income	<b>15</b>			-1,077,812
<b>(Surplus) or deficit on Provision of Services</b>				<b>204,050</b>
(Surplus)/deficit arising on revaluation of non current assets				-581,875
Remeasurement of the net defined benefit liability				-78,590
(Surplus)/deficit from investments in equity instruments designated at fair value through other comprehensive income				-950
<b>Other Comprehensive Income and Expenditure</b>				<b>-661,415</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>-457,365</b>

## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Year ended 31 March 2020				
	General Fund Balance	Earmarked GF Reserves	S31 - 75% Tax Income Guarantee grant and Business Rates Relief Grant Reserves	Total GF incl. Earmarked Reserves	Capital Receipts Reserve
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2019</b>	<b>-37,054</b>	<b>-213,345</b>	<b>0</b>	<b>-250,399</b>	<b>-39,279</b>
<b>Movement in reserves during 2019-20</b>					
<b>Total Comprehensive Expenditure &amp; Income</b>	<b>204,050</b>			<b>204,050</b>	
Adjustments between accounting basis & funding basis under regulations - Note 12	-238,513			<b>-238,513</b>	8,351
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-34,463</b>	<b>0</b>	<b>0</b>	<b>-34,463</b>	<b>8,351</b>
Transfer between Usable and Unusable Reserves				<b>0</b>	
Transfers to/from Earmarked Reserves (total of *s on Note 23)	34,334	-34,334		<b>0</b>	
<b>Increase/Decrease (movement) in Year</b>	<b>-129</b>	<b>-34,334</b>	<b>0</b>	<b>-34,463</b>	<b>8,351</b>
	Year ended 31 March 2021				
	General Fund Balance	Earmarked GF Reserves	S31 - 75% Tax Income Guarantee grant and Business Rates Relief Grant Reserves	Total GF incl. Earmarked Reserves	Capital Receipts Reserve
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2020 carried forward</b>	<b>-37,183</b>	<b>-247,678</b>	<b>0</b>	<b>-284,861</b>	<b>-30,928</b>
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020		-21,505		<b>-21,505</b>	
<b>Movement in reserves during 2020-21</b>					
<b>Total Comprehensive Expenditure &amp; Income</b>	<b>73,188</b>			<b>73,188</b>	
Adjustments between accounting basis & funding basis under regulations - Note 12	-220,347			<b>-220,347</b>	503
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-147,159</b>	<b>0</b>	<b>0</b>	<b>-147,159</b>	<b>503</b>
Transfer between Usable and Unusable Reserves				<b>0</b>	
Transfers to/from Earmarked Reserves (total of *s on Note 23)	147,267	-114,641	-32,626	<b>0</b>	
<b>Increase/Decrease (movement) in Year</b>	<b>108</b>	<b>-114,641</b>	<b>-32,626</b>	<b>-147,159</b>	<b>503</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>-37,075</b>	<b>-383,824</b>	<b>-32,626</b>	<b>-453,525</b>	<b>-30,425</b>

## Movement in Reserves Statement

	Year ended 31 March 2020			
	Capital Grants Unapplied	Total Usable Reserves	Unusable reserves	Total Council Reserves
	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2019</b>	<b>-134,325</b>	<b>-424,003</b>	<b>38,491</b>	<b>-385,512</b>
<b>Movement in Reserves during 2019-20</b>				
<b>Total Comprehensive Expenditure and Income</b>		<b>204,050</b>	<b>-661,415</b>	<b>-457,365</b>
Adjustments between accounting basis & funding basis under regulations - Note 12	57,087	<b>-173,075</b>	173,075	<b>0</b>
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>57,087</b>	<b>30,975</b>	<b>-488,340</b>	<b>-457,365</b>
Transfer between Usable and Unusable Reserves		<b>0</b>	0	<b>0</b>
Transfers to/from Earmarked Reserves (total of *s on Note 23)		<b>0</b>	0	<b>0</b>
<b>Increase/Decrease (movement) in Year</b>	<b>57,087</b>	<b>30,975</b>	<b>-488,340</b>	<b>-457,365</b>
	Year ended 31 March 2021			
	Capital Grants Unapplied	Total Usable Reserves	Unusable reserves	Total Council Reserves
	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2020 carried forward</b>	<b>-77,238</b>	<b>-393,027</b>	<b>-449,850</b>	<b>-842,877</b>
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020		<b>-21,505</b>	21,505	<b>0</b>
<b>Movement in reserves during 2020-21</b>				
<b>Total Comprehensive Expenditure &amp; Income</b>		<b>73,188</b>	<b>-22,389</b>	<b>50,799</b>
Adjustments between accounting basis & funding basis under regulations - Note 12	27,455	<b>-192,389</b>	192,389	<b>0</b>
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>27,455</b>	<b>-119,201</b>	<b>170,000</b>	<b>50,799</b>
Transfer between Usable and Unusable Reserves		<b>0</b>	0	<b>0</b>
Transfers to/from Earmarked Reserves (total of *s on Note 23)		<b>0</b>	0	<b>0</b>
<b>Increase/Decrease (movement) in Year</b>	<b>27,455</b>	<b>-119,201</b>	<b>170,000</b>	<b>50,799</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>-49,783</b>	<b>-533,733</b>	<b>-258,346</b>	<b>-792,079</b>

## Balance Sheet

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

		31 March 2021		31 March 2020
	Notes	£'000	£'000	£'000
Property Plant & Equipment	17	3,161,042		3,010,836
Heritage Assets	21	6,821		6,650
Investment Property	18	52,295		61,971
Intangible assets		4,809		6,311
Long-term investments	39	289,867		266,329
Long-term debtors	27	52,862		65,061
<b>Total long-term assets</b>			3,567,696	3,417,158
Inventories		4,225		4,389
Assets held for sale (<1yr)		1,546		1,491
Short-term debtors	27	287,894		209,518
Short-term investments	39	109,059		84,307
Cash and Cash equivalents	29	144,197		57,640
<b>Total current assets</b>			546,921	357,345
Temporary borrowing	39	-128,759		-81,465
Short-term Lease Liability	39	-8,149		-8,124
Short-term provisions	26	-19,893		-18,786
Creditors	28	-393,099		-316,612
<b>Total Current liabilities</b>			-549,900	-424,987
Creditors due after one year	28	-11,536		-40
Provisions	26	-9,325		-9,621
Long-term borrowing	39	-735,969		-813,624
Other Long-Term Liabilities	38/39	-1,870,688		-1,608,456
Capital Grants Receipts in Advance	16	-145,120		-74,898
<b>Long-Term Liabilities</b>			-2,772,638	-2,506,639
<b>Net Assets/(Liabilities)</b>			792,079	842,877
<b>Usable Reserves</b>	23	-533,733		-393,027
<b>Unusable Reserves</b>	24	-258,346		-449,850
<b>Total Reserves</b>			-792,079	-842,877



## Cash Flow Statement

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

	Notes	2020-21 £'000	2019-2020 £'000
Net (Surplus) or deficit on the provision of services		73,188	204,050
Adjustments to net surplus or deficit on the provision of services for non cash movements	30	-500,095	-447,414
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	30	262,702	118,441
<b>Net cash flows from operating activities</b>		-164,205	-124,923
Investing Activities	31	44,872	121,584
Financing Activities	32	32,776	26,074
<b>Net increase (-) or decrease in cash and cash equivalents</b>		-86,557	22,735
Cash and cash equivalents at the beginning of the reporting period		57,640	80,375
<b>Cash and cash equivalents at the end of the reporting period</b>	29	<b>144,197</b>	<b>57,640</b>

## Note 1a - Expenditure and Funding Analysis

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

	Year ended 31 March 2021				
	As reported to Management	Adjustments to arrive at the net amount chargeable to the General Fund Balance	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Adult Social Care & Health	414,626	-2,396	412,230	16,903	<b>429,133</b>
Children, Young People & Education	260,046	-19,604	240,442	132,345	<b>372,787</b>
Growth, Environment & Transport	182,227	68	182,295	113,024	<b>295,319</b>
Strategic & Corporate Services including Public Health	93,562	-5,908	87,654	20,938	<b>108,592</b>
Financing Items & Unallocated	111,411	-119,832	-8,421	-304	<b>-8,725</b>
Schools' Delegated Budgets	8,937	-8,937	0	0	<b>0</b>
<b>Cost of Services</b>	<b>1,070,809</b>	<b>-156,609</b>	<b>914,200</b>	<b>282,906</b>	<b>1,197,106</b>
Other Income and Expenditure	-1,131,904	70,545	-1,061,359	-62,559	<b>-1,123,918</b>
<b>Surplus or Deficit</b>	<b>-61,095</b>	<b>-86,064</b>	<b>-147,159</b>	<b>220,347</b>	<b>73,188</b>
<b>Opening General Fund Balance</b>			-284,861		
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020			-21,505		
Less/Plus Surplus or (Deficit) on General Fund in Year			-147,159		
Transfers between Usable & Unusable Reserves			0		
<b>Closing General Fund Balance at 31 March 2021</b>			<b>-453,525</b>		

Note 10a on pages 47 to 50 provides a explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

## Note 1a - Expenditure and Funding Analysis

	Year ended 31 March 2020				
	As reported to Management	Adjustments to arrive at the net amount chargeable to the General Fund Balance	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Adult Social Care & Health	367,392	11,664	379,056	14,386	<b>393,442</b>
Children, Young People & Education	247,083	14,731	261,814	72,299	<b>334,113</b>
Growth, Environment & Transport	171,744	2,542	174,286	98,074	<b>272,360</b>
Strategic & Corporate Services including Public Health	79,287	6,206	85,493	18,334	<b>103,827</b>
Financing Items & Unallocated	172,134	-170,821	1,313	24,705	<b>26,018</b>
Schools' Delegated Budgets	13,046	-13,046	0	0	<b>0</b>
<b>Net Cost of Services</b>	<b>1,050,686</b>	<b>-148,724</b>	<b>901,962</b>	<b>227,798</b>	<b>1,129,760</b>
Other Income and Expenditure	-1,043,867	107,442	-936,425	10,715	<b>-925,710</b>
<b>Surplus or Deficit</b>	<b>6,819</b>	<b>-41,282</b>	<b>-34,463</b>	<b>238,513</b>	<b>204,050</b>
<b>Opening General Fund Balance</b>			-250,399		
Less/Plus Surplus or (Deficit) on General Fund in Year			-34,463		
Transfers between Usable & Unusable Reserves			0		
<b>Closing General Fund Balance at 31 March 2020</b>			<b>-284,862</b>		

### **Note 1b. Basis for Preparation/General**

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

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

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

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

#### **General**

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Authority Accounting in the UK 2020-21 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non-current assets and financial instruments. They are also prepared on a going concern basis.

#### **Accruals of Income and Expenditure**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

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

## **Note 2 - Accounting Policies**

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

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

### **Accounting for Schools**

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

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

### **Intangible Assets**

Assets that do not result in the creation of a tangible asset (which is an asset that has physical substance), but are identifiable and are controlled by the Council, e.g. software licences, are classified as intangible assets. This expenditure is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the life of the asset. For software licences this is normally between 3 to 5 years.

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

### **Fair Value Measurement of non-financial assets**

The Council's accounting policy for fair value measurement of financial assets is set out in Note 39. The Council also measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

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

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

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

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

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

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

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

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

### **Joint Operations**

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

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

### **Accounting for Value Added Tax (VAT)**

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

### **Inventories**

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

### **Interests in companies and other entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in the companies and other entities are recorded as financial assets held at fair value through profit and loss.

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

For 2020-21 there are the following amendments to accounting standards:

**IFRS 16 - Leases:** This standard was issued in January 2016 and was planned to be adopted by Local Authorities in 2020-21 but was initially deferred to 2021-22. Due to the pressures on finance teams as result of the Covid-19 pandemic, there has been a further one-year deferral to 2022-23. The impact of adopting this standard is that most of our leases where we are the lessee will require a 'right of use asset' to be recognised on the Balance Sheet. This is different from the current accounting standard where leases are classified as operating and finance leases, with only the assets and liabilities relating to finance leases are recognised on our Balance Sheet. This accounting change will have a significant impact on our accounts, but this is not known and there are no reliable estimates to quantify the impact.

**Note 4. Critical Judgements in applying Accounting Policies**

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Provisions**

The Council will make a provision where a future event is uncertain but where there is a legal or constructive obligation.

**Property, Plant and Equipment**

The Council has a policy to revalue its land and buildings at least every 4 years and undertakes an annual review to ensure that the carrying amount of assets not revalued in year is not materially different to their current value at the balance sheet date. £243m worth of assets in the balance sheet have not been revalued in 2020-21. Due to the value, valuation type and prior valuation date of these assets we are confident that the value of these assets is not materially different to their current value at the balance sheet date.

**IFRS 15 - Revenue from Contracts with Service Recipients**

The Council implemented IFRS 15 – Revenue from Contracts with Service Recipients in 2018-19 and it continues to not significantly affect when revenue is recognised in the accounts. Analysis of cash received/paid, transfer from contract assets/(liabilities) at the beginning of the period to receivable/(payables) and changes as a result of changes in the measure of progress would require a significant degree of judgement and assumptions and our conclusion is this would add very little value and is not seen as having a material impact. We will continue to assess our judgements made.

**Impairment and Expected Credit Losses**

IFRS 9 Financial Instruments requires certain classes of financial assets to be impaired based on expected credit losses. We annually review the level of expected credit losses and assess the material impact. Due to the type of financial assets held by the Council, the risk of impairment is low and would attract minimal losses. Based on this, we are not accounting for impairment losses except for Trade Receivables.

Trade Receivables are impaired on a simplified approach. The value of our Trade Receivables for 2020-21 is £80.7m and these are impaired by £8.0m.

**Related Parties - Interest in Companies**

The Council has an interest in companies outside of those that are our wholly owned subsidiaries. A test of control on these companies shows they are outside of the scope for group accounts. This is because we have no overall control or influence over these companies, and our level of control is less than or equal to 50%. Payments made to any entity we have an interest in are shown in Note 37 on page 111. We annually review all companies we have an interest in and test the level of control.

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>Under component accounting the Authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2020-21 the following de minimus thresholds were applied:</p> <p>Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m</p> <p>Families &amp; Social Care establishments: £2m Highways &amp; Waste Depots: £2m County Offices: £2m Libraries: £2m Youth &amp; Community Centres: £2m</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £2.08m for every year that useful lives had to be reduced. Over a period of 3 years (before the next valuation takes place) this could result in an error of £6.2m - this is not material.</p> <p>If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £5.3m. Over 3 years this would give a difference of £15.9m - this is not material.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The increase in pension deficit during the year has arisen principally due to the technical decrease in the valuation of the liabilities. Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. Asset performance being less than expected over the year has led to an increase in pension deficit. During 2020-21, the Council's actuaries advised that the net pensions liability had increased by £272m attributable to the updating of financial assumptions.</p>



## Note 5 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty and Note 6 - Officers Remuneration

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Fair Value measurements	<p>Surplus and Investment Properties cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), so their fair value is measured using income or market approach valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible unobservable inputs, which require judgement, are used to establish fair values. The significant unobservable inputs used in the fair value measurement include assumptions regarding passing rents and yields, estimated sale values, revenue streams and discount rates.</p> <p>Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 17, 18 and 39.</p>	Sizable changes in any of the unobservable inputs would result in a significant lower or higher fair value measurement for those assets held at fair value.

### Note 6. Officers Remuneration

#### Accounting Policy

#### **Employee Benefits**

##### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Service lines within the Comprehensive Income and Expenditure Statement, but is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

##### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the cost for restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

##### **Post Employment Benefits**

The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

## Note 6 - Officers Remuneration

### - Teachers and former NHS Staff

The Council contributes to the Teachers' Pension Scheme and the NHS Pension Scheme at rates set by the schemes actuary and advised by the Schemes Administrator. The schemes pay benefits on the basis of pre-retirement salaries of teaching staff and former NHS staff. While the schemes are of the Defined Benefit type, they are accounted for as Defined Contribution Schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

### - Other employees

The liabilities of the Kent Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

The assets of Kent Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unlisted securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

#### Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
- net interest on the net defined benefit liability (asset), i.e. the net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (assets) during the period as a result of contribution and benefit payments.

#### Remeasurement comprising:

- net return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve, as Other Comprehensive Income and Expenditure
- contributions paid to the Kent Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

#### Discretionary Benefits

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

## Note 6 - Officers Remuneration

### Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2020 to 31 March 2021

Regulations require the Council to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Head of Paid Service and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2020-21, was £50,000 or more.

Remuneration includes:

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

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

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

d) but excludes Employer's Pension contributions.

Remuneration	Total number of employees			
	Non-Schools	Schools	Non-Schools	Schools
(£)	31 March 2021	31 March 2021	31 March 2020	31 March 2020
50,000 - 54,999	197	210	155	167
55,000 - 59,999	132	127	105	117
60,000 - 64,999	104	53	63	75
65,000 - 69,999	56	49	33	52
70,000 - 74,999	22	28	24	26
75,000 - 79,999	22	14	23	19
80,000 - 84,999	14	10	15	11
85,000 - 89,999	13	5	5	12
90,000 - 94,999	9	4	11	7
95,000 - 99,999	10	4	3	4
100,000 - 104,999	8	2	5	1
105,000 - 109,999	2		3	3
110,000 - 114,999	2	1	2	1
115,000 - 119,999	1		7	2
120,000 - 124,999	4		1	
125,000 - 129,999	2		3	
130,000 - 134,999				
135,000 - 139,999	1			
140,000 - 144,999			1	
145,000 - 149,999			1	
150,000 - 154,999	3		1	
155,000 - 159,999	1			
160,000 - 164,999			1	
165,000 - 169,999				
170,000 - 174,999				
175,000 - 179,999				

## Note 6 - Officers Remuneration

Remuneration	Total number of employees			
(£)	Non-Schools 31 March 2021	Schools 31 March 2021	Non-Schools 31 March 2020	Schools 31 March 2020
180,000 - 184,999				
185,000 - 189,999	1			
190,000 - 194,999			3	
195,000 - 199,999				
200,000 - 204,999	1			
205,000 - 209,999				
210,000 - 214,999			1	
215,000 - 219,999	1			
<b>Total</b>	<b>606</b>	<b>507</b>	<b>466</b>	<b>497</b>

The number of employees shown against the above remuneration band will not tie-up with the information on the following pages. This is because the table above refers to remuneration which includes items a-c as per the note on the previous page, whereas the following table relates purely to salary entitlement in the year and requires the employer's pension contribution to be disclosed but only for senior officers. The Code defines senior officers as those whose annual salary is £150,000 or more, or those whose salary is above £50,000 and holds a chief officer position. The following tables are set out in the format prescribed in the CIPFA Code, issued by The Chartered Institute of Public Finance and Accountancy.

The remuneration paid to the Authority's senior employees for 2020-21 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Corporate Director Strategic &amp; Corporate Services - David Cockburn</b>		207,884				217,482	45,889	263,371
<b>Corporate Director Adult Social Care &amp; Health - Penny Southern</b>	1	41,813			6,600	56,072	720	56,792
<b>Corporate Director Adult Social Care &amp; Health - Richard Smith</b>	2	7,997				7,997	1,687	9,684
<b>Corporate Director Children, Young People &amp; Education - Matt Dunkley CBE</b>		201,616				204,288	43,105	247,393
<b>Corporate Director Growth, Environment &amp; Transport - Barbara Cooper</b>		174,956				188,377	36,916	225,293
<b>Corporate Director Finance - Zena Cooke</b>		147,152		7,436		155,268	32,762	188,030

The remuneration paid to the Authority's senior employees for 2020-21 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Corporate Director Engagement, Organisation Design &amp; Development - Amanda Beer</b>		147,152				6,794	32,483	186,429
<b>General Counsel - Ben Watts</b>		117,432		14,475		3,692	28,611	164,210
<b>Director Public Health - Andrew Scott-Clark</b>		117,432				3,692	17,418	138,542

\* This includes all contractual entitlements.

**Notes**

**The remuneration paid to the Authority's senior employees for 2020-21 is as follows:**

- 1 Mrs Southern left the post of Corporate Director Adult Social Care & Health on 8th April 2020. The annualised salary for this post is £153,600.
- 2 Mr Smith has been Corporate Director Adult Social Care & Health since 15 March 2021. The annualised salary for this post is £175,000

The remuneration paid to the Authority's senior employees for 2019-20 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Corporate Director Strategic &amp; Corporate Services - David Cockburn</b>		204,208				210,860	44,281	255,141
<b>Corporate Director Adult Social Care &amp; Health - Penny Southern*</b>		153,600				153,600	32,256	185,856
<b>Corporate Director Children, Young People &amp; Education - Matt Dunkley CBE</b>		194,560				194,560	40,858	235,418
<b>Corporate Director Growth, Environment &amp; Transport - Barbara Cooper</b>		164,278				164,278	34,498	198,776
<b>Corporate Director Finance - Zena Cooke</b>	1	121,039		4,241		125,280	35,644	160,924
<b>Corporate Director Engagement, Organisation Design &amp; Development - Amanda Beer</b>		144,550				149,259	31,344	180,603



The remuneration paid to the Authority's senior employees for 2019-20 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Section 151 Officer -</b> Dave Shipton	2	N/A		16,103		16,103	3,382	19,485
<b>General Counsel -</b> Ben Watts		115,356		4,475		122,109	25,643	147,752
<b>Director Public Health -</b> Andrew Scott-Clark		115,356			229	115,585	16,221	131,806

\* This includes all contractual entitlements.

**Notes**

**The remuneration paid to the Authority's senior employees for 2019-20 is as follows:**

- 1 Mrs Cooke was on maternity leave between February 2019 and September 2019. The remuneration for this post is £150,000.
- 2 Mr Shipton covered the Section 151 Statutory Officer role in addition to his substantive post between February 2019 and September 2019 and for this was remunerated an additional £16,103.

## Note 6 - Officers Remuneration

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. Of the total redundancies made, 74% of those are compulsory redundancies. We do not have the detail across bands £0 - £20,000, £20,001 - £40,000, and £40,001 - £80,000 and have applied this percentage equally to each of these bands. The total cost in 2020-21 of £0.6m includes schools and commitments in 2021-22.

(a) Exit package cost band (inc special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £	2020/21 £
40,001 - 80,000	1	4	1	0	2	4	81,968	216,107
20,001 - 40,000	4	4	7	1	11	5	346,785	152,199
0 - 20,000	9	22	20	9	29	31	212,849	219,934
<b>Total</b>	<b>14</b>	<b>30</b>	<b>28</b>	<b>10</b>	<b>42</b>	<b>40</b>	<b>641,602</b>	<b>588,240</b>

## Note 7 - Members Allowances, Note 8 - Deposits in Icelandic Banks and Note 9 - Material Items of Income and Expenditure

### Note 7. Members Allowances

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

	<b>2020-21</b>	<b>2019-20</b>
	<b>£'000</b>	<b>£'000</b>
Allowances	1,959	1,916
Expenses	10	114
<b>Total</b>	<b>1,969</b>	<b>2,030</b>

In 2020-21 the cost of the County Cars was £4.3k (£7.4k in 2019-20).

### Note 8. Deposits in Icelandic banks

All the Icelandic banks deposits have been repaid.

### Note 9. Material Items of Income and Expense

#### Accounting Policy

#### Exceptional Items

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

#### Material Items of Income and Expense

The net loss on disposal of non-current assets of £43.2m includes a loss of £19.7m which relates to schools transferring to academy status, at nil value, as instructed by the Secretary of State for Education.

## Note 10a - Note to the Expenditure and Funding Analysis

### Note 10a. Note to the Expenditure and Funding Analysis

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

2020-21	Drawdown to/from Reserves (Note 1) £'000	Investment Income reported at Directorate Level (Note 1) £'000	Strategic & Corporate Services Recharges (Note 1) £'000	Realignment of Financing Items for Accounting Purposes (Note 1) £'000	Adjustments for Trading Activities (Note 1) £'000
Adult Social Care & Health	-2,760		364		
Children, Young People & Education	-22,335	2,407	189	135	
Growth, Environment & Transport	-1,791	481	1,543		-165
Strategic & Corporate Services including Public Health	-4,704	1,947	-2,096		-1,055
Financing Items & Unallocated	-13,212	9,979		-116,599	
Schools' Delegated Budgets	-8,937				
<b>Net Cost of Services</b>	<b>-53,739</b>	<b>14,814</b>	<b>0</b>	<b>-116,464</b>	<b>-1,220</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>-32,626</b>	<b>-14,814</b>		<b>116,464</b>	<b>1,521</b>
<b>Total</b>	<b>-86,365</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>301</b>

2020-21	Total to arrive at amount charged to the General Fund £'000	Adjustments for Capital Purposes (Note 2) £'000	Net change for the Pensions Adjustments (Note 3) £'000	Other Differences (Note 4) £'000	Total Adjustment between Funding and Accounting Basis £'000
Adult Social Care & Health	-2,396	823	16,116	-36	16,903
Children, Young People & Education	-19,604	50,203	53,503	28,639	132,345
Growth, Environment & Transport	68	103,061	10,059	-96	113,024
Strategic & Corporate Services including Public Health	-5,908	12,336	9,656	-1,053	20,939
Financing Items & Unallocated	-119,832		3	-308	-305
Schools' Delegated Budgets	-8,937				0
<b>Net Cost of Services</b>	<b>-156,609</b>	<b>166,423</b>	<b>89,337</b>	<b>27,146</b>	<b>282,906</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>70,545</b>	<b>-141,085</b>	<b>34,186</b>	<b>44,340</b>	<b>-62,559</b>
<b>Total</b>	<b>-86,064</b>	<b>25,338</b>	<b>123,523</b>	<b>71,486</b>	<b>220,347</b>

# **Note 10a - Note to the Expenditure and Funding Analysis**

2019-20	Drawdown to/from Reserves (Note 1)	Investment Income reported at Directorate Level (Note 1)	Strategic & Corporate Services Recharges (Note 1)	Realignment of Financing Items for Accounting Purposes (Note 1)	Adjustments for Trading Activities (Note 1)
	£'000	£'000	£'000	£'000	£'000
Adult Social Care & Health	11,605		60		
Children, Young People & Education	11,969	2,427	235	100	-117
Growth, Environment & Transport	1,739	229	691		-223
Strategic & Corporate Services including Public Health	6,877	538	-986		
Financing Items & Unallocated	-67,266	11,733		-115,289	
Schools' Delegated Budgets	-13,046				
<b>Net Cost of Services</b>	<b>-48,122</b>	<b>14,927</b>	<b>0</b>	<b>-115,189</b>	<b>-340</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	7,326	-14,928		115,189	-145
<b>Total</b>	<b>-40,796</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>-485</b>

2019-20	Total to arrive at amount charged to the General Fund	Adjustments for Capital Purposes (Note 2)	Net change for the Pensions Adjustments (Note 3)	Other Differences (Note 4)	Total Adjustment between Funding and Accounting Basis
	£'000	£'000	£'000	£'000	£'000
Adult Social Care & Health	11,665	3,727	10,466	193	14,386
Children, Young People & Education	14,614	37,710	34,723	-134	72,299
Growth, Environment & Transport	2,436	90,523	6,351	1,200	98,074
Strategic & Corporate Services including Public Health	6,429	12,968	6,187	-821	18,334
Financing Items & Unallocated	-170,822		25,013	-308	24,705
Schools' Delegated Budgets	-13,046				0
<b>Net Cost of Services</b>	<b>-148,724</b>	<b>144,928</b>	<b>82,740</b>	<b>130</b>	<b>227,798</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>107,442</b>	<b>-24,197</b>	<b>25,267</b>	<b>9,645</b>	<b>10,715</b>
<b>Total</b>	<b>-41,282</b>	<b>120,731</b>	<b>108,007</b>	<b>9,775</b>	<b>238,513</b>

## Note 10a - Note to the Expenditure and Funding Analysis

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

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

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

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

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

### 2. Adjustments for Capital Purposes

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

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

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

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

### 3. Net Change for the Pensions Adjustments

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

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

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

### 4. Other Differences

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

**For services** this represents the following:

- i) The finance costs charged to the Comprehensive Income and Expenditure Statement that are different from the finance chargeable in the year in accordance with statutory requirements.
- ii) The officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis that is different from the remuneration charged in the year in accordance with statutory requirements.
- iii) The Schools Budget deficit charged to the Comprehensive Income and Expenditure Statement.

## Note 10a - Note to the Expenditure and Funding Analysis, Note 10b - Segmental Income and Note 11 - Expenditure and Income Analysed by Nature

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

### Note 10b. Segmental Income

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

	2020-21 £000's	2019-20 £000's
Adult Social Care & Health	-80,708	-77,979
Children, Young People & Education	-67,891	-85,176
Growth, Environment & Transport	-28,405	-37,587
Strategic & Corporate Services	-26,405	-26,540
Financing Items & Unallocated	-17,184	-6,792
<b>Total Income analysed on a segmental basis</b>	<b>-220,593</b>	<b>-234,074</b>

### Note 11. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

	2020-21 £000's	2019-20 £000's
<b>Expenditure/Income</b>		
<b>Expenditure</b>		
Employee benefits expenses	924,009	865,998
Other services expenses	1,653,541	1,408,296
Support service recharges	55,050	52,569
Depreciation, amortisation, impairment	116,378	159,641
Interest payments including interest on Defined Liability of the Pension Fund	94,738	93,083
Precepts and levies	2,015	1,918
Gain on the disposal of assets	43,163	59,332
<b>Total expenditure</b>	<b>2,888,894</b>	<b>2,640,837</b>
<b>Income</b>		
Fees, charges and other service income	-256,165	-271,029
Interest and investment income	-13,565	-13,334
Income from council tax and non-domestic rates	-767,166	-765,584
Government grants and contributions	-1,778,810	-1,386,840
<b>Total income</b>	<b>-2,815,706</b>	<b>-2,436,787</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>73,188</b>	<b>204,050</b>

Included in the 2020-21 'Fees, charges and other services income' is £71.4m of Revenue from Contracts with Service Recipients specifically relating to Social Care.



## Note 12 - Adjustments between accounting basis & funding basis under regulations

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

31 March 2021	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	-146,974			146,974
Revaluation gains/(losses) on Property Plant and Equipment and Assets held for Sale	11,869			-11,869
Movements in the fair value of Investment Properties	-5,538			5,538
Amortisation of intangible assets	-2,134			2,134
Capital Grants and contributions applied	238,673			-238,673
Income in relation to donated assets	168			-168
In year revenue expenditure funded from capital under statute	-181,236			181,236
Prior year revenue expenditure funded from capital under statute including long term debtor adjustments	-11,819			11,819
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-45,742			45,742
Realised & unrealised gains/(losses) on financial assets held at FVPL	3,605			-3,605
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	59,096			-59,096
Capital expenditure charged against the General Fund	13,578			-13,578
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	21,850		-21,850	0
Application of grants to capital financing transferred to the Capital Adjustment Account			49,304	-49,304
Cessation of recyclable grant repaid to accountable body	-1,296	1,296		0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,562	-2,562		0

# Note 12 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	727	-727		0
Use of the Capital Receipts Reserve to finance new capital expenditure		10,308		-10,308
Loan repayments	17	-7,812		7,795
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	1,186			-1,186
<b>Adjustment primarily involving the Pooled Investment Adjustment Account:</b>				
Unrealised gains/losses on financial assets held at FVPL	17,256			-17,256
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-201,028			201,028
Employer's pensions contributions and direct payments to pensioners payable in the year	77,505			-77,505
<b>Adjustments primarily involving the DSG Adjustment Account:</b>				
Amount by which Schools Deficit has moved in year.	-29,544			29,544
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	-45,133			45,133
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,005			-2,005
<b>Total Adjustments</b>	<b>-220,347</b>	<b>503</b>	<b>27,454</b>	<b>192,390</b>

## Note 12 - Adjustments between accounting basis & funding basis under regulations

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

31 March 2020	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non current assets	-162,299			162,299
Revaluation gains/(losses) on Property Plant and Equipment and Assets held for Sale	24,913			-24,913
Movements in the fair value of Investment Properties	-6,642			6,642
Amortisation of intangible assets	-2,279			2,279
Capital Grants and contributions applied	92,904			-92,904
Income in relation to donated assets	3,969			-3,969
In year revenue expenditure funded from capital under statute	-68,606			68,606
Revenue expenditure funded from capital under statute - long term debtor adjustments	-93			93
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-71,992			71,992
Realised & unrealised gains/(losses) on financial assets held at FVPL	2,190			-2,190
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	59,314			-59,314
Capital expenditure charged against the General Fund	8,871			-8,871
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8,468		-8,468	0
Application of grants to capital financing transferred to the Capital Adjustment Account			65,555	-65,555
Cessation of recyclable grant repaid to accountable body	-243	243		0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	12,663	-12,663		0

# Note 12 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	299	-299		0
Use of the Capital Receipts Reserve to finance new capital expenditure		26,539		-26,539
Loan repayments	138	-5,469		5,331
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-22			22
<b>Adjustment primarily involving the Pooled Investment Adjustment Account:</b>				
Unrealised gains/(losses) on financial assets held at FVPL	-22,306			22,306
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-181,082			181,082
Employer's pensions contributions and direct payments to pensioners payable in the year	73,075			-73,075
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	-10,793			10,793
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,040			-1,040
<b>Total Adjustments</b>	<b>-238,513</b>	<b>8,351</b>	<b>57,087</b>	<b>173,075</b>

**Note 13. Other Operating Expenditure**

	<b>2020-21 £000's</b>	<b>2019-20 £000's</b>
Levies	2,015	1,918
Gains/Losses on the disposal of non-current assets	43,163	59,331
Assets held for Sale - revaluation movements	64	203
	<b>45,242</b>	<b>61,452</b>

**Note 14. Financing and investment income and expenditure**

	<b>2020-21 £000's</b>	<b>2019-20 £000's</b>
Interest payable and similar charges	61,585	62,426
Net interest on the net defined benefit liability	33,531	30,987
(Gain)/loss from settlements	-1,384	-7,271
Pensions - Administration expenses and curtailments	2,039	1,551
Interest receivable and similar income	-13,480	-15,405
Income & expenditure in relation to investment properties and changes in fair value	3,754	5,789
Changes in fair value of Financial Assets held at fair value through profit and loss	-20,861	19,976
Other investment income	-2,776	-2,894
	<b>62,408</b>	<b>95,159</b>

**Note 15. Taxation and non specific grant income****Collection Fund Accounting Policy**

To reflect that billing authorities act as agents for major preceptors in collecting their share of Council Tax and Non-Domestic Rating income, transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of Council Tax and Non-Domestic Rates collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Revenue relating to such things as Council Tax and Non-Domestic Rates, are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing Council from Council Tax and Non-Domestic Rates debtors that belongs proportionately to the billing Council and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers and Non-Domestic Ratepayers. The effect of any bad debts written off, or movement in the impairment provision, are also shared proportionately.

Part of the arrangement for the retention of business rates is that authorities will assume the liability for refunding ratepayers that have successfully appealed against the rateable value of their property. At the end of 31 March 2021 the Council's estimated share of these liabilities is £9.6m.

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

	2020-21 £000's	2019-20 £000's
Income from Council Tax	-739,401	-711,031
Non-domestic rates income and expenditure	-27,765	-54,060
Non-ringfenced government grants	-352,230	-261,831
Capital Grants and Contributions	-109,179	-50,890
	<b>-1,228,575</b>	<b>-1,077,812</b>

KCC's share of deficit on the Council Tax is £8.9m (2019-20 surplus of £5.0m). For 2020-21 the Business Rate Collection Fund has a deficit of £28.8m (2019-20 a surplus of £2.4m). See the Collection Fund Adjustment Account detailed in Note 24.

## Note 16. Grant Income

### Accounting Policy

#### Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020-21:

	2020-21 £'000	2019-20 £'000
<b>Credited to Taxation and Non-Specific Grant Income</b>		
Council Tax Yield including Collection Fund	-739,401	-711,031
Local Share of Business Rates & Business Rate Collection Fund	-27,765	-54,060
Revenue Support Grant (RSG)	-9,642	-9,487
Social Care Support Grant	-34,367	-10,531
Business Rate Top-Up	-138,429	-136,210
Business Rate Compensation Grant	-12,883	-14,747
Improved Better Care Fund (iBCF) including Additional Adult Social Care Allocation	-48,544	-42,380
New Homes Bonus (NHB) & NHB Adjustment Grants	-6,430	-6,388
Covid-19 Grant	-55,947	-39,012
Covid 19 Compensation for irrecoverable local taxation losses (local tax income guarantee for 2020-21)	-7,013	0
Covid 19 Compensation for Covid related business rate reliefs	-25,613	0
Covid 19 Compensation for Loss of Sales, Fees & Charges	-11,256	0
Other Un-ringfenced Grants	-2,106	-3,076
Capital Government Grants & Contributions	-109,179	-50,890
<b>Total</b>	<b>-1,228,575</b>	<b>-1,077,812</b>

The Compensation for irrecoverable local taxation losses and Compensation for Covid-19 related business rate relief grants have been transferred to earmarked reserves to fund the Collection Fund deficits.

## Note 16 - Grant Income and Note 17 - Property, Plant and Equipment

	2020-21 £'000	2019-20 £'000
<b>Credited to Services</b>		
Dedicated Schools Grant	-713,810	-682,278
Education Funding Agency	-87,917	-69,241
Other DFES Grants	-61,247	-59,474
Department of Health Grants	-145,946	-67,467
Asylum	-24,095	-21,462
Other	-176,874	-86,016
<b>Total</b>	<b>-1,209,889</b>	<b>-985,938</b>

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

	2020-21 £'000	2019-20 £'000
<b>Capital Grants Receipts in Advance</b>		
Department for Education	-197	-197
Other Grants	-76,755	-20,421
Other Contributions	-68,167	-54,280
<b>Total</b>	<b>-145,119</b>	<b>-74,898</b>

## Note 17. Property, Plant and Equipment

### Accounting Policy

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction".

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

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

## **Note 17 - Property, Plant and Equipment**

The Council has a policy in place to revalue its assets on a rolling programme basis. All assets will be revalued at least every four years. Assets will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset, such as a significant downturn in economic conditions. Revaluation gains are written to the Revaluation Reserve, after reversing any revaluation losses on that asset previously posted to the Comprehensive Income and Expenditure Statement. Revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Where impairment losses are identified, they are accounted for by:

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- 3-60 years (as determined by the valuer)
Vehicles, plant and equipment	- 3-25 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil
Heritage Assets	- nil

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

Land  
Structure  
Mechanical and Electrical  
Fixtures and Furnishings  
Temporary Buildings.

These components are a significant value of the asset as a whole and have significantly different useful lives.

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page 34.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.



## **Note 17 - Property, Plant and Equipment**

### **Disposals and Non-Current Assets Held for Sale**

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value, less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

### **Gains and Losses on Disposal of Non Current Assets**

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Schools transferring to academy status within the financial year are derecognised. On transfer the full carrying value is derecognised as an asset disposal for nil consideration. The net loss on disposal of non-current assets of £43.2m includes a loss of £19.7m which relates to schools transferring to academy status.

### **Capital receipts**

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then normally only be used for new capital investment. There are certain circumstances that allow revenue expenditure to be funded from capital receipts, for example the revenue costs associated with transformation. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

### **Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**Note 17. Property, Plant & Equipment**

Movement on balances - Movements in 2020-21

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or Valuation</b> at 1 April 2020	2,229,038	103,644	1,875,251	10,477	89,687	65,418	4,373,515	400,965
Additions	37,759	6,883	104,334	28	47,998	2,901	199,903	2,497
Donations	4,208						4,208	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	72,050					49,381	121,431	3,786
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	5,144					-540	4,604	3,572
Derecognition - Disposals	-48,239	-1,738				-307	-50,284	

**Property, Plant & Equipment - Movements in 2020-21**

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or Valuation</b>								
Derecognition - Other	-8,817						-8,817	
Assets reclassified (to) / from Held for Sale						-1,610	-1,610	
Other Movements in cost or valuation*	8,351				-48,345	1,904	-38,090	
<b>At 31 March 2021</b>	<b>2,299,494</b>	<b>108,789</b>	<b>1,979,585</b>	<b>10,505</b>	<b>89,340</b>	<b>117,147</b>	<b>4,604,860</b>	<b>410,820</b>

\* This line shows a movement of -£38,090k which includes a net movement of -£48,345k relating to amounts removed from and transferred to the AUC balance following our annual review of AUC and completed capital works.

**Property, Plant & Equipment - Movements in 2020-21**

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Accumulated Depreciation and Impairment</b>								
at 1 April 2020	-25,633	-85,251	-1,251,395	0	0	-401	-1,362,680	-7,640
Depreciation Charge	-47,555	-5,875	-93,763			-493	-147,686	-11,046
Depreciation written out to the Revaluation Reserve	47,357					686	48,043	14,290
Depreciation written out to the Surplus / Deficit on the Provision of Services	7,238					92	7,330	2,013
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	1,078	-8	-6		-348	-4	712	

Property, Plant & Equipment - Movements in 2020-21

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Accumulated Depreciation and Impairment</b>								
Derecognition - Disposals	193	1,671				14	1,878	
Derecognition - Other	8,817						8,817	
Other movements in Depreciation and Impairment	-626	8	6		348	31	-233	
<b>At 31 March 2021</b>	<b>-9,131</b>	<b>-89,455</b>	<b>-1,345,158</b>	<b>0</b>	<b>0</b>	<b>-75</b>	<b>-1,443,819</b>	<b>-2,383</b>
<b>Net Book Value At 31 March 2021</b>	<b>2,290,363</b>	<b>19,334</b>	<b>634,427</b>	<b>10,505</b>	<b>89,340</b>	<b>117,072</b>	<b>3,161,041</b>	<b>408,437</b>
<b>At 31 March 2020</b>	<b>2,203,405</b>	<b>18,393</b>	<b>623,856</b>	<b>10,477</b>	<b>89,687</b>	<b>65,017</b>	<b>3,010,835</b>	<b>393,325</b>

**Note 17. Property, Plant & Equipment**

Movement on balances - Movements in 2019-20

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or Valuation</b> at 1 April 2019	1,719,622	100,254	1,803,797	10,070	62,789	63,820	3,760,352	357,795
Additions	29,991	3,826	71,454	407	49,945	43	155,666	3,609
Donations						3,969	3,969	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	520,183					4,673	524,856	39,653
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	19,924					-4,138	15,786	-92
Derecognition - Disposals	-60,545	-436				-11,576	-72,557	

**Property, Plant & Equipment - Comparative Movements in 2019-20**

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Cost or Valuation</b>								
Derecognition - Other							0	
Assets reclassified (to) / from Held for Sale						699	699	
Other Movements in cost or valuation*	-137				-23,047	7,928	-15,256	
<b>At 31 March 2020</b>	<b>2,229,038</b>	<b>103,644</b>	<b>1,875,251</b>	<b>10,477</b>	<b>89,687</b>	<b>65,418</b>	<b>4,373,515</b>	<b>400,965</b>

\* This line shows a movement of -£15,256k which includes -£23,047k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

**Property, Plant & Equipment - Comparative Movements in 2019-20**

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Accumulated Depreciation and Impairment</b>								
at 1 April 2019	-27,249	-79,780	-1,161,205	0	0	-23	-1,268,257	-4,026
Depreciation Charge	-65,789	-5,898	-90,190			-619	-162,496	-10,192
Depreciation written out to the Revaluation Reserve	56,618					26	56,644	6,571
Depreciation written out to the Surplus / Deficit on the Provision of Services	9,183					147	9,330	7
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	142				56		198	



**Property, Plant & Equipment - Comparative Movements in 2019-20**

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
<b>Accumulated Depreciation and Impairment</b>								
Derecognition - Disposals	1,600	427				73	2,100	
Derecognition - Other							0	
Other movements in Depreciation and Impairment	-138				-56	-5	-199	
<b>At 31 March 2020</b>	<b>-25,633</b>	<b>-85,251</b>	<b>-1,251,395</b>	<b>0</b>	<b>0</b>	<b>-401</b>	<b>-1,362,680</b>	<b>-7,640</b>
<b>Net Book Value At 31 March 2020</b>	<b>2,203,405</b>	<b>18,393</b>	<b>623,856</b>	<b>10,477</b>	<b>89,687</b>	<b>65,017</b>	<b>3,010,835</b>	<b>393,325</b>
<b>At 31 March 2019</b>	<b>1,692,373</b>	<b>20,474</b>	<b>642,592</b>	<b>10,070</b>	<b>62,789</b>	<b>63,797</b>	<b>2,492,095</b>	<b>353,769</b>

## Note 17 - Property, Plant and Equipment

### Valuations of Property, Plant and Equipment carried at current value

The following statement shows an analysis of the Net Book Value of revalued assets by the year of valuation. The valuations as at 31 March 2021 were carried out by Wilks Head & Eve, overseen by Guy Harbord MRICS.

Valuation date of revalued assets:	Land & Buildings	Surplus Assets	Total
	NBV £'000	NBV £'000	NBV £'000
31/03/2018	62		<b>62</b>
31/03/2019	18,143		<b>18,143</b>
31/03/2020	224,223		<b>224,223</b>
31/03/2021	2,047,935	117,072	<b>2,165,007</b>
<b>TOTAL</b>	<b>2,290,363</b>	<b>117,072</b>	<b>2,407,435</b>

The basis for valuation is set out in the statement of accounting policies, and further explained below.

### Basis of valuation

All valuations of land and buildings were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors (RICS). In 2020-21 all land and buildings which have not had a valuation within the last four years have been valued. All schools, social care establishments, county office and surplus assets have been revalued.

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

- Existing Use Value where the property is not specialised and is owner occupied, for example county offices;
- Depreciated Replacement Cost where no market exists for a property, which may be rarely sold or it is a specialised asset, for example schools;
- Fair value for surplus assets.

We have considered and analysed the assets which have not been revalued in 2020-21 and are confident that the carrying amount of these assets as at 31 March 2021 is not materially different to their current value as at 31 March 2021.

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

## Note 17 - Property, Plant and Equipment

### Surplus Assets Fair Value Hierarchy

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2021 are shown below. This excludes purchases of £2.861m made in 20-21 as fair value hierarchy information is obtained when assets are revalued, not purchased.

<i>Recurring fair value measurements using:</i>	<b>Level 2 inputs</b>	<b>Level 3 inputs</b>	<b>Fair value as at 31 March 2021</b>	<b>Level 2 Valuation Technique</b>	<b>Level 3 Valuation Technique</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>		
Residential developments/conversions	4,065	86,077	90,142	Market approach	Market approach
Car Park	0	57	57		Income approach
Residential dwellings	504	1,740	2,244	Market approach	Income & Market approach
Non-residential institutions	0	3,409	3,409		Income approach
Assembly & Leisure	0	276	276		Income approach
Amenity land /woodland/grazing land	0	3,702	3,702		Market approach
Educational land/agricultural land	0	776	776		Income & Market approach
Industrial development/Commercial development/Mixed Development		13,071	13,071		Market approach
Commercial warehousing/units	0	534	534		Income approach
	<b>4,569</b>	<b>109,642</b>	<b>114,211</b>		

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2020 (excluding in year additions) are as follows:

<i>Recurring fair value measurements using:</i>	<b>Level 2 inputs</b>	<b>Level 3 inputs</b>	<b>Fair value as at 31 March 2020</b>	<b>Level 2 Valuation Technique</b>	<b>Level 3 Valuation Technique</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>		
Residential developments/conversions	13,439	38,821	52,260	Market approach	Market approach
Residential institutions	800		800	Market approach	
Residential dwellings	907	969	1,876	Market approach	Market approach
Extra Care Accommodation		990	990		Market approach
Non-residential institutions		1,106	1,106		Income & Market approach
Assembly & Leisure		530	530		Income approach
Industrial development/commercial development/amenity land/educational land/woodland/agricultural land		4,509	4,509		Market approach
Industrial warehousing/units	2,809	138	2,947	Income approach	Income approach
	<b>17,955</b>	<b>47,063</b>	<b>65,018</b>		

NB The Council does not have any Level 1 valuations

## Note 17 - Property, Plant and Equipment

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

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

	<b>2020-21</b>	<b>2019-20</b>
	<b>£000's</b>	<b>£000's</b>
Opening balance	47,063	36,737
Transfers into Level 3	18,604	8,244
Transfers out of Level 3	-4,465	
Additions	40	43
Donations	106	3,969
Derecognition		-2,121
Total gains or (losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-452	-4,055
Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure resulting from changes in the fair value	49,226	4,548
Depreciation charge	-480	-318
Other changes		16
Closing balance	109,642	47,063

£0.5m of losses arising from changes in the fair value of surplus assets have been recognised in the Surplus or Deficit on the Provision of Services within the 'Strategic & Corporate Services' line and £49m of gains were recognised in Other Comprehensive Income and Expenditure within the '(Surplus)/deficit arising on revaluation of non current assets' line .

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

Fair Value as at 31/03/21		£000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	86,077		1) Land value reduced to reflect uncertainty	1) £2,800,000 - £4,750,000 per hectare reduced by 15% - 50%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
			2) Estimated fees, costs and values	2) £250,000 per unit less construction costs and fees £178,000	
Car Park	57		1) Estimated rent 2) Estimated yield	1) £100 per permit 2) 6%	Due to the low fair value of this category a significant change in unobservable inputs would not result in a significantly lower or higher fair value
Residential Dwellings	1,740		1) Rent 2) Lifelong tenancy valued to perpetuity 3) Sales price and location discount	1) £1,400 - £9,000 per annum 2) YP in Perp 4% 3) £180,000 - £360,000	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	3,409		1) Estimated rent 2) Estimated yield	1) £1,800 - £6,200 per annum and £90 per square metre 2) 6.5% - 8%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Assembly & Leisure	276		1) Estimated rent 2) Passing rent 3) Estimated yield	1) £45 per square metre 2) £150 per annum 3) 8% - 10%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value

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

	Fair Value as at 31/03/21 £000's	Unobservable input	Quantitative Information	Sensitivity
Amenity land / woodland/grazing land	3,702	1) Estimated land value	1) £19,760 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value Due to the low fair value of this category a significant change in unobservable inputs would not result in a significantly lower or higher fair value
Educational land/agricultural land	776	1) Estimated rent 2) Estimated yield 3) Estimated land value	1) £750 - £4,500 per annum 2) 5% - 9% 3) £150,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/Commercial development/Mixed Development	13,071	1) Land value reduced to reflect uncertainty	1) £1,300,000 - £3,800,000 per hectare reduced by 15% - 75%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Commercial warehousing/units	534	1) Estimated rent 2) Estimated yield	1) £90 - £129 per square metre 2) 9% - 12%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value

**Total** **109,642**

## Note 17 - Property, Plant and Equipment and Note 18 - Investment Property

### Valuation Process for Surplus Assets

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

### Highest & Best Use of Surplus Assets

In estimating the fair value of the Council's surplus assets, the highest and best use of 36 of the 101 assets is their current use. Of the remaining 65 assets, 58 are vacant, and 7 have alternative uses as a result of existing lease arrangements.

## Note 18 - Investment Property

### Accounting Policy

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

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

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

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

	<b>2020-21</b>	<b>2019-20</b>
	<b>£000's</b>	<b>£000's</b>
Rental income from Investment Property	1,963	554
Direct operating expenses arising from Investment Property	-906	-177
Net gain/(loss)	1,057	377

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

## Note 18 - Investment Property

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

	2020-21 £000's	2019-20 £000's
Balance at start of the year	61,971	43,907
Additions:		
• Purchases		24,272
• Construction		
• Subsequent expenditure		37
Disposals	-384	-311
Net gains/losses from fair value adjustments	-5,154	-6,331
Transfers:		
• to/from Inventories		
• to/from Property, Plant & Equipment	-4,162	385
Other Changes	24	12
Balance at end of the year	<b>52,295</b>	<b>61,971</b>

### Fair Value Hierarchy

Details of the Authority's investment properties, and information about the fair value hierarchy as at 31 March 2021 are as follows:

<i>Recurring fair value measurements using:</i>	Level 2 inputs	Level 3 inputs	Fair value as at 31 March 2021	Level 2 Valuation Technique	Level 3 Valuation Technique
	£000's	£000's	£000's		
Residential developments	2,900	9,979	12,879	Market approach	Market approach
Offices	11,516	19,089	30,605	Income approach	Income approach
Industrial development/commercial development	57	995	1,052	Market approach	Market approach
Non-residential institutions		316	316		Income approach
Car Park		422	422		Income approach
Ransom Strip	3,500		3,500		Market approach
Golf Course	340		340		Income approach
Industrial units	1,598	503	2,101	Income approach	Income approach
Affordable housing		1,080	1,080		Income approach
	<b>19,911</b>	<b>32,384</b>	<b>52,295</b>		



## Note 18 - Investment Property

Details of the Authority's investment properties and information about the fair value hierarchy as at 31 March 2020 are as follows:

<i>Recurring fair value measurements using:</i>	<b>Level 2 inputs</b>	<b>Level 3 inputs</b>	<b>Fair value as at 31 March 2020</b>	<b>Level 2 Valuation Technique</b>	<b>Level 3 Valuation Technique</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>		
Residential developments	6,200	15,615	21,815	Market approach	Market approach
Offices	4,512	1,912	6,424	Income approach	Market approach
Assembly & Leisure		43	43		Income approach
Industrial development/commercial development/amenity land/educational land	63	581	644	Market approach	Income & Market approach
Residential dwellings	895	1,106	2,001	Market approach	Income approach
Non-residential institutions		1,888	1,888		Income & Market approach
Car Park		310	310		Income approach
Ransom Strip	1,500		1,500	Market approach	
Golf Course	360		360	Income approach	
Industrial units	2,345	354	2,699	Income approach	Income approach
Agricultural Land		15	15		Income approach
	<b>15,875</b>	<b>21,824</b>	<b>37,699</b>		

NB The council does not have any Level 1 valuations

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

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

	<b>2020-21</b>	<b>2019-20</b>
	<b>£000's</b>	<b>£000's</b>
Opening balance	21,824	16,869
Transfers into Level 3	3,919	3,468
Transfers out of Level 3	-3,653	-2,026
Additions from prior year	15,451	
Disposals		-311
Total gains or (losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-5,157	3,775
Other changes		49
Closing balance	<b>32,384</b>	<b>21,824</b>

£5.2m of losses arising from changes in the fair value of the investment property have been recognised in the 'Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure' line.

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

	Fair Value as at 31/03/21 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	9,979	1) Estimated revenue streams, costs, fees, profit margins 2) Estimated land value reduced to reflect uncertainty (hope value, costs and access)	1) £325,000 per unit less construction costs of £1,296 per square metre, 15% fees and 17.5% profit margins 2) £2,700,000 - £3,370,000 per hectare reduced by 50% - 75%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Offices	19,089	1) Estimated rent 2) Estimated yield 3) Void period	1) £134 - £258 per square metre 2) 7.5% - 9% 3) 1.5 - 3 years	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/commercial development	995	1) Estimated land value 2) Discount for uncertainty	1) £1,100,000 - £1,300,000 per hectare 2) 15%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	316	1) Estimated rent 2) Estimated yield	1) £91 per square metre 2) 8% - 11%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Car Park	422	1) Estimated rent 2) Estimated yield	1) £250 - £1,000 per space 2) 5% - 7%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value

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

	Fair Value as at 31/03/21 £000's	Unobservable input	Quantitative Information	Sensitivity
Industrial Units	503	1) Estimated rent 2) Estimated yield 3) Void period	1) £39,000 per annum 2) 6% - 7% 3) 1.5 years	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Affordable Housing	1,080	1) Estimated rent 2) Estimated yield 3) Management and associated costs	1) £3,120 per annum per unit 2) 6.5% 3) 25% of gross income	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
<b>Total</b>	<b>32,384</b>			

**Valuation Process for Investment Properties**

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

**Highest & Best Use of Investment Properties**

In estimating the fair value of the Council's investment properties, the highest and best use of 17 of the 27 properties is their current use. Of the remaining 10 properties, 6 are held for capital appreciation as investments, 1 has an alternative use as a result of existing lease arrangements and 3 are currently vacant.

**Note 19. Capital Expenditure and Financing****Accounting Policy****Government Grants and Contributions**

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**Revenue expenditure funded from capital under statute**

Revenue expenditure funded from capital under statute represents expenditure which may be properly capitalised, but does not result in the creation of a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Capital expenditure on assets that do not belong to the council such as Academy schools are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Movement in Reserves Statement to mitigate any impact on council tax.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

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

	2020-21	2019-20
	£000's	£000's
<b>Opening Capital financing requirement</b>	1,284,954	1,284,512
<b>Capital investment</b>		
Property, Plant and Equipment	167,618	144,092
Revenue expenditure funded from capital under statute	181,236	67,340
Long-Term Debtors	6,011	12,910
Other	297	29,282
	1,640,116	1,538,136
<b>Sources of finance</b>		
Capital receipts	-10,308	-26,539
Government grants and other contributions	-287,977	-158,459
Direct revenue contributions	-13,578	-8,871
(MRP/loans fund principal)	-59,097	-59,313
	1,269,156	1,284,954
<b>Closing Capital Financing Requirement</b>		
<b>Movement</b>	<b>-15,798</b>	<b>442</b>

	2020-21	2019-20
	£000's	£000's
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by Government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	-15,798	442
Assets acquired under PFI contracts	0	0
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>-15,798</b>	<b>442</b>

## Note 20. PFI and Similar Contracts

### Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

## Note 20. PFI and Similar Contracts

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs - recognised as additions to Property, Plant and Equipment.

### Value of PFI assets at each balance sheet date and analysis of movement in those values

#### Value of assets

	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	3 BSF Schools	Excellent Homes for All	TOTAL £'000
<b>As at 31 March 2020</b>	168,275	8,891	10,706	78,913	55,737	70,447	392,971
Additions	1,160	31	565	382	289	70	2,497
Transfers in	0	0	0	0	0	0	0
Revaluations	11,011	834	11,012	-5,850	6,848	-195	23,660
Depreciation	-3,633	-173	-2,642	-1,870	-1,239	-1,476	-11,033
<b>As at 31 March 2021</b>	176,813	9,583	19,641	71,575	61,635	68,846	408,095

NB The value of PFI assets in Note 17 includes £341.0k in relation to service concession arrangements (IFRC12) assets that are not included in this note.

### Value of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values

#### Finance Lease Liability

	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	3 BSF Schools	Excellent Homes for All	TOTAL £'000
<b>As at 31 March 2020</b>	62,913	7,284	11,781	49,552	52,891	33,326	217,748
Additions							0
Liability repaid	-2,334	-556	-353	-1,469	-2,006	-1,246	-7,964
<b>As at 31 March 2021</b>	60,579	6,729	11,428	48,083	50,885	32,081	209,784

The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For the 6 Schools PFI, the liability was written down by an initial capital contribution of £4.541m. For the Better Homes, Active Lives PFI the liability was written down by an initial capital contribution of £0.65m.

## Note 20 - PFI and Similar Contracts

### Details of payments to be made under PFI contracts

#### 6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	2,288	5,333	3,638	1,464	12,724
Within 2-5 years	9,909	19,358	15,486	8,266	53,019
Within 6-10 years	17,986	18,650	21,637	11,411	69,683
Within 11-15 years	30,396	8,817	24,480	7,421	71,114

RPIx is used as the basis for indexation in the 6 schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

#### Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	574	988	821	414	2,797
Within 2-5 years	3,746	2,898	3,505	1,401	11,550
Within 6-10 years	2,409	501	1,380	266	4,556

RPIx is used as the basis for indexation in the Swanscombe Schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

#### Westview/Westbrook

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	521	884	1,760	331	3,496
Within 2-5 years	1,813	3,151	7,557	2,678	15,199
Within 6-10 years	4,379	2,904	10,733	1,447	19,462
Within 11-15 years	4,715	831	4,740	538	10,825

The RPIx and Average Weekly Earnings (AWE) indices are both used as bases for indexation in the Westview/Westbrook PFI Contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract and AWE has been assumed to be 2% higher than this at 4.5% over the same period.

#### Better Homes, Active Lives

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,479	3,415	0	477	5,371
Within 2-5 years	6,312	12,674	0	2,498	21,484
Within 6-10 years	11,989	12,736	0	2,130	26,855
Within 11-15 years	16,037	8,040	0	2,777	26,855
Within 16-20 years	12,265	1,676	0	382	14,323

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

## Note 20 - PFI and Similar Contracts

### 3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,827	4,728	2,310	853	9,718
Within 2-5 years	8,539	17,059	9,831	4,894	40,323
Within 6-10 years	13,779	16,461	13,736	9,463	53,439
Within 11-15 years	26,740	8,170	13,311	3,649	51,870

RPIx is used as the basis for indexation in the BSF Wave 3 PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

### Excellent Homes for All

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,291	1,463	1,097	81	3,931
Within 2-5 years	5,242	5,265	4,387	830	15,724
Within 6-10 years	6,609	5,268	5,484	2,295	19,655
Within 11-15 years	8,185	3,624	5,484	2,362	19,655
Within 16-20 years	10,754	1,608	4,935	2,358	19,655

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

### TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year - short term	7,980	16,811	9,626	3,620	38,037
Within 2-5 years	35,561	60,406	40,766	20,566	157,299
Within 6-10 years	57,150	56,520	52,969	27,011	193,650
Within 11-15 years	86,074	29,482	48,015	16,748	180,319
Within 16-20 years	23,019	3,283	4,935	2,740	33,978
<b>Total</b>	<b>209,784</b>	<b>166,503</b>	<b>156,311</b>	<b>70,685</b>	<b>603,283</b>

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

On 24 May 2001, the Council contracted with New Schools (Swanscombe) Ltd to provide Swan Valley Secondary School and Craylands Primary School under a Private Finance Initiative (PFI). The schools opened in October 2002. Under the PFI contract the Council pays an agreed charge for the services provided by the PFI contractor. The unitary charge commenced in October 2002, PFI credits were received from April 2003 and were backdated to October 2002. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £65.5m over the 25 year (termination end of September 2027) contract period. In September 2013 Swan Valley Community School converted into Ebbsfleet Academy.



## **Note 20 - PFI and Similar Contracts**

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College (now Holmesdale School), The North School, Ellington School for Girls, The Malling School and Aylesford School - Sports College) under a Private Finance Initiative (PFI). The development of these schools straddled both the 2006-07 and 2007-08 financial years. Three of these schools opened part of their new buildings during the 2006-07 financial year (Hugh Christie, Holmesdale and The North). The other three schools opened their new buildings during 2007-08 (Ellington School for Girls, The Malling and Aylesford). From September 2009 Ellington School for Girls merged with Hereson Boys School to become Ellington and Hereson School, which is also a Trust. The school has now been renamed the Royal Harbour Academy.

The unitary charge commenced in November 2006, PFI credits commenced in June 2007 and were backdated to November 2006. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £373.9 million over the 28 year contract period.

On 24 October 2008, the Council contracted with Kent PFI Company 1 Ltd to provide 3 new secondary schools in Gravesend (St John's Catholic School, Thamesview School and Northfleet Technology College) under a Private Finance Initiative (PFI) which formed part of the Building Schools for the Future programme. All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010 upon the opening of the three schools, PFI credits commenced in March 2011 and were backdated to July 2010. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £250.8 million over the 25 year contract period.

Central Government provides a grant to support the PFI schemes. This Revenue Support Grant is based on a formula related to the Capital Expenditure in the scheme: this is called the notional credit approval, and amounts to £11.62m of credits for Swan Valley and Craylands, £80.75m for the 6 schools and £98.94m for the 3 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 years (Swan Valley and Craylands), 28 years (6 schools), and 25 years (3 schools). This grant amounts to just under £23m (Swan Valley and Craylands), just over £177m (6 schools) and just over £193m (3 schools).

### **Westbrook and Westview**

In 2020-21 the Council made payments of £4.5m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payments of £4.6m for 2021-22 under this PFI contract. The actual amount paid will depend on the performance of ICS in delivering the services under the contract which will run until April 2033.

### **Gravesham Place**

The NHS are the accountable body for this PFI arrangement and in accordance with accounting procedures this is not included on KCC's balance sheet. However in 2021-22 the Council is committed to making payments estimated at £3.5m per year under a contract with NHS Property Services, of which an estimated £3.1m will be paid by NHS Property Services to Land Securities Group Plc for the maintenance and facilities management, including laundry and catering, of Gravesham Place integrated care centre. The actual amount is subject to an annual inflationary uplift, and is also dependent on the performance of Land Securities in delivering the services under the contract (£3.4m was invoiced in 2020-21, of which £3.0m was paid to Land Securities Group Plc). The contract will run until April 2036.

### **Better Homes, Active Lives PFI**

In October 2007 the Council signed a PFI contract with Kent Community Partnership Ltd (a wholly owned subsidiary of Housing 21) to provide 340 units of accommodation of which 275 units are Extra Care accommodation, 58 units for people with learning difficulties, and 7 units for people with mental health problems. The contract for the provision of services will last until 2038-39. In 2020-21 the Council made payments of £5.4m to the contractor, and is committed to paying the same amount next year, although this will depend on the performance of Kent Community Partnership delivering the services under the contract.

### **Excellent Homes for All PFI**

In June 2014 the Council signed a PFI contract with Galliford Try PLC who will provide 238 units of specialist accommodation on seven sites across Kent. There will be 218 units of Extra Care accommodation, 9 units for people with mental health problems and 11 move-on apartments. In 2020-21 the Council made unitary charge payments of £3.9m to the contractor and is committed to paying the same amount each year, although this will depend on the performance of the Kent EHFA Projectco Limited delivering the services under the contract. The contract runs until 2040-41.

## Note 21 - Heritage Assets

### Note 21. Heritage Assets

#### Accounting Policy

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical, or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage assets above our de minimus of £10k are recognised in the balance sheet wherever possible at valuation or cost. In most cases, insurance valuations are used. However, the unique nature of many heritage assets makes valuation complex and so where values cannot be obtained, either due to the nature of the assets or the prohibitive cost of obtaining a valuation, they are not recognised in the balance sheet but comprehensive descriptive disclosures are included in the statement of accounts.

An impairment review of heritage assets is carried out where there is physical deterioration of a heritage asset.

	Historic Buildings £000s	Artwork - Paintings & Sculptures £000s	Archives £000s	Historical & Archaeo- logical Artefacts £000s	Civic Regalia £000s	Total Heritage Assets £000s
<u>Cost or Valuation</u>						
<b>At 1 April 2019</b>	<b>1,213</b>	<b>2,321</b>	<b>2,734</b>	<b>188</b>	<b>18</b>	<b>6,474</b>
Additions	85					<b>85</b>
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		47	44			91
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
<b>At 31 March 2020</b>	<b>1,298</b>	<b>2,368</b>	<b>2,778</b>	<b>188</b>	<b>18</b>	<b>6,650</b>
<u>Cost or Valuation</u>						
<b>At 1 April 2020</b>	<b>1,298</b>	<b>2,368</b>	<b>2,778</b>	<b>188</b>	<b>18</b>	<b>6,650</b>
Additions	129					<b>129</b>
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		21	20		1	<b>42</b>
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
<b>At 31 March 2021</b>	<b>1,427</b>	<b>2,389</b>	<b>2,798</b>	<b>188</b>	<b>19</b>	<b>6,821</b>

## Note 21 - Heritage Assets

### Historic Environment & Monuments

Eight windmills are included in the balance sheet at a value of £1.316m, which represents spend on these assets including £129k spent on them in 2020-21. These are either Grade I or II listed buildings and are located across Kent. KCC first took windmills into our care in the 1950s when, with the millers gone, there was no one else to protect these landmark buildings. We now own eight, ranging from Post Mills of Chillenden and Stocks at Wittersham to the magnificent Smock Mill at Cranbrook – the tallest in England.

Kent County Council works with local groups to actively preserve the future of the windmills and to support their repair and, where records exist, restoration. We also encourage improvements to the buildings and sites, to encourage greater public access and greater use of the windmills as an educational resource.

**Thurnham Castle**, located within White Horse Wood Country Park is a late 11th/early 12th century motte and bailey castle with gatehouse and curtain walls in flint and traces of an oval or polygonal shell keep, built on a steep spur of the North Downs. Above ground remains consist of some surviving sections of walling and earthworks of the main castle mound. This is valued at £111k in the balance sheet which represents spend on the asset. Situated within Shorne Woods Country Park is the site of the medieval manor house **Randall Manor**. The site now consists of below ground archaeological remains, along with earthworks relating to associated fish ponds and field systems.

**Hildenborough war memorial** consists of a cross shaft with a carved relief of a crucifixion scene. It stands on a plinth on a stepped dais. The inscription to the dead of the First World War is on the front face of the plinth below the cross with names on the side faces and additional names of the fallen on the risers of the steps.

**The former World War II Air Raid Wardens' post** stands in a fenced and partly walled enclosure at the side of the steps down from Folkestone Road to the approach to Dover Priory railway station. It is a small flat-roofed concrete structure with all apertures boarded up.

**Martello Tower No. 5 situated at Folkestone Grammar School** is a Scheduled Monument, one of a chain of forts that protected the south coast from the threat of invasion in the Napoleonic period. It stands within the grounds of the school, immediately west of the buildings.

The **church of St Martin-le-Grand and remains of the Dover Classis Britannica fort** are incorporated and displayed at the Dover Discovery Centre, which houses Dover Library. It was formerly the White Cliffs Experience. The Roman remains relate to the 2nd century fort that occupied the site and the area to the southwest. The church of St Martin-le-Grand was an early foundation that developed through the medieval period. At the time of the Reformation it fell into disuse and buildings were constructed in and around the church. The remains of the church are exposed in the land between the centre and the museum to the northeast.

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

### Artwork

Included in the balance sheet, at insurance valuations, are the following collections:

**Kent Visual Arts Loan Service**, a collection of c.1500 pieces of original artwork currently held in storage at Sessions House, valued at £653k.

**The Antony Gormley Boulders Sculpture**, the sculptors' first professional commission, valued at £768k. The sculpture is a single piece, in that the two parts are inextricably linked. The hollow bronze piece is a facsimile of the granite stone. The work represents the "old and the new" sitting side by side in harmony and is located at the Kent History and Library Centre.

**Contemporary collection** of c. 200 artworks (6 out of 7 collections) in storage in Sessions House, valued at £299k.

**KCC Sessions House collection**, valued at £74k.

**Glass Screen by Chris Ofili** valued at £439k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

**Kent History Tree & Leaves** valued at £155k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condron. It is an 8 metre stainless steel tree, adorning the front of the building, with translucent mosaic at its base and 17 steel and mosaic leaves changing from green to red blowing along the pillars.

## Note 21 - Heritage Assets

### Archive Collections

Kent County Council looks after its own records and those of its predecessor authorities. In addition it collects and makes accessible other historic records under the terms of the 1962 Public Records Act and the 1972 Local Government Act. These records include those of public bodies such as courts, health trusts and coroners, of district councils and of individuals and organisation in the county. There are about 12kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the Kent History Centre in Maidstone. Approximately 25% of the records are owned by KCC, the values of which are included in the balance sheet as follows (valuations are insurance valuations unless otherwise specified):

**General archive collections** - £775k

**Knatchbull/Brabourne Manuscripts.** £1,501k. Family and estate papers relating to the Knatchbull/Brabourne family comprising of accounts, correspondence, legal papers, and manorial records.

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

**Amherst Family Papers** £314k based on a valuation obtained before they were bought via a Heritage Lottery Fund bid.

The **Kent Historic Environment Record** is primarily a digital database (including GIS display) of Kent's archaeological sites, find spots, historic buildings and historic gardens. It also includes paper records of archaeological, historic building and historic landscape reports. The County aerial photograph series is now located in the Kent History centre.

### Archaeological & Historical Artefacts

Kent County Council has accepted ownership of the majority of the **HS1 archaeological archives** as owner of last resort to prevent the collections from being broken up or disposed of. The collections comprise approximately 70 cubic metres of boxes containing archaeological artefacts including pottery, bone, stone, metalwork, and worked flint. They are generally of little financial value. The collections are currently housed half at Kent Commercial Services, Aylesford, half in a store at Dover Eastern Docks, a small number of items in Invicta House, Maidstone and waterlogged wood in Chatham Historic Dockyard. During 2014-15, in order to keep the HS1 archive together in one ownership, KCC has also acquired the finds from the Anglo-Saxon cemetery excavations at Saltwood Tunnel which have been declared as treasure under the Treasure Act 1996 and valued at £37.5k. The finds are currently stored within the Art Store at Kent County Council.

KCC owns approximately 4,000 objects of social history, archaeological and geological, prints, and drawings and other material housed at **Sevenoaks Kaleidoscope Museum**. A marble **roman bust & portrait**, found at Lullingstone Villa, dating back to 2nd Century AD are valued at £60k and £40k respectively. These are currently on long term loan from Sevenoaks Museum to the British Museum. The museum holds a **painting by John Downton** and a **18th/19th soldier's quilt** recently valued at £50k by an industry expert.

There is a collection of around 100 artefacts kept at **Ramsgate Library**, remnants of a fire at the library in 2004, including prize cups, watches, signs & plaques, pots, printing plates, weights and measures.

**Folkestone library museum** collection includes around 10,000 artefacts and archival material relating to the history of Folkestone. It includes around 500 artworks housed at Folkestone library, one at Sandgate Library, and up to 10 at Sessions House. The museum includes archaeology, social, military, and civil history and includes collections in store and on display in the History Resource Centre. This has been moved permanently to Folkestone Town Council (FTC) and will be insured by FTC but will remain in KCC ownership until the gifting requirements are met.

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

### Civic Regalia

KCC's silver collection is valued at £19k. This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup, and The 500 Squadron Silver collection.

### Note 22. Leases

#### Accounting Policy

##### **Leasing**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

##### **The Council as Lessee**

###### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)
- contingent rents, the difference between the rent paid in year and the original amount agreed in the contract (e.g. following a rent review) also debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

###### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

##### **The Council as Lessor**

###### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense on the same basis as rental income.

## Note 22 - Leases

### The Council as Lessee

#### Operating Leases

Following a review on the materiality of lease values we found that only operating leases where the Council is the lessee were deemed to be material. The values are represented in the tables below.

The Council has acquired property, motor vehicles, and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	<b>31 Mar 2021</b>	<b>31 Mar 2020</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	8,968	5,329
Later than one year and not later than five years	15,292	12,734
Later than five years	15,810	17,007
	<b>40,070</b>	<b>35,070</b>

KCC sub-lets some properties held as operating leases. In most cases the amount charged to the tenants for sub-leases is nil. For those where we do charge, the future minimum sub-lease payments expected to be received by the Council is £14.1m over the remaining life of the 25 year lease.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to operating leases was:

	<b>31 Mar 2021</b>	<b>31 Mar 2020</b>
	<b>£'000</b>	<b>£'000</b>
Minimum lease payments	9,975	5,032
Contingent rents	498	531
Sublease payments receivable	-807	-782
	<b>9,666</b>	<b>4,781</b>

## Note 23 - Usable Reserves

### Note 23. Usable Reserves

#### Accounting Policy

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

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

Reserve	Balance 1 April 2020 £'000	Net Movement in year £'000	Balance 31 March 2021 £'000	Purpose of Reserve
Usable Capital Receipts	-30,928	503	-30,425	Proceeds of fixed assets and loan repayments available to meet future Capital Expenditure
General Fund - KCC	-37,213	0	-37,213	Resources available to meet future unforeseen events
General Fund - Commercial Services	30	108	138	
Capital Grants unapplied	-77,238	27,455	-49,783	See note below
Earmarked Reserves*	-232,784	-127,002	-359,786	See Note 25
Schools Reserve*	-35,343	-20,607	-55,950	See over page
Surplus on Trading Accounts*	-1,056	342	-714	Commercial Services
<b>Total</b>	<b>-414,532</b>	<b>-119,201</b>	<b>-533,733</b>	

Capital grants unapplied of £49.8m as at 31 March 2021 includes the schools capital reserves of £0.6m. This has decreased from the surplus of £1.6m held by schools as at 31 March 2020. The remainder reflects Government grants and contributions received in year for projects in progress.

## Note 23 - Usable Reserves and Note 24 - Unusable Reserves

### School Reserves

At 31 March 2021 funds held in school revenue reserves stood at £55,950k. These reserves are detailed in the table below.

	Balance at 1 April 2020 £'000	Movement £'000	Balance at 31 Mar 2021 £'000
School delegated revenue budget reserves - committed	-9,412	-12,453	-21,865
School delegated revenue budget reserves - uncommitted	-25,761	-8,176	-33,937
Unallocated Schools budget	0		0
Community Focused Extended School Reserves	-170	22	-148
	-35,343	-20,607	-55,950

The deficit of £21.5m held in the 'Unallocated Schools budget' reserve was transferred to the DSG Adjustment Account on 1 April 2020 as set out in the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. The DSG Adjustment Account is an unusable reserve and shown in Note 24.

### Note 24. Unusable Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice.

Reserve	Balance 1 April 2020 £'000	Net Movement in year £'000	Balance 31 March 2021 £'000	Purpose of Reserve
Revaluation Reserve	-1,217,897	-132,482	-1,350,379	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-648,895	-22,488	-671,383	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	25,269	-2,136	23,133	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-7,397	45,133	37,736	Movement between the I & E and amount required by regulation to be credited to the General Fund
Pensions Reserves				
- KCC	1,361,983	271,682	1,633,665	Balancing account to allow inclusion of Pensions
- DSO	1,220	7	1,227	Liability in Balance Sheet
Pooled Investment Adjustment Account	22,088	-17,256	4,832	Movements in fair value of Pooled Investment Funds
Accumulated Absences Account	9,449	-605	8,844	This absorbs the differences on the General Fund from accruing for untaken annual leave



## Note 24 - Unusable Reserves

Reserve	Balance 1 April 2020 £'000	Net Movement in year £'000	Balance 31 March 2021 £'000	Purpose of Reserve
Post Employment Account	4,330	-1,401	2,929	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
DSG Adjustment Account	21505	29544	51,049	Recognition of deficits in respect of the schools budget
<b>Total</b>	<b>-428,345</b>	<b>169,998</b>	<b>-258,347</b>	

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2020-21 £'000	2019-20 £'000
<b>Balance as at 1st April</b>	-1,217,897	-689,581
Upward revaluation of assets	-207,484	-605,675
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	37,878	23,800
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-169,606	-581,875
Difference between fair value depreciation and historical cost depreciation	20,626	25,004
Accumulated gains on assets sold or scrapped	16,498	28,555
Amount written off to the Capital Adjustment Account	37,124	53,559
<b>Balance at 31 March</b>	<b>-1,350,379</b>	<b>-1,217,897</b>

## Note 24 - Unusable Reserves

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	-648,894	-628,322
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	146,974	162,298
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	-11,869	-24,913
- Income in relation to donated assets	-168	
- Amortisation of intangible assets	2,134	2,280
- Revenue expenditure funded from capital under statute	193,055	68,699
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	45,742	71,992
- Realised and unrealised gains/losses on financial assets held at FVPL	-3,606	-2,190
	372,262	278,166
Adjusting amounts written out of the Revaluation Reserve	-37,124	-53,559
Net written out amount of the cost of non-current assets consumed in the year	-313,756	-403,715

## Note 24 - Unusable Reserves

	2020-21	2019-20
	£'000	£'000
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	-10,308	-26,539
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-238,673	-92,904
- Application of grants to capital financing from the Capital Grants Unapplied Account	-49,304	-65,555
- Statutory provision for the financing of capital investment charged against the General Fund	-59,096	-59,314
- Capital expenditure charged against the General Fund	-13,578	-8,871
	-370,959	-253,183
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	5,538	6,642
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-3,969
Write down of long-term debtors	7,795	5,331
<b>Balance at 31 March</b>	<b>-671,382</b>	<b>-648,894</b>

## Note 24 - Unusable Reserves

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	25,268	26,197
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement		
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-950	-950
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-950	-950
	-1,186	21
<b>Balance at 31 March</b>	23,132	25,268

## Note 24 - Unusable Reserves

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	1,363,203	1,333,786
Remeasurement of the net defined liability/(asset)	148,166	-78,590
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	201,028	181,082
Employer's pension contributions and direct payments to pensioners payable in the year	-77,505	-73,075
<b>Balance at 31 March</b>	1,634,892	1,363,203

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	-7,397	-18,190
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	45,133	10,793
<b>Balance at 31 March</b>	37,736	-7,397

## Note 24 - Unusable Reserves

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	9,448	9,701
Settlement or cancellation of accrual made at the end of the preceding year	-9,448	-9,701
Amounts accrued at the end of the current year	8,844	9,448
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-604	-253
<b>Balance at 31 March</b>	8,844	9,448

### Post Employment Account

The Post Employment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for early retirement and redundancy payments that are agreed in year but are due in future years. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	4,330	5,118
Settlement or cancellation of accrual made at the end of the preceding year	-2,213	-2,540
Amounts accrued at the end of the current year	812	1,752
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements	-1,401	-788
<b>Balance at 31 March</b>	2,929	4,330

## Note 24 - Unusable Reserves

### Pooled Investment Adjustment Account

The Pooled Investment Adjustment Account absorbs the timing differences arising from the gains or loss made by the Council arising from increases or decreases in the value of its investments that are measured at fair value through profit or loss. On derecognition the cumulated gain or loss is posted back to the General Fund Balance in accordance with statutory regulation. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

	2020-21	2019-20
	£'000	£'000
<b>Balance at 1 April</b>	22,088	-218
Upward revaluation of investments	-17,256	22,306
Downward revaluation of investments		
Change in impairment loss allowances		
	-17,256	22,306
Accumulated gains or losses on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		
Accumulated gains or losses on assets sold and maturing assets written out to the General Fund Balance for financial assets designated to fair value through other comprehensive income		
<b>Balance at 31 March</b>	4,832	22,088

### DSG Adjustment Account

The DSG Adjustment Account manages the deficit on Schools Budgets that would otherwise impact on the Earmarked Schools Reserves. Statutory arrangements require that the impact on the General Fund Balances is neutralised by transfers to or from the Account.

	2020-21
	£'000
<b>Balance at 1 April</b>	21,505
In year Schools budget deficit debited to the Comprehensive Income and Expenditure Statement and transferred to the DSG Adjustment Accounts in accordance with statutory requirements	29,544
<b>Balance at 31 March</b>	51,049

**Note 25. Earmarked Reserves**

Our reserves were reviewed as part of the 2020-21 budget setting process and as a result a further draw down of reserves is planned for 2020-21. Our Corporate Director of Finance, who is responsible for setting the level of Reserves, has deemed the level to be 'adequate' given the level of risk that we face. A thorough review of our reserves took place in 2020-21.

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2020 or 31 March 2021, the sum of which are shown in the tables on pages 102 and 103.

**Vehicles, plant and equipment (VPE)**

This is a reserve for the replacement and acquisition of vehicles, plant and equipment.

**Special funds**

These are reserves held primarily to facilitate the implementation of economic development and tourism initiatives and policy and regeneration expenditure.

**Kings Hill development smoothing reserve**

Comprises the County Council share of distribution from proceeds of the Kings Hill development received in accordance with the terms of the Development Agreement. These distributions can vary considerably from year to year so this reserve is used to smooth the impact on the revenue budget over the medium term.

**Swanscombe School PFI equalisation reserve**

This has been established to equalise, over time, the budget impact of unitary charge payments for the Swanscombe School PFI scheme. The reserve will comprise of contributions from the Education revenue budget and a proportion of grant funding received from the UK Government.

**Six Schools PFI Reserve**

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 6 schools PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the UK Government.

**Three Schools PFI Reserve**

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 3 schools PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the UK Government.

**Excellent Homes for All PFI equalisation reserve**

This has been established to equalise, over time, the budget impact of unitary charge payments, Section 31 pooled budget contributions and government grant funding for the Excellent Homes for All PFI scheme.

**Westview and Westbrook PFI equalisation reserve**

This has been established to equalise, over time, the budget impact of unitary charge payments, Section 31 pooled budget contributions and government grant funding for the Westview and Westbrook PFI scheme.

**Better Homes, Active Lives PFI equalisation reserve**

This has been established to equalise, over time, the budget impact of unitary charge payments, contract management costs and government grant funding for the Better Homes, Active Lives scheme.



## **Note 25 - Earmarked Reserves**

### **Responding to Government Deficit Reduction Reserve**

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

### **Corporate Reserve for Social Care funding issues**

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

### **Payments Reserve**

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

### **Local Taxation Equalisation Reserve**

This reserve is to (a) smooth the impact of changes in Council Tax discounts, (b) fund joint work with individual district councils with the aim of achieving higher future tax yields e.g. through Counter Fraud Initiatives and (c) smooth the impact of fluctuations in the Business Rates baseline.

### **Public Health reserve**

As set out in the Local Authority Circular issued for the Public Health grant, any unused funds at the end of the financial year have been placed into a reserve and are to be used to meet eligible public health spend in future years.

### **Rolling budget reserve**

This reserve represents the roll forward of funds to cover re-scheduling of revenue expenditure from previous years.

### **Emergency Conditions reserve**

This reserve is to cover the cost of emergencies which cannot be accommodated within normal revenue allocations, such as the costs associated with severe weather conditions.

### **Safety Camera Partnership reserve**

This reserve is funding from Kent Police and Medway Council for use by the Kent & Medway Safety Camera Partnership and is to fund the digitalisation of speed cameras.

### **Elections reserve**

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and by-elections. A contribution is made to the reserve each year in order to even the impact upon the council tax.

### **Dilapidations reserve**

This reserve is to provide for the potential dilapidation costs that the Council faces when existing leases for office accommodation cease.

### **Modernisation of the Council (formerly Workforce Reduction) reserve**

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

### **IT Asset Maintenance reserve**

This reserve will contribute to the funding of the IT refresh programme which will give the Council ongoing and sustainable capacity to replace ageing technology.

### **Earmarked Reserve to support future year's budget**

The approved medium term plan for 2020-22 includes support from central reserves from the residual underspending in 2019-20 and from a review of reserve balances. These funds have been transferred to the reserve to be drawdown over the medium term in line with the approved budget proposals.

## **Note 25 - Earmarked Reserves**

### **Prudential Equalisation Reserve**

A reserve to smooth the impact on the revenue budget over the medium term of prudential borrowing costs i.e. the costs of borrowing to support the capital programme, which are not supported by Government grant.

### **Dedicated Schools Grant (Central Expenditure) Reserve**

This reserve holds any unspent Dedicated Schools Grant for central expenditure, which in accordance with the DFE grant regulations must be carried forward for use in future years and spent in accordance with school financial regulations.

### **Turner Contemporary Investment Reserve**

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

### **Kent Lane Rental Scheme Reserve**

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

### **PIF Property Reserve**

PIF is a capital (only) fund available to fund property investments. A number of income generating properties were purchased through PIF to provide revenue funding to cover any necessary revenue costs associated with the purchase/sale and holding costs of the investment properties. This revenue income is held within a reserve to be drawn down, as required, to cover costs that cannot be capitalised.

### **Bus Services Operator Grant**

This reserve relates to grant funding received from the Department for Transport and to be used to fund bus companies.

### **Insurance Reserve**

This is a reserve for the potential cost of insurance claims in excess of the amount provided for in the insurance fund provision.

### **Financial Instruments Smoothing Reserve**

A reserve to smooth the impact of gains or losses in respect of derecognition of financial assets treated as Investments in Equity Instruments designated at Fair Value through Other Comprehensive Income.

### **Fast Track Bus Maintenance Reserve**

This reserve is to be used on maintenance and other specified services relating to the Fast Track bus lanes.

### **KPSN Re-procurement Reserve**

This reserve represents a 2% surcharge on all services provided to partners under the KPSN contract, to be used to fund the re-procurement of the contract.

### **Covid-19 Reserve**

This reserve relates to the emergency grant funding received from MHCLG. This reserve is to be used to fund our response to the Covid-19 outbreak.

### **S31 Grant Compensation for irrecoverable Business Rates losses (Covid-19) reserve**

This reserve has been funded from the S31 grant received from MHCLG and is to be used to help fund the deficit on the Collection Fund.

## **Note 25 - Earmarked Reserves**

### **S31 Grant Compensation for irrecoverable Council Tax losses (Covid-19) reserve**

This reserve has been funded from the S31 grant received from MHCLG and is to be used to help fund the deficit on the Collection Fund.

### **S31 Grant Compensation for Covid-19 related Business Rate reliefs reserve**

This reserve has been funded from the S31 grant received from MHCLG and is to be used to help fund the deficit on the Collection Fund.

### **Corporate ICT reserve**

This reserve has been created to cover major ICT projects and smoothing the impact of IT Asset maintenance.

### **Capital feasibility & abortive costs reserve**

This reserve has been created to cover the feasibility and abortive costs where a capital project is aborted.

### **Community Discharge Payments Reserve**

This reserve relates to grant funding received from the Department of Health & Social Care and it to be used for discharges into the community to reduce the net number of inpatients with learning disabilities and/or autism.

### **Supported Bus Services Reserve**

This reserve relates to grant funding received from the Department for Transport and to be used for the Supported Bus Services Scheme.

### **Strategic Acquisition Major Refurb**

This reserve has been created to meet the ongoing cost of Strategic Acquisitions. The reserve is to cover financing costs, repairs and maintenance, and the cost to return buildings to their original condition.

### **Other**

These mainly comprise various reserves held in respect of initiatives commenced in previous years for which remaining planned financial provision will be utilised in 2020-21 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

## Note 25 - Earmarked Reserves

	Balance at 1 April 2020	Movement	Balance at 31 Mar 2021
	£'000	£'000	£'000
<b>Other Earmarked Reserves</b>			
VPE reserve	-17,171	-446	-17,617
Special funds	-522	-76	-598
Kings Hill development smoothing reserve	-4,607	-13,478	-18,085
Swanscombe School PFI equalisation reserve	-152	248	96
Six schools PFI	-1,814	-814	-2,628
Three schools PFI	-4,813	-1,449	-6,262
Excellent Homes for All PFI	-2,260	88	-2,172
Westview/Westbrook PFI equalisation reserve	-3,985	-99	-4,084
Better Homes Active Lives PFI equalisation reserve	-3,516	-100	-3,616
Responding to Government Deficit Reduction reserve	-11,422	2,587	-8,835
Corporate Reserve for Social Care Funding Issues	-9,663	-7,315	-16,978
Payments reserve	-5,778	0	-5,778
Local Taxation Equalisation reserve	-24,507	-3,929	-28,436
Public Health reserve	-5,877	-5,249	-11,126
Rolling budget reserve	-25,166	-11,291	-36,457
Emergency Conditions reserve	-1,635	-750	-2,385
Elections reserve	-1,010	-354	-1,364
Dilapidations reserve	-3,045	-78	-3,123
Modernisation of the Council (formerly Workforce Reduction) reserve	-12,064	-914	-12,978
IT Asset Maintenance reserve	-3,446	-1,851	-5,297
Earmarked reserve to support future year's budget	-6,751	-21,674	-28,425
Prudential Equalisation reserve	-10,710	0	-10,710
Turner Contemporary Investment reserve	-690	279	-411
Kent Lane Rental Scheme reserve	-2,995	-996	-3,991
PIF Property Reserve	-783	-46	-829
Bus Services Operator Grant	-582	90	-492
Financial Instruments Revaluation Reserve	-647	0	-647
Fast Track Bus Maintenance reserve	-619	-164	-783
KPSN Re-procurement reserve	-815	-165	-980
Covid-19 reserve	-37,307	-18,276	-55,583
S31 Grant Compensation for irrecoverable Business Rates losses (Covid-19) reserve	0	-2,156	-2,156
S31 Grant Compensation for irrecoverable Council Tax losses (Covid-19) reserve	0	-4,856	-4,856
S31 Grant Compensation for Covid-19 related Business Rate reliefs reserve	0	-25,613	-25,613
Corporate ICT reserve	0	-3,025	-3,025
Capital feasibility & abortive costs reserve	0	-500	-500
Community Discharge Payments reserve	0	-558	-558
Supported Bus Services reserve	0	-840	-840
Strategic Acquisition Major Refurb reserve	0	-1,283	-1,283
Other	-3,678	-1,138	-4,816
<b>Total</b>	<b>-208,030</b>	<b>-126,191</b>	<b>-334,221</b>
<b>Insurance Reserve</b>			
KCC	-16,120	-661	-16,781
	<b>-224,150</b>	<b>-126,852</b>	<b>-351,002</b>
<b>Commercial Services Earmarked Reserves</b>	-3,233	0	-3,233
<b>EKO</b>	-4,981	0	-4,981
<b>Royal Mail Sorting Office</b>	-421	-150	-571
<b>Total Earmarked Reserves</b>	<b>-232,785</b>	<b>-127,002</b>	<b>-359,787</b>

## Note 25 - Earmarked Reserves

	Balance at 1 April 2019	Movement	Balance at 31 Mar 2020
	£'000	£'000	£'000
<b>Other Earmarked Reserves</b>			
VPE reserve	-16,560	-611	-17,171
Special funds	-592	70	-522
Kings Hill development smoothing reserve	-2,557	-2,050	-4,607
Swanscombe School PFI equalisation reserve	-411	259	-152
Six schools PFI	-1,048	-767	-1,815
Three schools PFI	-2,677	-2,136	-4,813
Excellent Homes for All PFI	-2,362	102	-2,260
Westview/Westbrook PFI equalisation reserve	-3,850	-135	-3,985
Better Homes Active Lives PFI equalisation reserve	-3,416	-100	-3,516
Responding to Government Deficit Reduction reserve	-10,371	-1,051	-11,422
Corporate Reserve for Social Care Funding Issues	-7,552	-2,111	-9,663
Payments reserve	-4,443	-1,335	-5,778
Local Taxation Equalisation reserve	-16,793	-7,713	-24,506
Public Health reserve	-6,036	159	-5,877
Rolling budget reserve	-37,173	12,007	-25,166
Emergency Conditions reserve	-1,635	0	-1,635
Elections reserve	-587	-424	-1,011
Dilapidations reserve	-3,062	17	-3,045
Modernisation of the Council (formerly Workforce Reduction) reserve	-10,999	-1,065	-12,064
IT Asset Maintenance reserve	-1,783	-1,663	-3,446
Earmarked reserve to support future year's budget	-5,682	-1,069	-6,751
Prudential Equalisation reserve	-10,382	-328	-10,710
Turner Contemporary Investment reserve	-965	275	-690
Kent Lane Rental Scheme reserve	-2,679	-316	-2,995
Public Inquiries reserve	-520	68	-452
PIF Property Reserve	-845	62	-783
Bus Services Operator Grant	-459	-123	-582
Financial Instruments Revaluation Reserve	-647	0	-647
Highways Adverse Weather Reserve	-500	423	-77
Deprivation of Liberty Safeguards (DoLs) Reserve	-1,047	903	-144
Fast Track Bus Maintenance reserve	-597	-23	-620
Leap Year reserve	-842	842	0
KPSN Re-procurement reserve	-692	-123	-815
Covid-19 reserve	0	-37,307	-37,307
Other	-3,715	711	-3,004
<b>Total</b>	<b>-163,479</b>	<b>-44,552</b>	<b>-208,031</b>
<b>Insurance Reserve</b>			
KCC	-13,647	-2,472	-16,119
	<b>-177,126</b>	<b>-47,024</b>	<b>-224,150</b>
<b>Commercial Services Earmarked Reserves</b>	-3,233	0	-3,233
<b>EKO</b>	-4,981	0	-4,981
<b>Royal Mail Sorting Office</b>	-198	-223	-421
<b>Total Earmarked Reserves</b>	<b>-185,538</b>	<b>-47,247</b>	<b>-232,785</b>

## Note 26 - Provisions

### Note 26. Provisions

#### Accounting Policy

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

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

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

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

	<b>Insurance</b>	<b>Post</b>	<b>Accumulat-</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>Employment</b>	<b>ed Absences</b>	<b>Provisions</b>	<b>£'000</b>
			<b>£'000</b>	<b>£'000</b>	
<b>Short Term</b>					
<b>Balance at 1 April 2020</b>	-3,312	-2,300	-9,448	-3,726	-18,786
Additional Provisions made in 2020-21	-2,369	-1,542	-5,578	-2,677	-12,166
Amounts used in 2020-21	2,284	2,227	6,182	366	11,059
Unused amounts reversed in 2020-21	0	0	0	0	0
<b>Balance at 31 March 2021</b>	<b>-3,397</b>	<b>-1,615</b>	<b>-8,844</b>	<b>-6,037</b>	<b>-19,893</b>
<b>Long Term</b>					
<b>Balance at 1 April 2020</b>	-7,504	-2,117	0	0	-9,621
Additional/Reduction in Provisions made in 2020-21	-434	0	0	0	-434
Amounts used in 2020-21	0	730	0	0	730
Unused amounts reversed in 2020-21	0	0	0	0	0
<b>Balance at 31 March 2021</b>	<b>-7,938</b>	<b>-1,387</b>	<b>0</b>	<b>0</b>	<b>-9,325</b>
<b>Total Provisions at 31 March 2021</b>	<b>-11,335</b>	<b>-3,002</b>	<b>-8,844</b>	<b>-6,037</b>	<b>-29,218</b>

## Note 26 - Provisions and Note 27 - Debtors

### Insurance

Included within the insurance provision is £600k for the Municipal Mutual Insurance (MMI) provision.

### Post Employment

The provision relates to early retirements and redundancies, and are individually insignificant.

### Accumulated Absences

The provision relates to annual leave entitlement carried forward at 31 March 2021. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

### Other Provisions

All other provisions are individually insignificant.

## Note 27 - Amounts owed to the Council by debtors

31 March 2021	Short Term	Long Term	Total
	£'000	£'000	£'000
Medway Council (transferred debtor)		31,402	31,402
Recoverable VAT	36,773		36,773
Trade Receivables	72,670		72,670
Payments in Advance	35,491		35,491
General Debtors	142,960	21,460	164,420
<b>Total</b>	<b>287,894</b>	<b>52,862</b>	<b>340,756</b>

31 March 2020	Short Term	Long Term	Total
	£'000	£'000	£'000
Medway Council (transferred debtor)		32,710	32,710
Recoverable VAT	7,418		7,418
Trade Receivables	74,824		74,824
Payments in Advance	22,364		22,364
General Debtors	104,912	32,351	137,263
<b>Total</b>	<b>209,518</b>	<b>65,061</b>	<b>274,579</b>

Capital short term debtors amounting to £11.4m are included in the Accounts at 31 March 2021 (£12.8m in 2019-20). These relate to grants and external funding towards capital expenditure incurred in 2020-21 which had not been received by 31 March 2021 along with loan repayments funded from capital falling due in 2021-22.

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

### Note 28. Amounts owed by the Council to creditors

<b>31 March 2021</b>	<b>Short Term</b>	<b>Long Term</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Receipts in Advance	83,834		<b>83,834</b>
Contract Liabilities	2,372		<b>2,372</b>
Deferred Income	18,488		<b>18,488</b>
General Creditors	288,405	11,536	<b>299,941</b>
<b>Total</b>	<b>393,099</b>	<b>11,536</b>	<b>404,635</b>

<b>31 March 2020</b>	<b>Short Term</b>	<b>Long Term</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Receipts in Advance	48,811		<b>48,811</b>
Contract Liabilities	1,665		<b>1,665</b>
Deferred Income	620		<b>620</b>
General Creditors	265,516	40	<b>265,556</b>
<b>Total</b>	<b>316,612</b>	<b>40</b>	<b>316,652</b>

Capital creditors amounting to £21.7m are included in the Accounts at 31 March 2021 (£29.3m in 2019-20).

### Note 29. Cash and Cash Equivalents

#### Accounting Policy

Cash is represented by cash in hand/overdraft and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They comprise call and business accounts.

In the Cash Flow Statement and Balance Sheet, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

The balance of Cash and Cash Equivalents is made up of the following elements:

	<b>At 31 March</b>	<b>At 31 March</b>
	<b>2021</b>	<b>2020</b>
	<b>£000's</b>	<b>£000's</b>
Bank current accounts	9,232	956
Call accounts (same day access funds)	134,965	56,684
<b>Total Cash and Cash Equivalents</b>	<b>144,197</b>	<b>57,640</b>



## Notes 30 Operating Activities

### Note 30. Cash Flow - Operating Activities

The cash flows for operating activities include the following items:

	2020-21	2019-20
	£'000	£'000
Interest received	-13,750	-15,318
Interest paid	61,474	62,487
Employee Costs	838,922	784,612
Income from Council Tax	-767,166	-765,584
Government Grants	-1,722,484	-1,298,167

	2020-21 £'000	2019-20 £'000
<b>The Surplus or Deficit on the Provision of Services has been adjusted for the following non-cash movements</b>		
Movement in pension liability	-123,523	-108,007
Carrying amount of non-current assets sold	-45,742	-71,992
Carrying amount of Financial Assets held at FVPL	20,861	-20,116
Amortisation of fixed assets	-2,134	-2,279
Depreciation of fixed assets	-146,974	-162,299
Impairment and downward valuations	11,869	24,913
Increase/(decrease) debtors	86,896	-2,181
(Increase)/decrease creditors	-57,830	-19,943
Increase/(decrease) stock	-164	-531
Movement on investment properties	-5,538	-6,642
REFCUS	-193,055	-68,699
Other non-cash items charged to the net surplus/deficit on the Provision of Services	-44,761	-9,638
	-500,095	-447,414

#### **The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities**

Proceeds from the sale of property plant and equipment, investment property, and intangible assets	3,306	13,100
Capital grants applied	259,396	105,341
	262,702	118,441

**Notes 31 and 32 - Cash Flow - Investing and Financing Activities and Note 33. Reconciliation of Liabilities arising from Financing Activities**

**Note 31. Cash Flow Statement - Investing Activities**

	2020-21	2019-20
	£'000	£'000
Purchase of property, plant and equipment, investment property, and intangible assets	362,158	260,322
Purchase of short-term and long-term investments	1,641,439	456,222
Proceeds from sale of property, plant and equipment, investment property, and intangible assets	-3,289	-12,962
Proceeds from short-term and long-term investments	-1,614,661	-470,690
Other receipts from investing activities	-340,775	-111,308
<b>Net cash flows from investing activities</b>	<b>44,872</b>	<b>121,584</b>

**Note 32. Cash Flow Statement - Financing Activities**

	2020-21	2019-20
	£'000	£'000
Cash receipts of short- and long-term borrowing	-145	-682
Relating to finance leases and on-balance sheet PFI contracts	2,682	3,691
Repayments of short- and long-term borrowing	30,239	23,065
<b>Net cash flows from financing activities</b>	<b>32,776</b>	<b>26,074</b>

**Note 33. Reconciliation of Liabilities arising from Financing Activities**

	2020-21 1 April	Financing cash flows	Non-cash changes		2020-21 31 March
			Acquisition	Other non-cash changes	
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	-813,624	77,655			-735,969
Short-term borrowings	-81,465	-36,295		-10,999	-128,759
• IFRIC 12	-2,428	134			-2,294
• Lease Liabilities	-491	26			-465
• On balance sheet PFI liabilities	-217,748	7,964			-209,784
<b>Total liabilities from financing activities</b>	<b>-1,115,756</b>	<b>49,484</b>	<b>0</b>	<b>-10,999</b>	<b>-1,077,271</b>

### Note 33. Reconciliation of Liabilities arising from Financing Activities and Note 34 - Trading Operations

	2019-20 1 April	Financing cash flows	Non-cash changes		2019-20 31 March
			Acquisition	Other non-cash changes	
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	-854,311	40,687		0	-813,624
Short-term borrowings	-63,552	-6,647		-11,266	-81,465
• IFRIC 12	-2,556	128			-2,428
• Lease Liabilities	-514	23			-491
• On balance sheet PFI liabilities	-224,428	6,680			-217,748
<b>Total liabilities from financing activities</b>	<b>-1,145,361</b>	<b>40,871</b>	<b>0</b>	<b>-11,266</b>	<b>-1,115,756</b>

### Note 34. Trading Operations

The results of the various trading operations for 2020-21 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover £'000	Expenditure £'000	Surplus/ Deficit(-) 2020-21 £'000	Surplus/ Deficit(-) 2019-20 £'000
<b>Kent County Supplies and Furniture</b> Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly and professional services	27,806	26,287	1,519	2,157
<b>Brokerage Services</b> Procurement and distribution of Services, including Laser energy buying group	9,796	8,325	1,471	2,352
<b>Transport Services</b> Provision of lease cars, minibuses and lorries, plus vehicle maintenance and repairs	715	712	3	0
<b>Total surplus</b>	<b>38,317</b>	<b>35,324</b>	<b>2,993</b>	<b>4,509</b>

## Note 35 - Audit Costs and Note 36 - Dedicated Schools Grant

### Note 35. Audit Costs

In 2020-21 the following fees were paid relating to external audit and inspection:

	<b>2020-21</b>	<b>Restated</b>
	<b>£'000</b>	<b>2019-20</b>
		<b>£'000</b>
Fees payable to Grant Thornton UK LLP for external audit services carried out by the appointed auditor	191	187
Fees payable in respect of other services provided by the appointed auditor	13	24
	<b>204</b>	<b>211</b>

The 2020-21 fee payable for external audit services represents the audit fee of £191k includes £40.4k proposed increased to be agreed. The £13k fee payable for other services relates to the CFO insights services. The 2019-20 audit fees have been restated to reflect the final audit fee which includes £22.7k for the impact of Covid-19.

### Note 36. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance and Early Years (England) (No 2) Regulations 2018. The schools budget includes elements for a range of educational services provided on an authority-wide basis and for the individual schools budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2020-21 are as follows:

	<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Final DSG for 2020-21 before academy and high needs			1,308,307
Academy and high needs figure recouped for 2020-21			-594,494
Total DSG after academy and high needs recoupment for 2020-21			713,813
Brought forward from 2019-20			-21,505
Carry-forward to 2021-22 agreed in advance			
Agreed initial budget distribution in 2020-21	174,573	517,735	692,308
In-year adjustments	-9,078	8,095	-983
Final budgeted distribution for 2020-21	165,495	525,830	691,325
Less actual central expenditure	216,544		216,544
Less Actual ISB deployed to schools		525,830	525,830
Plus Local Council contribution for 2020-21			0
In year Carry Forward to 2021-22	-51,049	0	-51,049
Plus Carry-forward to 2021-22 agreed in advance			0
Carry-forward to 2021-22			-51,049

The deficit of £51.049m is expected to be cleared through future increases to the DSG High Needs budget. This deficit is offset in the DSG Adjustment Account in Note 24 on pages 90 to 97.

## Note 37 - Related Party Transactions

### Note 37. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from government departments are set out in Note 11 on expenditure and income analysed by nature.

#### Other Public Bodies (subject to common control by central government)

The Council has pooled budget arrangements for the provision of a range of services including drug and alcohol related services, registered nursing care contribution in care homes, and integrated care centres providing nursing, respite and recuperative care to Older People.

Payments of Employers' Pension Contributions were made to the Pension Fund in respect of members of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The amounts of these payments are detailed in notes to the Consolidated Income and Expenditure Statement, Note 38 on pages 112 to 118 of these Accounts.

As administrator of the Kent Pension Fund, KCC has direct control of the Fund. Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £3.797m and cash held by the Pension Fund on behalf of KCC is £6.089m.

Payments to other local authorities and health bodies, excluding precepts, totalled £92.5m.

Receipts from other local authorities and health bodies totalled £82.6m.

#### Director of Adult Social Care & Health

£197.2k was paid by KCC via an agency for the post of Director of Adult Social Care & Health, which is held by Richard Smith. This amount includes the agency fees.

#### Entities Controlled or Significantly Influenced by the Council:

The Council has one active subsidiary company, the largest of which is Kent Holdco Ltd. During the year the total values of payments made to and received from Kent Holdco Ltd, were £49.4m and £7.2m respectively (£55.6m and £8.6m respectively in 2019-20)

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

	<b>Payments made in 2020-21</b>
<b>Active companies with less than or equal to 50% control</b>	<b>£</b>
Visit Kent Ltd	326,857
Locate in Kent Ltd	1,317,167
Trading Standards South East Ltd	3,425
Kent PFI Holdings Company 1 Ltd	11,444,476
TRICS Consortium Ltd	3,450
Aylesham & District Community Workshop Trust	7,262
Discovery Park Technology Investments (GP) Ltd	1,375
<b>Active companies with more than 50% control</b>	
Produced in Kent (PINK) Ltd	115,533

**Note 38. Pension Costs****Note 38a - Pension Schemes Accounted for as Defined Contribution Schemes**

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020-21 Kent County Council paid £53.2m (£45.1m in 2019-20), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 23.7% (20.7% in 2019-20) of teachers' pensionable pay. In addition, Kent County Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2020-21 these amounted to £4.7m (£4.8m in 2019-20), representing 2.1% (2.2% in 2019-20) of pensionable pay.

Public Health staff employed by the Authority are members of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. The Authority is not able to identify the underlying scheme assets and liabilities for the staff transferred. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020-21 Kent County Council paid £0.10m (£0.10m in 2019-20), to the NHS Pension Scheme in respect of public health pension costs, which represented 14.4% (14.4% in 2019-20) of employees pensionable pay.

**Note 38b. Defined Benefit Pension Scheme**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in one post-employment scheme:

- The Local Government Pension Scheme, administered locally by Kent County Council – this is a funded defined benefit career average revalued earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due
- The Kent County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Kent County Council Superannuation Fund Committee, a committee of Kent County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Finance of Kent County Council and external Investment Fund managers (for details of investment fund managers see note 15d of the Pension Fund Accounts)
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when they are paid as pensions. However, the charge we are required to make against the Council Tax is based on the cash payable in the year, so the real cost is reversed out through the Movement in Reserves Statement.

## Note 38 - Pension Costs

Under the requirements of IAS19, the Council is required to show the movement in the net pensions deficit for the year. This can be analysed as follows:

		<b>Local Government Pension Scheme</b>	
		<b>2020-21</b>	<b>2019-20</b>
		£000's	£000's
<b>Comprehensive Income and Expenditure Statement</b>			
<b>Cost of Services:</b>			
• Current service cost		-165,602	-127,324
• Past service costs		-1,240	-28,491
		-166,842	-155,815
<b>Financing and Investment Income and Expenditure</b>			
• Net interest expenses		-33,531	-30,987
• (Gain)/loss from settlements		1,384	7,271
• Administration expenses		-2,039	-1,551
		-201,028	-181,082
<b>Total Charged to the Surplus or Deficit on the Provision of Services</b>		-201,028	-181,082
		<b>2020-21</b>	<b>2019-20</b>
		£000's	£000's
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>			
• Return on plan assets (excluding the amount included in the net interest expenses)		697,848	-236,584
• Actuarial gains and losses arising on changes in demographic assumptions		44,352	75,463
• Actuarial gains and losses arising on changes in financial assumptions		-950,491	326,496
• Experience loss/(gain) on defined benefit obligation		55,519	-91,391
• Other		4,606	4,606
		-148,166	78,590
<b>Total Charged to the Comprehensive Income and Expenditure</b>		-148,166	78,590
<b>Total charged to Comprehensive Income and Expenditure Statement</b>		<b>-349,194</b>	<b>-102,492</b>
<b>Movement in Reserves statement</b>			
• Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code		201,028	181,082
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
• Employers' contributions payable to scheme		-77,505	-73,075
<b>Total Movement in Reserves statement</b>		<b>123,523</b>	<b>108,007</b>

### Other Employees

Other employees of the County Council may participate in the Kent County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme.

In 2020-21, Kent County Council paid an employer's contribution of £77.5m (£73.1m in 2019-20) into the Pension Fund, representing 21% (22% in 2019-20) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2020-21 was based on the review carried out as at 31 March 2019. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

## Note 38 - Pension Costs

### Pension Assets and Liabilities in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plan is as follows:

	<b>Local Government Pension Scheme</b>	
	<b>£'000</b>	
	<b>2020-21</b>	<b>2019-20</b>
Present value of the defined benefit obligation	4,797,827	3,796,940
Fair value of plan assets	-3,211,663	-2,483,660
Sub total	1,586,164	1,313,280
Other movements in the liability/(asset)	48,728	49,923
<b>Net liability arising from defined benefit obligation</b>	<b>1,634,892</b>	<b>1,363,203</b>

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

	<b>Local Government Pension Scheme</b>	
	<b>£'000</b>	
	<b>2020-21</b>	<b>2019-20</b>
Opening fair value of scheme assets	2,483,660	2,679,625
Interest on assets	46,071	64,054
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	697,848	-261,924
• Other		25,340
Contributions from employer	82,111	77,681
Contributions from employees into the scheme	27,355	26,945
Benefits paid	-123,370	-117,130
Other	-2,012	-10,931
<b>Closing fair value of scheme assets</b>	<b>3,211,663</b>	<b>2,483,660</b>

The actual return on scheme assets in the year was £743,919k (2019-20: £197,870k)



## Note 38 - Pension Costs

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

		<b>Liabilities: Local Government Pension Scheme</b>	
		<b>£'000</b>	
		<b>2020-21</b>	<b>2019-20</b>
Opening balance at 1 April		3,846,863	4,013,411
Current service cost		165,602	127,324
Interest cost		79,602	95,041
Contribution from scheme participants		27,355	26,945
Remeasurement gains/(losses):			
• Actuarial gains and losses arising on changes in demographic assumptions		-44,352	-75,463
• Actuarial gains and losses arising on changes in financial assumptions		950,491	-326,496
• Experience loss/(gain) on defined benefit obligation		-55,519	91,391
• Other		-4,606	-4,606
Past service costs		1,240	28,491
Benefits paid		-118,764	-112,524
Liabilities extinguished on settlements		-1,357	-16,651
<b>Closing balance at 31 March</b>		<b>4,846,555</b>	<b>3,846,863</b>

### Local Government Pension Scheme assets comprised:

		<b>2020-21</b>		<b>2019-20</b>	
		<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Equities		2,068,088	64.4%	1,527,948	61.5%
Gilts		19,085	0.6%	19,298	0.8%
Other Bonds		401,089	12.5%	323,720	13.0%
Property		332,391	10.3%	337,935	13.6%
Cash		159,250	5.0%	64,999	2.6%
Absolute return fund		231,760	7.2%	209,760	8.4%
<b>Total assets</b>		<b>3,211,663</b>	<b>100%</b>	<b>2,483,660</b>	<b>100%</b>

## Note 38 - Pension Costs

The percentages of the total Fund held in each asset class were as follows:

		2020-21		2019-20	
		% Quoted	% Unquoted	% Quoted	% Unquoted
<b>Fixed Interest Government Securities</b>					
	UK				
	Overseas	0.6%		0.8%	
<b>Corporate Bonds</b>					
	UK	3.9%		4.2%	
	Overseas	8.6%		8.8%	
<b>Equities</b>					
	UK	14.3%		19.2%	
	Overseas	38.6%	8.1%	38.6%	
<b>Property</b>					
	All		10.3%		13.6%
<b>Others</b>					
	Absolute return portfolio	7.2%		8.4%	
	Private Equity		2.4%		2.5%
	Infrastructure		1.0%		1.1%
	Derivatives		0.0%		-0.3%
	Cash/Temporary Investments		4.7%		2.6%
<b>Net Current Assets</b>					
	Debtors		0.5%		0.6%
	Creditors		-0.3%		-0.3%
<b>Total assets</b>		<b>73.2%</b>	<b>26.7%</b>	<b>80.0%</b>	<b>19.8%</b>

The decrease in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. International Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. Had these markets remained at their 2020 levels then the pensions deficit would have been £950,491k lower at £684,401k.

IAS19 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2022 is £73,516k, this is in line with the revised IAS19 Standard.

## Note 38 - Pension Costs

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liability has been assessed by Barnett Waddingham.

The principal assumptions used by the actuary have been:

		<b>Local Government Pension Scheme</b>	
		<b>2020-21</b>	<b>2019-20</b>
Mortality assumptions:			
Longevity at 65 for current pensioners:			
	Men	21.6 years	21.8 years
	Women	23.6 years	23.7 years
Longevity at 65 for future pensioners:			
	Men	22.9 years	23.2 years
	Women	25.1 years	25.2 years
Rate of inflation		3.20%	2.75%
Rate of increase in Consumer Price Index		2.80%	1.95%
Rate of increase in salaries		3.80%	2.95%
Rate of increase in pensions		2.80%	1.95%
Rate for discounting scheme liabilities		2.00%	2.35%
Take-up option to convert annual pension into retirement lump sum		50%	50%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

		<b>Impact on the Defined Benefit Obligation in the Scheme</b>	
		<b>Increase in Assumption £'000</b>	<b>Decrease in Assumption £'000</b>
Adjustment to discount rate (increase or decrease by 0.1%)		4,752,829	4,942,224
Adjustment to long-term salary increase (increase or decrease by 0.1%)		4,854,370	4,838,804
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)		4,933,563	4,761,213
Adjustment to mortality age rate assumption (increase or decrease in 1 year)		5,067,011	4,636,232

### Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £1.2m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2021 in accordance with IAS19.

**Commercial Services, Invicta Law Ltd, Cantium Business Solutions Ltd and The Education People**

The Balance Sheet includes the assets and liabilities for the wholly-owned subsidiaries of KCC. All entities have closed resolution body status which allows them to treat the pension as a defined contribution pension scheme with the Council keeping the assets and liabilities on its Balance Sheet.

**Note 39. Financial Instruments****Accounting Policy****Financial liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

For most of the borrowings that the authority has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are two main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take a form of a basic debt instrument).

**Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to start up companies at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains or losses that arise from the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

### **Expected Credit Loss Model**

The Council recognises expected credit losses on all of its contractual financial assets held at amortised cost or fair value through other comprehensive income, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligation. Credit risk plays a crucial factor in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

For loans and investments, the loss allowance is equal to 12-month expected credit losses (ECLs) unless credit risk has increased significantly in which case it is equal to lifetime ECLs. For trade receivables without a significant financing component, the loss allowance is always equal to lifetime ECLs.

To calculate ECLs, a two-year delay in cash flows is assumed to arise in the event of default. For 12-month ECLs, only default events occurring in the next 12 months are considered.

### **Financial Assets Measured at Fair Value through Profit or Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

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

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

Any gains or losses that arise from the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

### Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

### Financial Liabilities

The Council's financial liabilities held during the year are measured at amortised cost and comprised of:

- long-term loans from the Public Works Loan Board and commercial lenders
- short-term loans from other local authorities
- overdraft with NatWest Bank
- finance leases on land and buildings
- Private Finance Initiative contracts detailed in Note 20
- trade payables for goods and services received.

### Financial Assets

The financial assets held by the Council during the year are held under the following three classifications:

**Amortised cost** (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

- cash
- bank current and deposit accounts
- fixed term deposits with the DMO
- fixed term deposits with banks and building societies
- treasury bills issued by the UK Government
- covered bonds issued by financial institutions and backed by a pool of assets
- loans to other local authorities
- trade receivables for goods and services delivered.

**Fair value through profit and loss** (all other financial assets) comprising:

- money market funds
- shares in unlisted companies
- unquoted equity investments relating to KCC wholly owned companies
- pooled equity, bond, and property investment funds

## Note 39 - Financial Instruments

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

#### Financial Assets

	31 March 2021		31 March 2020	
	Long Term	Short Term	Long Term	Short Term
	£000's	£000's	£000's	£000's
<b>Investments</b>				
- Fair value through profit or loss	204,114	134,965	181,311	56,684
- Amortised cost	85,754	109,059	85,018	84,307
	<b>289,868</b>	<b>244,024</b>	<b>266,329</b>	<b>140,991</b>
<b>Debtors</b>				
- Amortised cost		72,670		74,824
- Non financial assets	52,862	144,907	65,061	111,284
	<b>52,862</b>	<b>217,577</b>	<b>65,061</b>	<b>186,108</b>
Cash & Cash Equivalents		9,232		12,991
<b>Total</b>	<b>342,730</b>	<b>470,833</b>	<b>331,390</b>	<b>340,090</b>

#### Financial Liabilities

	31 March 2021		31 March 2020	
	Long Term	Short Term	Long Term	Short Term
	£000's	£000's	£000's	£000's
<b>Borrowing</b>				
- Amortised cost	735,969	128,759	813,624	81,465
- Non financial liabilities	204,395	8,149	212,543	8,124
	<b>940,364</b>	<b>136,908</b>	<b>1,026,167</b>	<b>89,589</b>
<b>Creditors</b>				
- Amortised cost		2,372		1,665
- Non financial assets	11,536	306,627	40	265,870
	<b>11,536</b>	<b>308,999</b>	<b>40</b>	<b>267,535</b>
Cash & Cash Equivalents				
<b>Total</b>	<b>951,900</b>	<b>445,907</b>	<b>1,026,207</b>	<b>357,124</b>

#### Financial Instruments Designated at Fair Value through Profit or Loss

For Money Market Funds, Bond, equity and property funds the fair value is calculated at Level 1 valuation techniques, as set out on page 123.

The shareholdings in our wholly owned subsidiaries and unquoted equity is not subject to credit risk and is therefore limited to the value of our investment. Fair value is calculated at Level 3 valuation techniques, as set out on page 123.

## Note 39 - Financial Instruments

### Income, Expense Gains / Losses

	2020-21		2019-20	
	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000
<b>Net gains/losses on:</b>				
Financial assets measured at fair value through the profit or loss	-20,861		19,976	-
Financial assets measured at amortised cost			-	-
Financial assets measured at fair value through other comprehensive income				
Financial liabilities measured at amortised cost	-950	-950	-950	-950
<b>Total net gain/losses</b>	<b>-21,811</b>	<b>-950</b>	<b>19,026</b>	<b>-950</b>
<b>Interest revenue</b>				
Financial assets measured at amortised cost	724	-	1,966	-
Financial Assets measured at fair value through profit or loss	7,699		8,462	
<b>Total interest revenue</b>	<b>8,423</b>	<b>0</b>	<b>10,428</b>	<b>0</b>
<b>Interest expenses</b>	<b>-40,145</b>	<b>-</b>	<b>-40,980</b>	<b>-</b>
<b>Fee income</b>				
Financial assets or financial liabilities that are not at fair value through profit or loss		-		-
Trust and other fiduciary activities		-		-
<b>Total fee income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fee expense</b>				
Financial assets or financial liabilities that are not at fair value through profit or loss	-20,113	-	-20,166	-
Trust and other fiduciary activities		-		-
<b>Total fee expense</b>	<b>-20,113</b>	<b>0</b>	<b>-20,166</b>	<b>0</b>



## Note 39 - Financial Instruments

### Fair Value of Financial Assets

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

#### Financial assets measured at fair value

Recurring fair value measurements	Input Level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 Mar 2021 £'000	As at 31 Mar 2020 £'000
<b>Fair value through Profit and Loss</b>				
Money market funds	Level 1	Unadjusted quoted prices in active markets for identical shares	134,965	56,684
Equity Shares	Level 1	Unadjusted quoted prices in active markets for identical shares	1	2
Bond, equity, and property funds	Level 1	Unadjusted quoted prices in active markets for identical shares	174,717	157,462
Equity Funds	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	11,734	10,782
Unquoted Equity	Level 3	Company net assets multiplied by the percentage share capital owned	15,912	12,566
			<b>337,329</b>	<b>237,496</b>

#### Reconciliation of Fair Value Measurements (using significant Unobservable Inputs) categorised within Level 3 of the Fair Value Hierarchy

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

	2020-21 £'000	2019-20 £'000
Opening balance	12,566	12,059
Transfers into Level 3		
Transfers out of Level 3		-1,325
Additions	276	140
Derecognition		-56
Total gains or (loss) for the period:		
Included in Surplus or Deficit on the Provision of Services	4,820	1,748
Included in Other Comprehensive Income and Expenditure		
Closing Balance	17,662	12,566

## Note 39 - Financial Instruments

### The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)

Except for the financial assets carried at fair value (described in the table on the previous page), all other financial liabilities and financial assets held by the Council as well as long-term debtors and creditors are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows:

Financial Liabilities	31 March 2021		31 March 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial liabilities held at amortised cost				
PWLB loans	456,437	588,753	480,334	617,408
Long-term LOBO and Market Loans	408,291	654,687	414,755	651,588
Other long-term loans				
PFI and finance lease liabilities	212,544	265,263	220,667	277,153
<b>Total</b>	<b>1,077,272</b>	<b>1,508,703</b>	<b>1,115,756</b>	<b>1,546,149</b>

The fair value of borrowings is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2021) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2021		31 March 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial assets held at amortised cost				
- long-term investments	85,754	86,468	85,018	84,541
- short-term investments	109,059	109,059	83,807	83,807
- cash and cash equivalents	9,232	9,232	12,991	12,991
Long-term debtors	52,862	49,125	65,061	63,318
<b>Total</b>	<b>256,907</b>	<b>253,884</b>	<b>246,877</b>	<b>244,657</b>

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

## Note 39 - Financial Instruments

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

31 March 2021				
	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant un- observable inputs (Level 3) £'000	Total £'000
<i>Recurring fair value measurements using:</i>				
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		588,753		<b>588,753</b>
• Long-term LOBO and Market Loans		654,687		<b>654,687</b>
PFI and finance lease liabilities			265,263	<b>265,263</b>
<b>Total</b>	<b>0</b>	<b>1,243,440</b>	<b>265,263</b>	<b>1,508,703</b>
<b>Financial Assets</b>				
Financial assets held at amortised cost:				
• Soft loans to third parties			19,366	<b>19,366</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>19,366</b>	<b>19,366</b>
31 March 2020				
	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant un- observable inputs (Level 3) £'000	Total £'000
<i>Recurring fair value measurements using:</i>				
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		617,408		<b>617,408</b>
• Long-term LOBO and Market Loans		651,588		<b>651,588</b>
PFI and finance lease liabilities			277,153	<b>277,153</b>
<b>Total</b>	<b>0</b>	<b>1,268,996</b>	<b>277,153</b>	<b>1,546,149</b>
<b>Financial Assets</b>				
Loans and receivables:				
• Soft loans to third parties			22,890	<b>22,890</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>22,890</b>	<b>22,890</b>

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

The fair value for financial liabilities and financial assets included in Level 2 and Level 3 in the table above have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021 using the following methods and assumptions:

- PWLB loans have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans
- LOBO loans have been increased by the value of the embedded options. Lender's options to increase the interest rates of the loans have been valued according to the proprietary model for Bermudan cancellable swaps. Borrower's options have been valued at zero on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate
- PFI and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements)
- Soft loans have been valued by discounting the contractual payments at the market rate of interest for a similar loan

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

Financial Assets	Financial Liabilities
• no early repayment or impairment is recognised	• no early repayment or impairment is recognised
• estimated ranges of interest rates at 31 March 2021 based on new lending rates for equivalent loans at that date	• estimated ranges of interest rates at 31 March 2021 based on new lending rates for equivalent loans at that date
• the fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount. For trade receivables this equates to the invoiced or billed amount	• The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount

## Note 40. Nature and Extent of Risks Arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measurables as interest rates and stock market movements.

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

### Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £20m is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in UK banks, building societies, and companies, a lower limit of £15m applies. The Council also sets limits on investments in certain sectors. No more than £300m in total can be invested for a period longer than one year.

The credit quality of the £79.8m of the Council's investments in covered bonds is enhanced as these bonds are collateralised by pools of residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

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

Credit Rating	31 Mar 2021	31 Mar 2020
	£000's	£000's
AAA	214,635	141,602
AA-	9,400	0
A+	10,000	0
A	35,000	30,000
A-	0	0
Unrated Pooled Funds/Equity/Other Local Authorities		
Unrated Pooled Funds	174,717	157,462
Equity	29,396	23,159
Other Local Authorities	51,000	53,807
<b>Total Investments</b>	<b>524,148</b>	<b>406,030</b>

All deposits outstanding as at 31 March 2021 met the Council's credit rating criteria on 31 March 2021.

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by [three] or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent.

### Collateral and Other Credit Enhancements

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2021 was £3.4m.

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

### Liquidity risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and at higher rates from banks. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

<b>Time to maturity</b>	<b>31 Mar 2021</b>	<b>31 Mar 2020</b>
<b>Years</b>	<b>£000's</b>	<b>£000's</b>
Not over 1	27,761	30,199
Over 1 but not over 2	23,499	27,761
Over 2 but not over 5	76,992	73,312
Over 5 but not over 10	32,890	56,890
Over 10 but not over 20	184,988	177,911
Over 20 but not over 30	130,800	140,910
Over 30 but not over 40	135,700	145,700
Over 40	151,100	191,100
Uncertain date *	90,000	40,000
<b>Total</b>	<b>853,730</b>	<b>883,783</b>

\* The Council has £90m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. All £90m of these LOBO loans have option dates in 2021-22. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

### Market risk

The Council is exposed to market risk both from its short term cash investments as well as from its investments in pooled equity, bond and property funds. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The Council manages its investment risk through its treasury management strategy particularly by investing in a diversified range of pooled funds across a range of asset classes.

**Interest Rate Risk:** The Council is exposed to risks arising from movements in interest rates. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income and Expenditure or the Provision of Services as appropriate. The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2021, £230m (2020: £400m) of net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates and £90m (2020: £90m) to variable rates.

## Note 40 - Nature and Extent of Risks Arising from Financial Instruments and Note 41 - Contingent Liabilities

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

	£000's
Increase in interest payable on variable rate borrowings	900
Increase in interest receivable on variable rate investments	597
Decrease in fair value of investments held at FVPL	-817
<b>Impact on Provision of Services (surplus)</b>	<b>680</b>
Decrease in fair value of fixed rate investment assets	-230
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>-230</b>
Decrease in fair value of loans and investments at amortised cost*	<b>-186,999</b>

\*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Price Risk:

The Council's investments will fluctuate in value as the result of changes in market prices. The Council has sought to mitigate the price risk through diversification in line with its treasury management strategy. The market prices of the Council's bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk. The value of the Council's investment of £60m (2019 £50m) in the CCLA local authority property fund is subject to the value of the underlying investments. A 5% fall in commercial property prices would result in a £1.82m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

### Foreign Exchange Risk:

The Council has no foreign currency investments and therefore is not directly exposed to the risk of adverse movements in exchange rates.

## Note 41. Contingent Liabilities

### Accounting Policy

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. They are factored into the consideration of an adequate level of reserves.

### Employment and Educational

There are 10 claims relating to discrimination and breach of contract in employment. Of these, seven are unfair dismissal and discrimination cases, two are compensation cases and one is a breach of contract case. Although the governing bodies of schools are the legal employer of teaching staff, by operation of the Education (Modification of Enactments Relating to Employment) (England) Order 2003, where an award of damages is made by an Employment Tribunal, in most cases Kent County Council will be liable to pay the award. Employment tribunals can in discrimination cases award unlimited damages to a successful claimant. Based on available information on these cases, the total amount in damages being sought by the claimants exceeds £200k and an additional amount of approximately £200k for those not officially pleaded. However, on a number of these claims the prospects for successfully defending these cases are assessed to be good. It is extremely rare for employment tribunals to award all of the damages that are claimed.

**Childcare**

All care proceedings are subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 282 live cases where proceedings have actually been issued. The costs to KCC of taking these proceedings are in excess of £10k each.

**Litigation**

There are 14 such cases of which legal costs are expected to exceed £144k in total.

**Asylum & Judicial review cases**

There are 21 judicial review cases of age assessment and fall of these cases the costs are likely to exceed £10k. There are 12 judicial review cases and for all of these cases the costs are likely to exceed £10k.

**Court of Protection**

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

**Note 42. Subsidiary Undertakings****Accounting Policy****Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of wholly owned subsidiaries and jointly controlled entities. An assessment of the transactions between the Council and the subsidiaries and the jointly controlled entities is conducted each year.

**Subsidiary Undertakings**

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

The powers used are the 'well-being powers' provided to local authorities in Part 1 of the Local Government Act 2000. In 2020-21, in the draft, unaudited EKOLLP accounts, the net assets of the joint operation are £9.4m with an operating profit before members remuneration and profit shares available for discretionary division among members of £0.8m.



**Note 43. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Seven schools on the balance sheet as at 31 March 2021 are due to convert to academy status by 1 September 2021. The net book value of these assets as at 31 March 2021 is £89.6m.

There have been no events since 31 March 2021, up to the date when these accounts were authorised, that require any adjustment to these accounts.

**Note 44. Other Notes****Pension Fund**

Once credited to the Pension Fund, monies may only be used to provide for the statutory determined pension and other payments attributable to staff covered by the Fund. The assets and liabilities of the Pension Fund are shown separately from those of Kent County Council, although the legal position is that they are all in the ownership of Kent County Council as the administering Council. Any actuarial surplus or deficit is apportioned to the constituent member bodies of the Fund. Details of the Fund are disclosed in the Pension Fund Accounts found on pages 132 to 160

## Pension Fund Accounts

The following financial statements are included in the Kent County Council Superannuation Fund's Annual Report and Accounts 2021 available from the Fund's website at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk).

### Fund Account for the year ended 31 March

	Notes	2020-21 £000's	2019-20 £000's
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	267,955	250,263
Transfers in from other pension funds	8	5,017	9,328
		272,972	259,591
Benefits	9	-247,448	-243,832
Payments to and on account of leavers	10	-10,057	-12,708
		-257,505	-256,540
<b>Net additions from dealings with Members</b>		<b>15,467</b>	<b>3,051</b>
Management Expenses	11	-27,277	-25,606
<b>Net additions/withdrawals including fund management expenses</b>		<b>-11,810</b>	<b>-22,555</b>
<b>Returns on Investments</b>			
Investment Income	13	111,339	135,344
Taxes on Income		-93	-380
Profits and losses on disposal of investments and changes in the market value of investments	15a	1,678,546	-613,700
<b>Net Return on Investments</b>		<b>1,789,792</b>	<b>-478,736</b>
<b>Net increase / (decrease) in the Net Assets available for benefits during the year</b>		<b>1,777,982</b>	<b>-501,291</b>

### Net Assets Statement as at 31 March

	Notes	2021 £000's	2020 £000's
Investment Assets		7,485,404	5,720,555
Investment Liabilities			-17,405
<b>Net Investment Assets</b>	15	<b>7,485,404</b>	<b>5,703,150</b>
Current Assets	21	34,422	34,625
Current Liabilities	22	-24,966	-20,897
<b>Net Assets available to fund benefits at the period end</b>		<b>7,494,860</b>	<b>5,716,878</b>

**1. Description of the Fund****General**

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

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme Manager). The Local Pension Board assists the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme.

**Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the Scheme or to make personal arrangements outside the Scheme. Employers in the Fund include Scheduled Bodies which are local authorities and similar entities whose staff are automatically entitled to be members of the Scheme; and Admission Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admission bodies include voluntary, charitable and similar entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 310 employers actively participating in the Fund and the profile of members is as detailed below:

	Kent County Council		Other Employers		Total	
	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20
Contributors	21,510	20,986	31,215	30,699	52,725	51,685
Pensioners	22,959	22,372	21,879	21,069	44,838	43,441
Deferred Pensioners	24,077	24,316	23,320	23,090	47,397	47,406
Total	68,546	67,674	76,414	74,858	144,960	142,532

**Funding**

Benefits are funded by contributions and investment earnings. The 2019 triennial valuation certified a common contribution rate of 18.4% of pensionable pay to be paid by each employer participating in the Kent Pension Fund for 2020-21. In addition to this, each employer has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

## Pension Fund Accounts

### Benefits

Pension benefits under the LGPS are based on the following:

	<b>Service pre April 2008</b>	<b>Membership from 1 April 2008 to 31 March 2014</b>	<b>Membership from 1 April 2014</b>
<b>Pension</b>	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x career average revalued salary
<b>Lump sum</b>	Automatic lump sum of 3/80 x final pensionable salary.  In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There is a range of other benefits provided under the Scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

### 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2020-21 financial year and its position at 31 March 2021.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS)19 basis is disclosed at note 20 of these accounts.

### 3. Summary of Significant Accounting Policies

#### Fund Account - revenue recognition

##### a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employers Deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

##### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in 'transfers in'. Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

##### c) Investment income

Dividends, distributions, interest, and stock lending income on securities have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. Where the Fund's investments are held in income accumulating funds that do not distribute income the accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year. Direct property related income mainly comprises of rental income which is recognised when it becomes due. Rental income is adjusted for provision for rent invoiced but collection of which is assessed as doubtful.

#### Fund Account - expense items

##### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities providing the payment has been approved.

##### e) Taxation

The Fund has been accepted by the HM Revenue and Customs as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Tax is therefore only applicable to dividend income from equity investments. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of tax, and any recoverable tax at the end of the year is included in accrued investment income.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

### **f) Management expenses**

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund, and overheads incurred by the County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Fees incurred include fees directly paid to fund managers as well as fees deducted from the funds by pooled fund managers which is grossed up to increase the income from these investments.

### **Net Assets Statement**

#### **g) Financial assets**

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as amounts receivable for sales and amounts payable for purchases. From the trade date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 and IFRS 9. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager
- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund.
- Debtors / receivables being short duration receivables with no stated interest rate are measured at original invoice amount. Debtors are adjusted for provision made for doubtful debts relating to rent income.

#### **h) Freehold and Leasehold Properties**

The Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2020. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2021.

#### **i) Derivatives**

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. At the reporting date the Fund only held forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. Under the European Market Infrastructure Regulations the Fund's forward currency contracts are required to be covered by margin cash. These amounts are included in cash or cash equivalents held by the Fund and reflected in a corresponding margin cash liability under investment liabilities.

#### **j) Foreign currency transactions**

Assets and liabilities in foreign currency are translated into sterling at spot market exchange rates ruling at the year-end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in change in market value of assets.

### **k) Cash and cash equivalents**

Cash comprises cash at bank and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash and cash equivalents managed by fund managers and cash equivalents managed by Kent County Council are included in investments. All other cash is included in Current Assets.

### **l) Financial Liabilities**

The Fund recognises financial liabilities relating to investments at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### **m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2020 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

### **n) Contingent Assets and Liabilities**

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

### **o) Pooling Expenses**

The Fund is member of the ACCESS pool, a group of 11 LGPS Administering Authorities who, as part of a Government initiative, have agreed to pool their investments to achieve cost and scale benefits. Pooling costs included in the Fund's accounts reflect the Fund's proportion of the cost of the governance arrangements of the Pool.

### **p) Additional Voluntary Contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in note 23.

## 4. Critical judgements in applying accounting policy

### Pension Fund liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Market movements since the outbreak of Covid-19 have seen significant volatility in gilt yields and equity values. As per the actuary, the Fund's funding model is designed to withstand short-term volatility in markets as we use smoothed assumptions over a six-month period with the ultimate aim of setting stable contributions for employers. Therefore, the model helps to mitigate some of the impact of the extreme events

## 5. Assumptions made about future and other major sources of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits  (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £236m. A 0.1% increase in assumed earning inflation would increase the value of liabilities by approx. £22m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £519m.
Private Equity and Infrastructure and other level 3 investments  (Note 17)	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure and other level 3 investments on the financial statements are £874m. There is a risk that this investment may be under-or-over stated in the accounts. Potential change in valuation due to change in these factors is estimated in Note 17.



## Notes to the Pension Fund Accounts

Item	Uncertainties	Effect if actual results differ from assumption
Freehold and Leasehold Property and Pooled Property Funds (Note 17)	Valuation techniques are used to determine the fair values of directly held property and pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	Less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. However, the affect of 10% variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property and property pooled funds of £78m on a fair value of £775m.

### 6. Events after the Balance Sheet date

There have been no events since 31 March 2021, up to the date when these accounts were authorised, that require any adjustment to these accounts.

## Notes to the Pension Fund Accounts

### 7. Contributions Receivable

	2020-21 £000's	2019-20 £000's
<b>By Category</b>		
Employees' contributions	59,348	56,324
Employers' contributions		
- normal contributions	172,479	134,662
- deficit recovery contributions	32,533	53,952
- augmentation contributions	3,595	5,325
Total Employers' contributions	208,607	193,939
<b>Total contributions receivable</b>	<b>267,955</b>	<b>250,263</b>
<b>By type of employer</b>		
Kent County Council	98,024	94,300
Scheduled Bodies	151,255	141,689
Admission Bodies	18,676	14,274
	<b>267,955</b>	<b>250,263</b>

### 8. Transfers in from other pension funds

	2020-21 £000's	2019-20 £000's
Individual	5,017	9,328
Group		0
	<b>5,017</b>	<b>9,328</b>

### 9. Benefits Payable

	2020-21 £000's	2019-20 £000's
<b>By Category</b>		
Pensions	210,886	203,810
Retirement Commutation and lump sum benefits	30,202	34,195
Death benefits	6,360	5,827
	<b>247,448</b>	<b>243,832</b>
<b>By type of employer</b>		
Kent County Council	112,653	109,643
Scheduled Bodies	119,813	119,218
Admission Bodies	14,982	14,971
	<b>247,448</b>	<b>243,832</b>

## Notes to the Pension Fund Accounts

### 10. Payments to and on account of leavers

	2020-21 £000's	2019-20 £000's
Group transfers	8,736	11,087
Individual transfers	0	0
Payments/refunds for members joining state scheme	0	-95
Refunds of contributions	1,321	1,716
	<b>10,057</b>	<b>12,708</b>

### 11. Management Expenses

	Notes	2020-21 £000's	2019-20 £000's
Administration costs		3,361	3,545
Governance and oversight costs		820	764
Investment management expenses	12	22,973	21,163
Audit Fees		41	60
Pooling Expenses		82	74
		<b>27,277</b>	<b>25,606</b>

The Audit fee for 2019-20 included £23k for charges for assurance letters to scheduled bodies in relation to 2019 and 2020 audits. For 2020-21, the cost of assurance letters will be recovered from the scheduled bodies and is not shown as a cost for the Fund.

### 12. Investment Management Expenses

	2020-21 £000's	2019-20 £000's
Investment Managers Fees	22,207	20,415
Transaction Costs	710	709
Custody fees	56	39
<b>Total</b>	<b>22,973</b>	<b>21,163</b>

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

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These indirect costs are not separately provided to the Pension Fund.

### 13. Summary of Income from Investments

	Notes	2020-21 £000's	%	2019-20 £000's	%
Bonds		15,279		17,132	12.7
Equities		4,277		5,421	4.0
Pooled Investments		68,023		85,335	63.1
Private Equity / Infrastructure		9,879		4,644	3.4
Property	14	8,228		15,488	11.4
Pooled Property Investments		5,465		6,010	4.4
Cash and cash equivalents		155		1,273	0.9
Stock Lending		33		42	0.0
<b>Total</b>		<b>111,339</b>	<b>0.0</b>	<b>135,344</b>	<b>100.0</b>

During the year because of the pandemic the Fund experienced lower levels of income and distributions across most asset classes compared to the previous year.

## Notes to the Pension Fund Accounts

### 14. Property Income and Expenditure

	2020-21 £000's	2019-20 £000's
Rental Income from Investment Properties	12,427	21,697
Direct Operating Expenses	-4,199	-6,209
<b>Net operating income from Property</b>	<b>8,228</b>	<b>15,488</b>

Rental income for 2020-21 is net of provision for doubtful debts of £6.3m.

### 15. Investments

	Market Value as at 31 March 21 £000's	Market Value as at 31 March 20 £000's
<b>Investment Assets</b>		
Bonds	401,001	339,055
Equities	348,033	236,536
Pooled Investments	5,343,724	4,028,527
Private Equity/Infrastructure Funds	255,251	189,864
Property	493,314	478,104
Pooled Property Investments	281,718	287,008
Derivatives-Forward Currency contracts	962	0
Investment Cash and cash equivalents	201,228	131,959
Cash held with fund managers pending issue of units	150,000	0
Investment Income due	15,996	11,975
Amounts receivable for sales	0	724
Margin cash	1,025	16,803
<b>Total Investment Assets</b>	<b>7,492,252</b>	<b>5,720,555</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	-561	-324
Margin cash liability	0	0
Provision for Doubtful Debts	-6,287	0
Derivatives-Forward Currency contracts	0	-17,081
<b>Total Investment Liabilities</b>	<b>-6,848</b>	<b>-17,405</b>
<b>Net Investment Assets</b>	<b>7,485,404</b>	<b>5,703,150</b>

Investment income due (debtors) includes a sum of £9.4m for rents and service charges payable by tenants of properties owned by the Pension Fund. In the pandemic, rent collection has been significantly impacted and there is a high likelihood that a significant portion will not be fully recovered. A provision of £6.3m has therefore been made for doubtful rent debts. In the previous year, the doubtful debts were estimated at £1.82m but no provision was made.

## Notes to the Pension Fund Accounts

### 15a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 20 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 21 £000's
Bonds	339,054	134,314	-73,777	1,410	401,001
Equities	236,536	155,000	-146,114	102,611	348,033
Pooled Investments	4,028,528	1,147,986	-1,344,347	1,511,557	5,343,724
Private Equity/Infrastructure	189,864	72,544	-29,734	22,577	255,251
Property	478,105	0	0	15,209	493,314
Pooled Property Investments	287,008	2,007	-1,503	-5,794	281,718
	5,559,095	1,511,851	-1,595,475	1,647,570	7,123,041
Derivative contracts					
- Forward Currency contracts	-17,082	3,512,898	-3,526,105	31,251	962
	<b>5,542,013</b>	<b>5,024,749</b>	<b>-5,121,580</b>	<b>1,678,821</b>	<b>7,124,003</b>
Other Investment balances					
- Investment Cash and cash equivalents	131,959			-275	201,228
- Cash pending issue of units					150,000
- Amounts receivable for sales	724				
- Amounts payable for purchases	-324				-561
- Margin cash liability	16,803				1,025
- Investment Income due	11,975				15,996
- Provision for doubtful debt					-6,287
<b>Net Investment Assets</b>	<b>5,703,150</b>			<b>1,678,546</b>	<b>7,485,404</b>

	Market Value as at 31 March 19 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 20 £000's
Bonds	363,728	73,391	-86,027	-12,038	339,054
Equities	249,994	82,835	-83,716	-12,577	236,536
Pooled Investments	4,601,708	408,148	-418,777	-562,551	4,028,528
Private Equity/Infrastructure	150,015	59,487	-27,272	7,634	189,864
Property	487,193	1,844	-4,710	-6,222	478,105
Pooled Property Investments	257,690	39,191	-2,696	-7,177	287,008
	6,110,328	664,896	-623,198	-592,931	5,559,095
Derivative contracts					
- Forward Currency contracts	3,122	3,438,138	-3,436,691	-21,651	-17,082
	<b>6,113,450</b>	<b>4,103,034</b>	<b>-4,059,889</b>	<b>-614,582</b>	<b>5,542,013</b>
Other Investment balances					
- Investment Cash and cash equivalents	80,526			882	131,959
- Cash pending issue of units					0
- Amounts receivable for sales	0				724
- Amounts payable for purchases	-1,373				-324
- Margin cash liability	-4,533				16,803
- Investment Income due	17,028				11,975
- Provision for doubtful debt					
<b>Net Investment Assets</b>	<b>6,205,098</b>			<b>-613,700</b>	<b>5,703,150</b>

## Notes to the Pension Fund Accounts

### 15b. Analysis of Derivative Contracts

#### Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

#### Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager hedges the overseas exposure of the portfolio.

Settlement	Currency bought	Local value 000's	Currency sold	Local value 000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,037	USD	-1,427	2	
Up to one month	GBP	25	EUR	-29	0	
Up to one month	GBP	55	EUR	-65	0	
Up to one month	GBP	249	USD	-343	1	
Up to one month	GBP	60,119	EUR	-67,427	2,675	
Up to one month	GBP	2,974	EUR	-3,356	115	
Up to one month	GBP	952	EUR	-1,084	28	
Up to one month	GBP	1,790	EUR	-2,063	33	
Up to one month	GBP	821	EUR	-948	13	
Up to one month	GBP	798	EUR	-925	10	
Up to one month	GBP	540	EUR	-625	7	
Up to one month	GBP	387	EUR	-452	2	
Up to two months	GBP	267,202	USD	-371,334		-1,900
Up to two months	USD	4,153	GBP	-2,975	35	
Up to two months	GBP	3,184	USD	-4,407		-10
Up to two months	GBP	2,378	USD	-3,302		-15
Up to two months	GBP	3,820	USD	-5,312		-29
Up to two months	GBP	1,184	USD	-1,634		0
Up to two months	USD	1,427	GBP	-1,037		-2
Up to two months	USD	343	GBP	-249		-1
					2,921	-1,957
<b>Net forward currency contracts at 31 March 2021</b>						<b>964</b>
Prior year comparative						
Open forward currency contracts at 31 March 2020					816	-17,896
<b>Net forward currency contracts at 31 March 2020</b>						<b>-17,080</b>

**15c. Property Holdings**

	Year ending 31 March 21 £000's	Year ending 31 March 20 £000's
<b>Opening Balance</b>	478,105	487,193
Additions	0	1,844
Disposals	0	-4,710
Net increase in market value	15,209	-6,222
<b>Closing Balance</b>	<b>493,314</b>	<b>478,105</b>

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

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

	Year ending 31 March 21 £000's	Year ending 31 March 20 £000's
Within one year	16,161	18,228
Between one and five years	36,708	42,150
Later than five years	33,610	33,885
	<b>86,479</b>	<b>94,263</b>

The above disclosures have been reduced by a credit loss allowance of 0.35% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property letting agents. The income has also been reduced to take into account the possibility of tenants taking advantage of break clauses in their contracts to terminate tenancies.

## Notes to the Pension Fund Accounts

### 15d. Investments analysed by Fund Manager

	Market Value as at 31 March 2021		Market Value as at 31 March 2020	
	£000's	%	£000's	%
<b>Investments managed in the ACCESS Pool</b>				
Baillie Gifford	1,709,000	22.8	1,122,058	19.7
M&G	443,546	5.9	298,971	5.2
Ruffer	134,025	1.8	71,377	1.3
Schroders	1,384,541	18.5	770,263	13.5
<b>Investments managed outside the ACCESS Pool</b>				
CQS	157,732	2.1	108,422	1.9
DTZ	538,729	7.2	529,174	9.3
Fidelity	133,795	1.8	130,671	2.3
Goldman Sachs	416,621	5.6	368,288	6.5
HarbourVest	131,250	1.8	94,199	1.8
Impax	70,886	0.9	43,028	0.8
Insight	610,989	8.2	0	0.0
Kames	43,566	0.6	47,176	0.8
Kent County Council Investment Team	336,574	4.5	98,019	1.7
M&G	227,169	3.0	185,344	3.2
Partners Group	76,848	1.0	60,157	1.1
BMO (Pyrford)	407,083	5.4	415,074	7.3
Sarasin	352,812	4.7	246,207	4.3
Schroders	254,982	3.4	466,119	8.2
UBS	0	0.0	577,391	10.1
YFM	47,154	0.6	35,508	0.6
Link Fund Solutions (previously Woodford)	8,102	0.1	35,704	0.6
	7,485,404	100	5,703,150	100

All the external fund managers above are registered in the United Kingdom. Movements during the year include:

- Assets in the GAV fund managed by Schroders were transitioned in to the ACCESS pool
- Appointed Insight as manager to implement an equity protection programme
- Complete sale of units in the UBS tracker funds to fund the equity protection programme
- Redemption of £200m of units in fund managed by Baillie Gifford
- Reallocation of £45m from Pyrford to Ruffer absolute return funds
- Investment of £20m each in M&G Alpha Opportunity and CQS Funds

### 15e. Single investments exceeding 5% of net assets available for benefits

<b>Investments</b>	31 March 2021	
	£000's	% of net assets
LF ACCESS Global Equity Core Fund	1,709,000	22.8
LF ACCESS UK Equity Fund	1,031,581	13.8
LDI Solutions Plus ICAV Active (Insight)	610,989	8.2
LF ACCESS Global Dividend Fund	443,546	5.9
BMO Investments Ireland (Plc) Global Total Return Fund	407,083	5.4
<b>Investments</b>	31 March 2020	
	£000's	% of net assets
LF ACCESS Global Equity Core Fund	1,122,058	19.7
LF ACCESS UK Equity Fund	770,263	13.5
BMO Investments Ireland (Plc) Global Total Return Fund	415,074	7.3
LF ACCESS Global Dividend Fund	298,971	5.2
UBS Life UK Equity Tracker Fund	289,255	5.1



## Notes to the Pension Fund Accounts

### 15f. Stock Lending

The Custodians undertake a programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds. The programme lends directly held global equities and bonds to approved borrowers against a collateral of Government and Supranational fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

Loan Type	31 March 2021		Collateral type
	Market Value £000's	Collateral Value £000's	
Equities	8,099	8,458	Treasury Notes and other Government debt
Bonds	11,004	11,492	Treasury Notes and other Government debt
	<b>19,103</b>	<b>19,950</b>	

Loan Type	31 March 2020		Collateral type
	Market Value £000's	Collateral Value £000's	
Equities	12,842	13,377	Treasury Notes and other Government debt
Bonds	7,761	8,084	Treasury Notes and other Government debt
	<b>20,603</b>	<b>21,461</b>	

### 16. Financial Instruments

#### 16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. The implementation of IFRS9 has not resulted in changes to the classification of financial assets/liabilities.

	31 March 2021			31 March 2020		
	Designated as fair value through profit and loss £000's	Assets at amortised cost £000's	Financial liabilities at amortised cost £000's	Designated as fair value through profit and loss £000's	Assets at amortised cost £000's	Financial liabilities at amortised cost £000's
<b>Financial Assets</b>						
Bonds	401,001			339,054		
Equities	348,033			236,536		
Pooled Investments	5,343,724			4,028,528		
Property Pooled Investments	281,718			287,008		
Private Equity/Infrastructure	255,251			189,864		
Derivative contracts	962			0		
Cash & Cash equivalents	191,737	159,491		123,138	11,889	
Other Investment Balances		17,021			29,502	
Debtors/ Receivables		34,422			31,557	
	<b>6,822,426</b>	<b>210,934</b>	<b>0</b>	<b>5,204,128</b>	<b>72,948</b>	<b>0</b>
<b>Financial Liabilities</b>						
Derivative contracts				-17,081		
Other Investment balances			-6,848	0		-324
Creditors			-24,966			-20,897
	<b>0</b>	<b>0</b>	<b>-31,814</b>	<b>-17,081</b>	<b>0</b>	<b>-21,221</b>
<b>Total</b>	<b>6,822,426</b>	<b>210,934</b>	<b>-31,814</b>	<b>5,187,047</b>	<b>72,948</b>	<b>-21,221</b>

## Notes to the Pension Fund Accounts

### 16b. Net Gains and Losses on Financial Instruments

	31 March 21 £000's	31 March 20 £000's
<b>Financial assets</b>		
Fair value through profit and loss	1,663,612	-608,360
Assets at amortised cost	(275)	882
<b>Total</b>	<b>1,663,337</b>	<b>-607,478</b>

### 17. Valuation of assets and liabilities carried at Fair Value

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Quoted Funds in administration	3	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values /or if the fund holds illiquid assets, valuation of underlying investment/assets/companies/EBITDA multiples	If the fund holds illiquid assets, estimation techniques used in valuations, changes in market conditions, industry specific conditions
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	Wide range of deals executed in the currency markets, exchange rate risk	Not required
Bespoke fund for equity protection programme assets	2	Net Asset value of Fund based on valuation of underlying assets with quoted prices for bond holdings and market prices for derivatives	Wide range of deals executed in the bond holdings but limited comparable transactions for specialist equity derivatives	Valuation of derivatives is affected by the equity and foreign exchange market conditions

## Notes to the Pension Fund Accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

	Assessed valuation range (+/-)	Value as at 31 March 2021 £000's	Value on increase £000's	Value on decrease £000's
Private Equity	23.3%	178,404	219,972	136,836
Infrastructure	19.0%	76,848	91,449	62,247
Other Level 3 investments	23.3%	8,101	9,989	6,213
Total		263,353	321,410	205,296

	Assessed valuation range (+/-)	Value as at 31 March 2020 £000's	Value on increase £000's	Value on decrease £000's
Private Equity	23.3%	129,707	163,690	95,724
Infrastructure	19.0%	60,157	77,362	42,952
Other Level 3 investments	23.3%	35,704	45,058	26,350
		225,568	286,111	165,025

### 17a. Fair Value Hierarchy

#### Level 1

Assets and Liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted fixed interest securities, quoted index linked securities and quoted unit trusts.

#### Level 2

Assets and Liabilities at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data. Investments include Derivatives, Direct Property Investments, Property Unit Trusts and Property Unit Trusts and investments in Link pooled funds for ACCESS.

#### Level 3

Assets and Liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested. Assurances over the valuation are gained from the independent audit of the accounts. These assets also include investments in quoted funds that were in administration as at 31 March 2021 and are invested in illiquid underlying assets.

These valuations are prepared by the fund managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the fund managers, who provide a detailed breakdown of the valuations of underlying assets as well as a reconciliation of movements in fair values. Cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

## Notes to the Pension Fund Accounts

The following table provides an analysis of the assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
<b>Values at 31 March 2021</b>				
<b>Financial assets at fair value through profit and loss</b>				
Bonds	401,002			401,002
Equities	348,033			348,033
Pooled investments	732,933	4,602,688	8,101	5,343,722
Pooled property investments		281,717		281,717
Private equity and infrastructure			255,252	255,252
Derivatives		963		963
Cash Deposits	351,228			351,228
Other Investment balances	17,021			17,021
<b>Non- Financial assets at fair value through profit and loss</b>				
Property		493,314		493,314
<b>Financial liabilities at fair value through profit and loss</b>				0
Derivatives	0			
Other investment liabilities	(6,848)			(6,848)
<b>Net Investment Assets</b>	<b>1,843,369</b>	<b>5,378,682</b>	<b>263,353</b>	<b>7,485,404</b>

	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
<b>Values at 31 March 2020</b>				
<b>Financial assets at fair value through profit and loss</b>				
Bonds	339,054			339,054
Equities	236,536			236,536
Pooled investments	1,285,589	2,707,234	35,704	4,028,527
Pooled property investments		287,008		287,008
Private equity and infrastructure			189,864	189,864
Derivatives				0
Cash Deposits	151,830			151,830
Other Investment balances	9,631			9,631
<b>Non- Financial assets at fair value through profit and loss</b>				
Property		478,104		478,104
<b>Financial liabilities at fair value through profit and loss</b>				
Derivatives		(17,081)		(17,081)
Other investment liabilities		(324)		(324)
<b>Net Investment Assets</b>	<b>2,022,640</b>	<b>3,454,941</b>	<b>225,568</b>	<b>5,703,149</b>

## Notes to the Pension Fund Accounts

### 17b. Reconciliation of Fair Value Measurements within Level 3

	£000's
Market Value 1 April 2020	225,568
Transfers into level 3	0
Transfers out of level 3	0
Purchases during the year	72,544
Sales during the year	-48,156
Unrealised gains/ losses	13,397
Realised gains/losses	0
Market Value 31 March 2021	<b>263,353</b>

### 18. Nature and extent of Risks Arising From Financial Instruments

#### Risk and risk management

The Fund's primary long-term risk is that the value of its assets will fall short that of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

#### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to security and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All security investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The possible loss from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments and their activity is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

## Notes to the Pension Fund Accounts

### Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2020-21 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	16.2
Overseas Equities	15.7
Global Pooled Equities inc UK	15.4
Bonds	4.5
Property	9.2
Infrastructure	19
Private Equity	23.3

The potential price changes disclosed above are based on predicted volatilities calculated by our fund managers. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 21 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
<b>Cash and cash equivalents</b>	351,228	0.00	351,228	351,228
<b>Investment portfolio assets:</b>				
UK Equities	29,621	16.20	34,420	24,822
Overseas Equities	318,412	15.70	368,403	268,421
Global Pooled Equities inc UK	4,768,171	15.40	5,502,469	4,033,873
Bonds incl Bond Funds	976,553	4.50	1,020,498	932,608
Property Pooled Funds	281,718	9.20	307,636	255,800
Private Equity	178,404	23.30	219,972	136,836
Infrastructure Funds	76,848	19.00	91,449	62,247
Derivative assets	962	0.00	962	962
<b>Total</b>	<b>6,981,917</b>		<b>7,897,037</b>	<b>6,066,797</b>

During the year the Fund has implemented an equities downside protection programme which will protect the fund from falls between 10-40% in global equity markets and will cap the returns to the actuary's expected return objective of 6.5% for equities over the full valuation cycle. The current programme will run until March 2023.

## Notes to the Pension Fund Accounts

Asset Type	Value as at 31 March 20 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
<b>Cash and cash equivalents</b>	135,027	0.00	135,027	135,027
<b>Investment portfolio assets:</b>				
UK Equities	29,239	16.20	33,976	24,502
Overseas Equities	207,298	15.70	239,844	174,752
Global Pooled Equities inc UK	3,583,961	15.40	4,135,891	3,032,031
Bonds incl Bond Funds	783,621	4.50	818,884	748,358
Property Pooled Funds	287,008	9.20	313,413	260,603
Private Equity	129,707	23.30	159,929	99,485
Infrastructure Funds	60,157	19.00	71,587	48,727
Net derivative liabilities	-17,081	0.00	-17,081	-17,081
<b>Total</b>	<b>5,198,937</b>		<b>5,891,469</b>	<b>4,506,405</b>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposures to interest rate movements as at 31 March 2021 and 31 March 2020 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 21 £'000s	31 March 20 £'000s
Cash and cash equivalents	351,228	131,959
Cash Balances	4,596	3,068
Bonds		
- Directly held securities	401,001	339,055
- Pooled Funds	575,551	444,566
<b>Total</b>	<b>1,332,376</b>	<b>918,648</b>

### Interest rate risk - sensitivity analysis

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

## Notes to the Pension Fund Accounts

Asset Type	Carrying amount as at 31 March 21	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000's	£000's	£000's
Cash and cash equivalents	351,228	0	0
Cash Balances	4,596	0	0
Bonds			
- Directly held securities	401,001	-4,010	4,010
- Pooled Funds	575,551	-5,756	5,756
<b>Total change in assets available</b>	<b>1,332,376</b>	<b>-9,766</b>	<b>9,766</b>

Asset Type	Carrying amount as at 31 March 20	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000's	£000's	£000's
Cash and cash equivalents	131,959	0	0
Cash Balances	3,068	0	0
Bonds			
- Directly held securities	339,055	-3,391	3,391
- Pooled Funds	444,566	-4,446	4,446
<b>Total change in assets available</b>	<b>918,648</b>	<b>-7,836</b>	<b>7,836</b>

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 100 bps increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than GBP, the functional currency of the Fund. Most of these assets are not hedged for currency risk and the Fund is exposed to currency risk on these financial instruments. However, a significant proportion of the investments managed by Goldman Sachs Asset Management and all investments in the CQS Fund are hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2021 and 2020:

Currency exposure - asset type	Asset value as at 31 March 21	Asset value as at 31 March 20
	£000's	£000's
Overseas Equities	318,412	207,298
Overseas Pooled Funds	3,891,344	2,623,144
Overseas Bonds	0	0
Overseas Private Equity, Infrastructure and Property funds	208,243	154,618
Non GBP Cash	9,981	9,123
<b>Total overseas assets</b>	<b>4,427,980</b>	<b>2,994,183</b>



## Notes to the Pension Fund Accounts

### Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2020-21 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 21	Change to net assets available to pay benefits +6.8%	Change to net assets available to pay benefits -6.8%
	£000's	£000's	£000's
Overseas Equities	318,412	340,064	296,760
Overseas Pooled Funds	3,891,344	4,155,955	3,626,732
Overseas Bonds	0	0	0
Overseas Private Equity, Infrastructure and Property funds	208,243	222,404	194,082
Non GBP Cash	9,981	10,660	9,302
<b>Total change in assets available</b>	<b>4,427,980</b>	<b>4,729,082</b>	<b>4,126,877</b>

Currency exposure - asset type	Asset value as at 31 March 20	Change to net assets available to pay benefits +6.8%	Change to net assets available to pay benefits -6.8%
	£000's	£000's	£000's
Overseas Equities	207,298	221,394	193,202
Overseas Pooled Funds	2,623,144	2,801,518	2,444,770
Overseas Bonds	0	0	0
Overseas Private Equity, Infrastructure and Property funds	154,618	165,132	144,104
Non GBP Cash	9,123	9,743	8,503
<b>Total change in assets available</b>	<b>2,994,183</b>	<b>3,197,787</b>	<b>2,790,579</b>

### b) Credit Risk

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

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

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. Derivative contracts are also covered by margins which provide collateral against risk of default by the counterparties.

## Notes to the Pension Fund Accounts

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

	<b>Rating</b>	Balance as at 31 March 21 £000's	Balance as at 31 March 20 £000's
<b>Money Market Funds</b>			
Northern Trust Sterling Fund	<b>AAAm</b>	8,004	9,002
SSGA Liquidity Fund	<b>AAAm</b>	0	2
Blackrock ICS	<b>AAAm</b>	7	65
Blackrock USD Government Liquidity Fund	<b>AAAm</b>	3,417	17
Aberdeen Sterling Liquidity Fund	<b>AAAm</b>	74,998	18,619
Goldman Sachs Liquid Reserve Government Fund	<b>AAAm</b>	2,358	17,523
Aviva Investors Sterling Liquidity Fund	<b>AAAm</b>	49,994	42,348
Federated (PR) Short-term GBP Prime Fund	<b>AAAm</b>	9,998	10,001
Deutsche Managed Sterling Fund	<b>AAAm</b>	1,184	9,294
HSBC Global Liquidity Fund	<b>AAAm</b>	2	5,963
LGIM Liquidity Fund	<b>AAAm</b>	41,775	7,161
Insight Sterling Liquidity Fund	<b>AAAm</b>	0	3,143
		<b>191,737</b>	<b>123,138</b>
<b>Bank Deposit Accounts</b>			
NatWest SIBA	<b>BBB+</b>	4,627	0
		<b>4,627</b>	<b>0</b>
<b>Bank Current Accounts</b>			
NatWest Current Account	<b>BBB+</b>	50	30
NatWest Current Account - Euro	<b>BBB+</b>	814	39
NatWest Current Account - USD	<b>BBB+</b>	468	0
Northern Trust - Current Accounts	<b>AA-</b>	6,694	9,767
Barclays - DTZ client monies account	<b>A*+</b>	1,433	2,053
		<b>9,459</b>	<b>11,889</b>
<b>Cash with fund managers</b>			
	<b>n/a</b>	<b>150,000</b>	<b>0</b>
<b>Total cash and cash equivalents</b>			
		<b>355,823</b>	<b>135,027</b>

Cash held with fund managers comprises of application money transferred to M&G and CQS for subscription of units in their credit funds. The units were subsequently acquired on 1 April 2021.

### c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. The Council has immediate access to the Fund's money market fund and current account holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2021 are due within one year.

## Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2013 (as amended), the Fund is required to obtain an actuary's funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund and ensure that sufficient funds are available to meet all the benefits as they fall due for payment
- To ensure employer contribution rates are as stable as possible
- To minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so

At the 2019 valuation a maximum deficit recovery period of 14 years (2016-17 years) is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

In the 2019 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £6,193m and the liabilities were £6,322m. The assets therefore, represented 98% (2016 - 89%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has increased from 20.9% to 21.1% of pensionable salaries in 2020-21 and to 21.2% in 2021-22 and 21.3% in 2022-23. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow new entrants. These methods assess the costs of benefits accruing to existing members during the remaining working lifetime, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

### The 2019 actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate
Rate of return on investments (discount rate)	4.7% p.a.
Rate of general pay increases: Long term	3.6% p.a.
Short Term	n/a
Assumed pension increases	2.6% p.a.

## 20. Actuarial Present Value of Promised Retirement Benefits

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

## Notes to the Pension Fund Accounts

### Actuarial present value of promised retirement benefits

	31 March 21	31 March 20
	£m	£m
Present value of promised retirement benefits	-11,789.8	-9,099.7
Fair value of scheme assets at bid value	7,498.5	5,716.9
Net liability	-4,291.3	-3,382.8

The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 63.6% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

### Assumptions used: % p.a.

Salary increase rate	3.85%
Inflation/Pensions increase rate	2.85%
Discount rate	2.00%

In December 2018 the Court of Appeal passed the McCloud judgement, which relates to age discrimination in relation to judges and firefighters pensions. Although the case only relates directly to these two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. Whilst there is uncertainty of how this judgement may affect LGPS members' past or future service benefits CIPFA has suggested that local authorities should consider the materiality of the impact. Our actuaries have used GAD's analysis to calculate the likely additional costs and have based it on all members who were active at 31 March 2012 until their retirement. This exercise has estimated the additional costs to be 0.7% of the Fund's liabilities and these have been included in the total liabilities of the Fund.

## 21. Current Assets

	31 March 21	31 March 20
	£000's	£000's
<b>Debtors</b>		
- Contributions due - Employees	4,067	4,160
- Contributions due - Employers	13,180	13,791
	17,247	17,951
Sundry debtors	12,579	13,606
<b>Total Debtors</b>	<b>29,826</b>	<b>31,557</b>
<b>Cash</b>	4,596	3,068
<b>Total Current Assets</b>	<b>34,422</b>	<b>34,625</b>

## 22. Current Liabilities

	31 March 21	31 March 20
	£000's	£000's
<b>Creditors</b>		
- Benefits Payable	14,178	12,039
- Sundry Creditors	10,788	8,858
<b>Total Current Liabilities</b>	<b>24,966</b>	<b>20,897</b>

**23. Additional Voluntary Contributions**

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Utmost Life	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April		8,636		2,017	423	424
Value at 31 March		8,416		1,736	404	423
Contributions paid		1,305		114	1	1

Investments with Equitable Life were transferred to Utmost Life and Pensions following a transfer of business by Equitable life in 2019-20.

**24. Related Party Transactions**

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

	2020-21	2019-20
	£000's	£000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	75,522	71,025
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	3,797	3,892
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-6,089	-823

The year end credit balance due to KCC mainly comprises of recharges and of VAT payable to KCC. The large variance from the previous year is due to timing difference of the payments made.

**Key management personnel**

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2020-21 was the Director of Finance

Total remuneration payable to key management personnel is set out below:

	31 March 21	31 March 20
	£000's	£000's
Salary	147	137
Allowances	7	4
Other	1	0
Employer's pension contributions	33	39
Total	188	180

### 25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2021 totalled £448.96m (31 March 2020: £564.4m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

### 26. Contingent Assets

44 admitted body employers in the Kent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

**Opinion**

**Basis for opinion**

**The impact of macro-economic uncertainties on our audit**

**Conclusions relating to going concern**

**Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and pension fund property investments**

**Other information**

**Other information we are required to report on by exception under the Code of Audit Practice**

**Opinion on other matter required by the Code of Audit Practice**



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

**Matters on which we are required to report by exception**

**Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements**

**Auditor's responsibilities for the audit of the financial statements**

**Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Conclusion**

**Responsibilities of the Authority**

**Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Report on other legal and regulatory requirements - Delay in certification of completion of the audit**

**Use of our report**

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

**London**

**Independent auditor's report to the Members of Kent County Council on the pension fund financial statements of Kent County Council Superannuation Fund**

**Opinion**

**Basis for opinion**

**The impact of macro-economic uncertainties on our audit**

**Conclusions relating to going concern**

**Independent auditor's report to the Members of Kent County Council on the pension fund financial statements of Kent County Council Superannuation Fund**

**Emphasis of Matter - effects of Covid-19 on the valuation of property investments and pooled property investments**

**Other information**

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

**Matters on which we are required to report by exception**

**Independent auditor's report to the Members of Kent County Council on the pension fund financial statements of Kent County Council Superannuation Fund**

**Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements**

**Auditor's responsibilities for the audit of the financial statements**

**Use of our report**

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

**London**

## **Glossary of terms**

### **Agency**

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

### **Budget**

A statement defining the Council's policy over a specified period and expressed in financial or other terms.

### **Capital expenditure**

Expenditure on the provision and improvement of permanent assets such as land, buildings, and roads.

### **Capital receipts**

Money obtained on the sale of a capital asset.

### **Derivatives**

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

### **Employee expenditure**

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

### **Fair value**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Page 31 of the accounts provides clarification of level 2 and 3 inputs.

### **Government grants**

Part of the cost of local government's services is paid for by central government from its own tax income. These grants are of two main types. Some (specific grants and supplementary grants) are for particular services such as Highways and Transportation. Others are in aid of local services generally.

### **Intangible Assets**

Capital spend on items such as software licences and patents.

### **Local Authority Accounting Panel**

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

### **Long-term debtors**

Amounts due to Kent County Council where payment is to be made over a period of time in excess of one year.

### **Minimum Revenue Provision**

The amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

### **Net operating expenditure**

This comprises all expenditure minus all income, other than the precept and transfers from reserves.

## **Glossary of terms**

### **Non Delegated**

Spend on Education Services which is not delegated to schools.

### **Precept**

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

### **Public Works Loans Board**

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

### **Related party transaction**

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

### **Revenue expenditure**

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

### **Revenue expenditure funded from capital under statute (Refcus)**

Refcus includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

### **Specific grants**

See 'government grants'.

### **Support service costs**

The 'overhead' cost to Service Directorates of support services, such as architects, accountants, and solicitors.

### **Unusable reserves**

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

### **Usable capital receipts**

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

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From:	Peter Oakford, Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services Zena Cooke, Corporate Director of Finance
To:	Governance and Audit Committee – 22 July 2021
Subject:	Treasury Management Annual Review 2020-21
Classification:	Unrestricted

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**Summary:**

To report a summary of Treasury Management activity in 2020-21

**Recommendation:**

Members are asked to agree the report and its submission to County Council for approval.

**FOR DECISION**


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**Introduction**

1. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that councils report on the performance of their treasury management function at least twice yearly (mid-year and at year end). Half yearly performance reports are presented to the County Council and quarterly updates are provided to the Governance and Audit Committee. Members of the Treasury Management Advisory Group (TMAG) also receive monthly updates.
2. The Council's Treasury Management Strategy for 2020-21 was approved by full Council on 13 February 2020. This was prepared before the full impact of the December and January Covid-19 national lockdown were known.
3. The council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
4. Treasury risk management at the council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5. When this report is agreed by this committee it will go forward to full council for approval.

## **External context**

### **Economic background**

6. The coronavirus pandemic dominated 2020/21, leading to almost all countries being in some form of lockdown during the year. Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.
7. 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.
8. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting.
9. Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help.
10. Despite the furlough scheme the Labour market data showed that the unemployment rate was higher than that recorded for the same period 12 months ago rising to 5.0% in the three months to January 2021 before falling slightly to 4.7% in the three months to April. Wages have risen, with total pay up 5.6% for the three months February to April 2021.
11. Inflation remained low over the 12-month period to the end of March and below the Bank of England's 2% target before rising above that level to 2.1% in May 2021 partly due to higher energy and commodity prices as well as supply side bottlenecks.
12. Over the twelve months GDP has fluctuated reflecting the impact of lockdown measures. After a period of growth in the second half of 2020 the reimposition of restrictions on activity in the first quarter of 2021 resulted in GDP falling 1.6%. Housing market activity remained strong, aided by the extension of the stamp duty threshold and an increase in mortgage approvals for house purchases.

13. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

## **Financial markets**

14. Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. FTSE indices have performed well and the UK-focused FTSE 250 index is back above pre-pandemic levels while the more internationally focused FTSE 100 has recouped most of its 2020 losses.
15. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.
16. The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.
17. 1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.
18. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Council's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

## **Local context**

19. 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.
20. 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 therefore 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.

21. At 31 March 2021 the Council's useable reserves and working capital amounted to £682m. The Council used £180m of its reserves to fund capital spend rather than borrow from external providers leaving £502m available for investment, an increase on 2020 of £120m.
22. The treasury management position at 31 March 2021 and the change over the year is shown in the following table.

	<b>31.3.20 Balance £m</b>	<b>2020-21 Movement £m</b>	<b>31.3.21 Balance £m</b>	<b>31.3.21 Average Rate %</b>
Long-term borrowing	883.8	-30.1	853.7	4.52
<b>Total borrowing</b>	<b>883.8</b>	<b>-30.1</b>	<b>853.7</b>	<b>4.52</b>
Long-term investments	157.3	+16.8	174.1	4.59
Short-term investments	137.6	+9.8	147.4	0.40
Cash and cash equivalents	86.7	+93.3	180.0	0.00
<b>Total investments</b>	<b>381.6</b>	<b>+119.9</b>	<b>501.5</b>	<b>1.75</b>
<b>Net borrowing</b>	<b>502.2</b>	<b>-150.0</b>	<b>352.2</b>	

## Borrowing update

23. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26 November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing council can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 / Section 95 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.
24. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that council unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.
25. The council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

## Borrowing strategy

26. At 31 March 2021 the council held £853.73m of loans, a reduction of £30.10m from 31 March 2020 as part of its strategy of funding previous year's capital programmes. The year-end borrowing position and the year-on-year change are shown in the table below.

### Borrowing Position

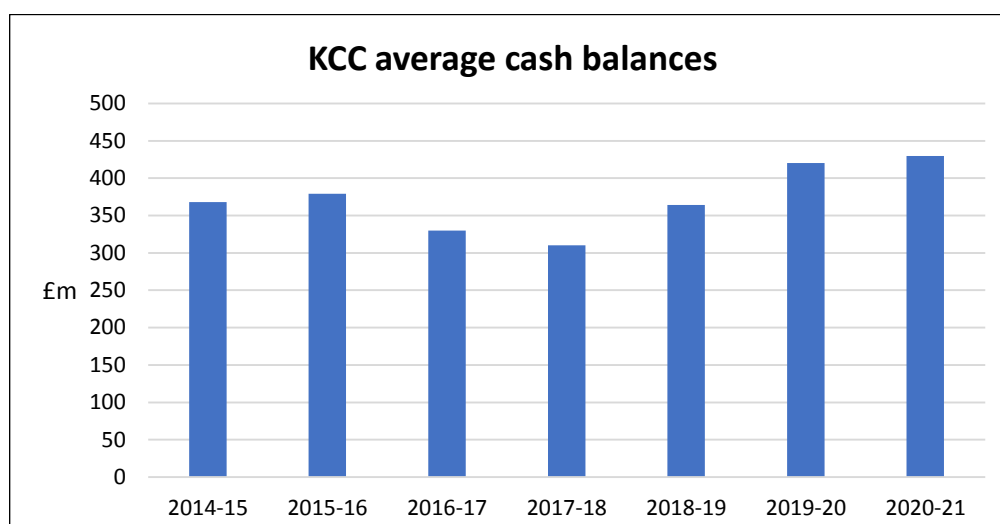
	31/03/2020	2020-21	31/03/2021	31/03/2021	31/03/2021
	Balance	Movement	Balance	Average Rate	Value Weighted Average Life
	£m	£m	£m	%	yrs
Public Works Loan Board	473.28	-23.67	449.61	4.83%	15.95
Banks (LOBO)	90.00	0.00	90.00	4.15%	42.88
Banks (Fixed Term)	291.80	0.00	291.80	4.40%	37.51
Streetlighting project	28.75	-6.43	22.32	1.28%	10.09
<b>Total borrowing</b>	<b>883.83</b>	<b>-30.10</b>	<b>853.73</b>	<b>4.52%</b>	<b>26.00</b>

27. 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.
28. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs and the council's Treasury Advisor, Arlingclose has assisted it with this 'cost of carry' and breakeven analysis. The council's strategy has enabled it to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
29. The council continues to hold £90m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which 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.
30. At 31 March 2020 the council had borrowed the total £40.6m funding agreed specifically to fund improvements to Kent's street lighting under the government's energy efficiency loans programme of which £30.6m has been an interest free loan provided by Salix Finance Ltd. £12m of the Salix loan had been repaid as at 31 March 2020 and a further £18.24m was repaid during 2020-21.

## Treasury investment activity

31. KCC holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During 2020-21 the council's average investment balance was £430m. Balances fluctuated during the year rising at the year end to £501.5m as the result of the receipt in March of grants to cover COVID -19 costs and business rate compensation.

### Average investment balances 2015 – 21



32. At 31 March 2021 the council held some £93m in bank call accounts and in Money Market Funds with same day access to cover urgent payments and enhance the council's liquidity.
33. At 31 March 2021 the value of the council's investments in pooled funds was £174.1m, 34.7% of its total cash.
34. The year-end investment position and the year-on-year change are shown in the table below.

	31-Mar-20	2020-21	31-Mar-21	31-Mar-21	31-Mar-21
	Balance	Movement	Balance	Average Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Bank Call Accounts	30.0	15.0	45.0	0.05	A+
Money Market Funds	56.7	78.3	135.0	0.00	A+
Local Authorities	50.0	1.0	51.0	0.24	A+
Covered Bonds	84.9	-5.2	79.7	0.64	AAA
DMO Deposits (DMADF)	0.0	9.4	9.4	0.01	AA-
Icelandic Recoveries o/s	0.4	-0.4	0.0		
No Use Empty Loans	0.0	6.1	6.1	1.5	

Equity	2.3	-1.0	1.3		
<b>Internally managed cash</b>	<b>224.3</b>	<b>103.1</b>	<b>327.4</b>	<b>0.27</b>	AA-
<b>Strategic Pooled Funds</b>	<b>157.3</b>	<b>16.8</b>	<b>174.1</b>	<b>4.78</b>	
<b>Total</b>	<b>381.6</b>	<b>119.9</b>	<b>501.5</b>	<b>1.75</b>	

35. 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.

### **Internally managed investments**

36. Given the ongoing uncertainty around its cash flows 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.
37. Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero while the net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March 2020, are now at or very close to zero. Fund management companies have temporarily lowered or waived fees to avoid negative net returns.
38. On 31 March 2021 the Council had lent £51m 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 12 months the Council also made loans totalling £5.6m to the no use empty loans programme achieving a return of 1.5% which is available to fund general services.
39. The progression of credit risk and return metrics for KCC's investments are shown in the extract from Arlingclose's quarterly investment benchmarking in the table below.

#### Investment Benchmarking

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Income Rate of Return</b>
31.03.2020	3.02	AA	39%	349	2.42%
31.03.2021	3.76	AA-	53%	146	1.70%
Similar LAs	4.35	AA-	39%	983	1.14%
All LAs	4.63	A+	63%	14	0.90%

40. Details of the council's investment position at 31 March 2021 are reported in Appendix 1.

### Externally managed investments

41. The Council has invested £180m in bond, equity, multi-asset and property funds. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of the strategic bond, equity and multi-asset income funds although the recovery in UK equities has lagged those of US and European markets.
42. The CCLA LAMIT Property Fund continues to lag its 31 March 2020 value. Similar to many other property funds, dealing (i.e. buying or selling units) in the Fund was suspended in March 2020 and lifted in September. Redemption terms for the Fund have also been changed and from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.
43. Decisions to invest in these funds have been made taking account of advice from Arlingclose. Arlingclose monitor their performance and provide monthly updates for the council. Because these 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 medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.
44. Details of the externally managed pooled funds are shown in the following table.

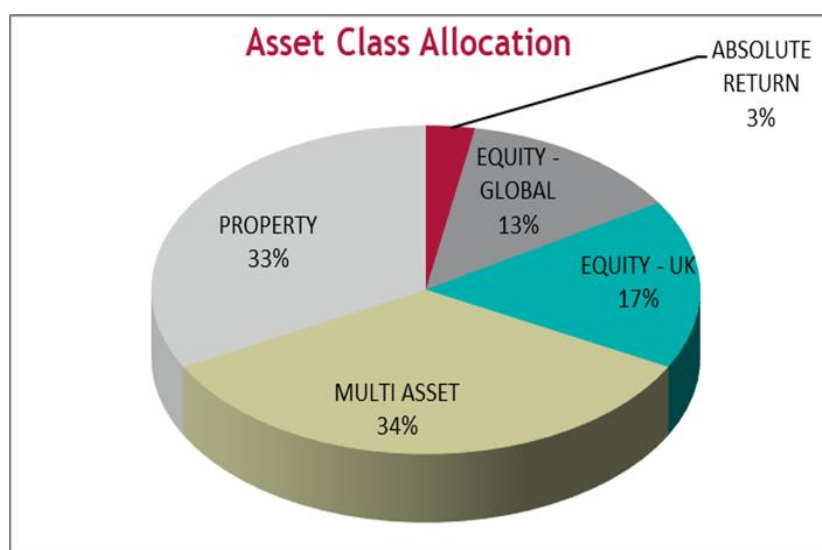
#### Externally Managed Investments

		31-Mar-20	2020-21	31-Mar-21	31-Mar-21	
Investment Fund	Book cost	Market Value	Movement	Market Value at	12 months return	
	£m	£m	£m	£m	Income	Total
Aegon (Kames) Diversified Monthly Income Fund	20.0	16.9	3.3	20.2	4.49%	23.84%
CCLA - Diversified Income Fund	5.0	4.6	0.4	5.0	2.81%	11.22%
CCLA – LAMIT Property Fund	60.0	57.9	-0.8	57.1	4.34%	2.97%
Fidelity Global Multi Asset Income Fund	25.0	23.7	1.0	24.7	4.62%	8.70%
M&G Global Dividend Fund	10.0	8.6	3.6	12.2	4.26%	46.76%
Ninety One (Investec) Diversified Income	10.0	9.2	0.9	10.1	4.62%	8.7%

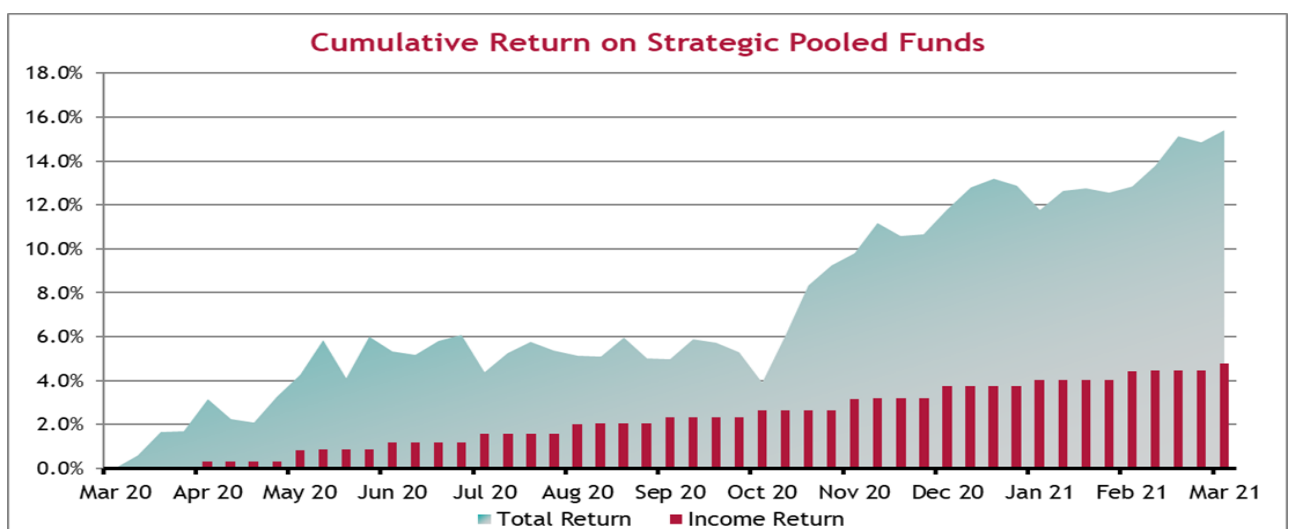


Pyrford Global Total Return Sterling Fund	5.0	4.7	0.3	5.0	2.10%	8.22%
Schroder Income Maximiser Fund	25.0	15.8	3.6	19.4	7.59%	30.56%
Threadneedle Global Equity Income Fund	10.0	8.4	2.5	10.9	3.35%	31.97%
Threadneedle UK Equity Income Fund	10.0	7.6	2.0	9.6	3.42%	29.86%
<b>Total External Investments</b>	<b>180.0</b>	<b>157.3</b>	<b>16.8</b>	<b>174.1</b>	<b>4.78%</b>	<b>15.40%</b>

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

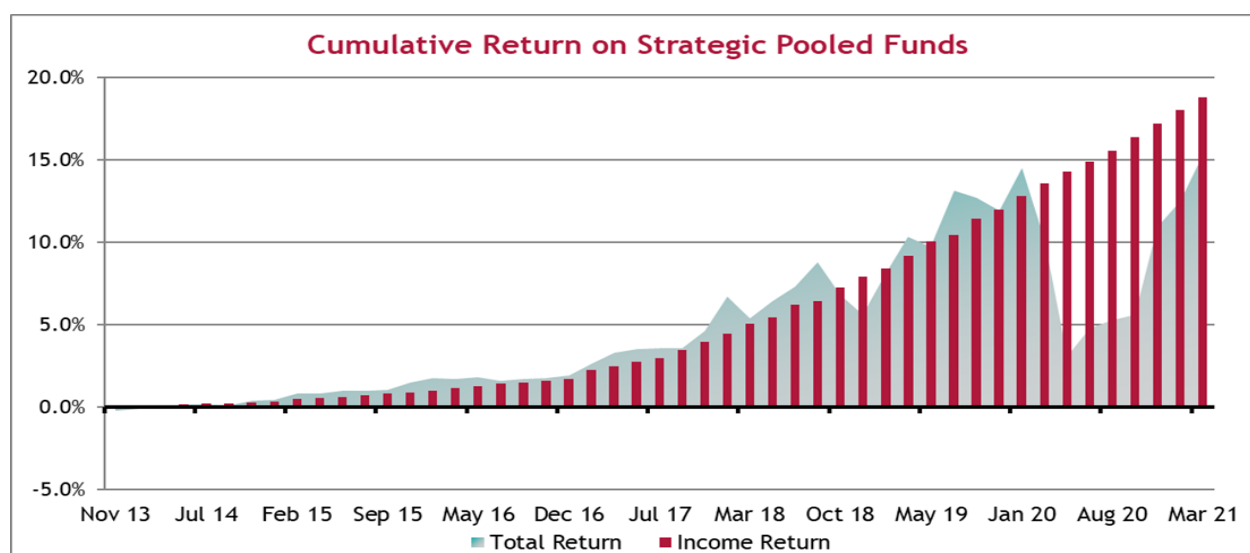


46. **Performance YTD:** The following chart tracks the returns earned on the pooled funds over the 12 months to end March 2021.



47. **Performance since inception:** KCC initially invested in pooled funds in 2013. The total cost of this investment was £180m and during the 8 years the pooled

funds have achieved an income return of £29.5m, 14.41% (4.31% pa) while the capital value of the portfolio has fallen by 2.68%. The following chart tracks the returns earned on the pooled funds over the period from inception. We are currently discussing with the Council's Treasury Advisors, Arlingclose the extent to which some of the future income should be set aside in a specific reserve to cover the risk of capital losses pending confirmation of the status of the current statutory override on accounting for losses within the general Revenue fund.



## Financial outturn

48. Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the council had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent.
49. Income from most of the Council's externally managed funds was also lower than in 2019/20 and earlier years as dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.
50. The Council's total investment income for the year was £8.4m, £1.95% on funds held. The above benchmark return reflects the investment in the pooled and spread of cash investments as detailed in the table at paragraph 25 above. KCC also received dividends on the equity held in Kent PFI Holding Co Ltd of £473,800.

## Compliance with treasury management indicators

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

Compliance with specific borrowing and investment limits is demonstrated in the tables below.

### Debt Limits

	<b>31.3.21 Actual</b>	<b>2020/21 Operational Boundary</b>	<b>2020/21 Authorised Limit</b>	<b>Complied?</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Borrowing	854	995	1,050	Yes
PFI and Finance Leases	246	246	246	Yes
<b>Total debt</b>	<b>1,100</b>	<b>1,241</b>	<b>1,296</b>	

### Investment limits

	<b>Limit</b>	<b>Actual</b>	<b>Complied?</b>
	<b>£m</b>	<b>£m</b>	
Any single local authority	25	10	Yes
Any single supranational banks	20	Nil	Yes
Any single Non-UK Government institution	20	Nil	Yes
Any single UK bank	15	15	Yes
Council's banking services provider	20	15	Yes
Overseas banks - unsecured	20	Nil	Yes
Short-term Money Market Funds	20	20	Yes
Cashplus / short bond funds	20	Nil	Yes
Any single covered bond issuer	20	14	Yes
Total covered bond portfolio	100	80	Yes
Reverse repurchase agreements	20	Nil	Yes
Corporates (non- financials)	2	Nil	Yes
Registered Providers	10	10	Yes
Total Loans	20	Nil	Yes
Absolute Return funds	25	20	Yes
Multi Asset Income funds	25	25	Yes
Property funds	75	60	Yes
Bond funds	25	Nil	Yes
Equity Income Funds	25	25	Yes
Real Estate Investment Trusts	25	Nil	Yes
Total Pooled funds and real estate investment trusts	250	180	Yes

## Treasury Management Indicators

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

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

Credit risk indicator	Actual 31/03/2021	Target	Complied?
Portfolio average credit rating	AA	AA	Yes

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

Liquidity risk indicator	Actual 31/03/2021	Target	Complied?
Total cash available within 3 months	£240m	£100m	Yes

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

Interest rate risk indicator	Actual 31/03/2021	Upper Limit
One-year revenue impact of a 1% <u>rise</u> in interest rates	£597k	£10m
One-year revenue impact of a 1% <u>fall</u> in interest rates	-£680k	-£10m

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

	Actual 31/03/2021	Upper limit	Lower limit	Complied?
Under 12 months	2.55%	100%	0%	Yes
12 months and within 5 years	12.12%	50%	0%	Yes
5 years and within 10 years	8.60%	50%	0%	Yes
10 years and within 20 years	17.00%	50%	0%	Yes

20 years and within 40 years	33.13%	50%	0%	Yes
40 years and longer	26.60%	50%	0%	Yes

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

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

	Actual	Limit	
Price risk indicator	31/03/2021	2021/22	2022/23
Principal invested beyond year end	£278m	£300m	£300m

## Recommendation

58. Members are asked to agree the report and its submission to County Council for approval.

**Alison Mings**  
**Acting Business Partner – Kent Pension Fund**  
[Alison.mings@kent.gov.uk](mailto:Alison.mings@kent.gov.uk)  
**Ext: 03000 416488**

## Investments as at 31 March 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	3,000,000	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	5,000,000	0.17%	30/06/21
Fixed Deposits	Thurrock Borough Council	10,000,000	0.35%	04/07/21
Fixed Deposits	Thurrock Borough Council	10,000,000	0.35%	04/05/21
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
Fixed Deposits	South Somerset District Council	5,000,000	0.08%	17/05/21
<b>Total Local Authority Deposits</b>		<b>51,000,000</b>		
DMADF (Debt Management Account Deposit Facility)		9,400,000	0.00%	23/04/21
<b>Total DMADF deposits</b>		<b>9,400,000</b>		
Call Account	National Westminster Bank plc	20,000,000	0.01%	
Call Account	Santander UK plc	15,000,000	0.12%	
Call Account	Lloyds Bank plc	15,000,000	0.01%	
<b>Total Bank Call Accounts</b>		<b>45,000,000</b>		
<b>No Use Empty Loans</b>		<b>6,073,000</b>	1.5%	
<b>Registered Provider</b>	<b>£10m loan facility – non utilisation fee</b>		0.40%	31/03/23
Money Market Funds	Federated Short-term Sterling Prime Fund GBP KCC	14,996,019	0.01%	
Money Market Funds	HSBC Sterling Liquidity Fund	19,990,554	0.00%	
Money Market Funds	LGIM Sterling Liquidity Fund 4 KCC	19,996,727	0.00%	
Money Market Funds	Aberdeen Liquidity Fund (Lux) KCC	19,995,063	0.01%	
Money Market Funds	Northern Trust Sterling Cash Fund	19,994,271	0.00%	
Money Market Funds	Aviva Investors Sterling Liquidity Fund 3 GBP Inc	19,996,605	0.01%	
Money Market Funds	Deutsche Managed Sterling Platinum	19,995,263	0.01%	
<b>Total Money Market Funds</b>		<b>134,964,502</b>		
<b>Equity and Loan Notes</b>	Kent PFI (Holdings) Ltd	<b>1,298,620</b>		n/a

## 1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal £	Coupon Rate	Maturity Date
Fixed Rate Covered Bond	Bank of Scotland - Bonds	4,484,701	1.71%	20/12/2024
Fixed Rate Covered Bond	National Australia Bank - Bonds	4,989,355	1.35%	10/11/2021
Fixed Rate Covered Bond	Leeds Building Society Bonds	4,203,756	1.29%	17/04/2023
Fixed Rate Covered Bond	Santander UK - Bonds	3,133,306	0.65%	14/04/2021
Fixed Rate Covered Bond	Bank of Nova Scotia Bonds	4,996,900	0.88%	14/09/2021
Fixed Rate Covered Bond	National Australia Bank - Bonds	3,000,636	1.10%	10/11/2021

Floating Rate Covered Bond	TSB Bank - Bonds	2,502,519	0.88%	15/02/2024
Floating Rate Covered Bond	Lloyds - Bonds	2,501,461	0.31%	27/03/2023
Floating Rate Covered Bond	Lloyds - Bonds	2,501,949	0.30%	27/03/2023
Floating Rate Covered Bond	Nationwide Building Society - Bonds	3,996,908	0.76%	10/01/2024
Floating Rate Covered Bond	Lloyds - Bonds	4,500,000	0.65%	14/01/2022
Floating Rate Covered Bond	Australia and New Zealand Banking group - bonds	3,000,000	0.73%	24/01/2022
Floating Rate Covered Bond	Santander UK - Bonds	2,002,022	0.74%	12/02/2024
Floating Rate Covered Bond	Nationwide Building Society - Bonds	4,502,710	0.26%	12/04/2023
Floating Rate Covered Bond	Bank of Montreal - Bonds	5,003,003	0.28%	17/04/2023
Floating Rate Covered Bond	Santander UK - Bonds	3,750,250	0.23%	13/04/2021
Floating Rate Covered Bond	Lloyds - Bonds	5,003,443	0.30%	27/03/2023
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce - Bonds	5,012,165	0.21%	10/01/2022
Floating Rate Covered Bond	Santander UK - Bonds	5,001,516	0.27%	16/11/2022
Floating Rate Covered Bond	Nationwide Building Society - Bonds	5,583,412	0.25%	12/04/2023
<b>Total Bonds</b>		<b>79,670,012</b>		

<b>Total Internally managed investments</b>	<b>327,406,135</b>
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## 2. Externally Managed Investments

<b>Investment Fund</b>	<b>Market Value at 31-March-21</b>
	<b>£</b>
Aegon (Kames) Diversified Monthly Income Fund	20,170,739
CCLA - Diversified Income Fund	4,953,495
CCLA – LAMIT Property Fund	57,085,107
Fidelity Global Multi Asset Income Fund	24,668,522
M&G Global Dividend Fund	12,223,620
Ninety One (Investec) Diversified Income	10,112,648
Pyrford Global Total Return Sterling Fund	5,001,139
Schroder Income Maximiser Fund	19,391,023
Threadneedle Global Equity Income Fund	10,856,890
Threadneedle UK Equity Income Fund	9,593,540
<b>Total External Investments</b>	<b>174,056,723</b>

## 3. Total Investments

<b>Total Investments</b>	<b>£501,462,858</b>
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## GLOSSARY

### Local Authority Treasury Management Terms

<b>Bond</b>	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
<b>CET 1</b>	Core equity tier 1 - the purest form of capital for a financial institution, which is available to absorb losses while it remains a going concern, usually expressed as a ratio to risk weighted assets.
<b>CFR</b>	Capital Financing Requirement. A local 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.
<b>Covered bond</b>	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.
<b>CPI</b>	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee, measured on a harmonised basis across the European Union
<b>FTSE</b>	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
<b>GDP</b>	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
<b>IFRS</b>	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010
<b>IMF</b>	International Monetary Fund
<b>LOBO</b>	Lender's Option Borrower's option
<b>MMF</b>	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 CNAV and LVNAV funds with a WAM under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
<b>Monetary Policy</b>	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.
<b>MPC</b>	Monetary Policy Committee. Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
<b>MRP</b>	Minimum Revenue Provision – an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP. Not applicable in Scotland, but see Loans Fund
<b>Municipal</b>	Bond issued or guaranteed by local authorities.

<b>bond</b>	
<b>Municipal bond Agency</b>	Company that issues bonds in the capital market and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities
<b>Pooled Fund</b>	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').
<b>Prudential Code</b>	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code
<b>PWLB</b>	Public Works Loan Board – a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
<b>REIT</b>	Real estate investment trust – a company whose main activity is owning investment property and is therefore similar to a property fund in many ways
<b>Share</b>	An equity investment, which usually also confers ownership and voting rights
<b>Short-term</b>	Usually means less than one year
<b>Weighted average life (WAL)</b>	The weighted average time for principal repayment, that is, the average time it takes for every dollar of principal to be repaid. The time weights are based on the principal payments,
<b>Weighted average maturity (WAM)</b>	The weighted average maturity or WAM is the weighted average amount of time until the securities in a portfolio mature.

By: Robin Pritchard – External Quality Assessor  
Business Risk Solutions

To: Governance and Audit Committee – 22<sup>nd</sup> July 2021

Subject: **Internal Audit – External Quality Assessment 2021**

Classification: Unrestricted

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### **Summary:**

This report summarises:

- The significant outcomes of the independent External Quality Assessment process undertaken between January and April 2021 in compliance with the requirements of the Public Sector Internal Audit Standards.

### **Recommendation: FOR ASSURANCE**

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### **Introduction**

- 1.1 The outcome of the review provides positive assurance that the internal audit service provided to Kent County Council and other organisations, which contract with the internal audit team, is a service which is generally compliant with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The standards contain requirements regarding compliance with the following:
  - The Definition of Internal Audit
  - The Code of Ethics
  - International Standards for the Professional Practice of Internal Auditing, which provide guidance regarding interpretation in respect of both Attribute standards, the characteristics of organisations and parties performing internal audit activities, as well as Performance Standards which describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. These criteria are subject to interpretation at a local level.
- 1.3 The essence of the review is therefore focused on providing assurance regarding general compliance with the standards, set within the context of what the assessor sees as current practice within the sector and the profession.
- 1.4 Current provision compares favourably with peers within the sector and with commercial providers. The report therefore highlights good practice, which was observed during the review, as well as indicating areas where the Internal Audit Service should seek to review its approach particularly with regard to further alignment of its risk-based approach with the risk management policy and associated procedures operating within each client.

### **Good practice observed during the assessment.**

- 1.5 The review noted numerous areas of good practice, however of particular mention are the:
  - approach to maintaining a Quality Assurance Improvement Programme (QAIP) reflects best industry practice.
  - attention given to gaining feedback and demonstration of the quality of services through use of KPI's, which are routinely presented to Audit Committees.
  - Internal Audit team has a strong commitment to training, with service delivery being supported by a comprehensive skills matrix and a detailed Internal Audit Manual, cross referenced to the PSIAS and use of Pentana Audit Software.

- conduct and documentation of meetings with management during annual audit planning, and
- where a shortfall of resources occurs, there is a commitment to the use of external resources with relevant skills and experience, in order to complete appropriate activity in allow provision of the Head of Internal Audit's Annual Report.

#### **Areas for review observed by the review.**

1.6 There are no areas where non-compliance was observed.

1.7 A number of aspects of provision have been discussed with the Head of Internal Audit where it has been recommended that the Head of Internal Audit should review the current approach to planning and the conduct of engagements which it is felt will be beneficial to clients by enhancing service in relation to deeper alignment with each clients' risk appetite. These are:

- through increasing integration of the use of risk-based internal audit techniques with the risk appetite of its clients regarding planning and the scoping of engagements and the recognition of the concept of 'control risk',
- developing a clear alignment through working papers for each assignment to focus on the achievement of agreed Management (Business) objectives and agreed significant risks along with relevant key controls, which would likely enhance the benefit of, and value gained from audit reports.
- giving consideration to the revision of the basis for expressing internal audit issues and opinions in order to align with risk impact definitions recognised by each client in respective Risk Management Policies.
- enhancing the Head of Internal Audit Annual Report through inclusion of a summary of the significant risks being faced by each client and those other assurances available to the Head of Internal Audit in reaching an annual opinion.

#### **Recommendations**

1.8 The Governance and Audit Committee note the positive outcome of the External Quality Assessment 2021.

**Robin Pritchard, External Quality Assessor**

[robin@businessrisk.org](mailto:robin@businessrisk.org)

June 2021

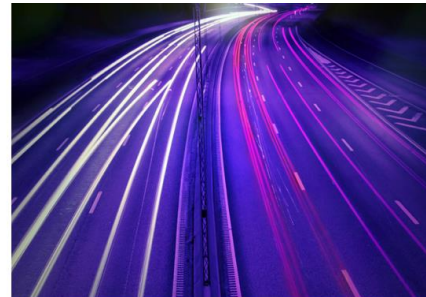
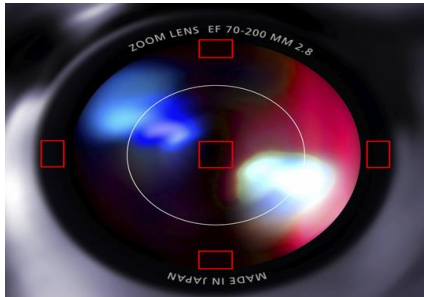


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Kent County Council

# External Quality Assessment

Internal Audit Services

Executive report – April 2021



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# External Quality Assessment

Kent County Council

**BUSINESS  
RISK  
SOLUTIONS**

## Opinion

Overall assessment: Kent County Council is delivering internal audit services to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

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### Key matters arising from the review:

- The service would benefit by increasing integration of the use of risk-based internal audit techniques with the risk appetite of its clients regarding planning and the scoping of engagements,
- Developing a clear alignment through working papers for each assignment to focus on the achievement of agreed Management (Business) objectives and agreed significant risks and relevant key controls would likely enhance the benefit of and value gained from audit reports.
- Consideration should be given to the revision of the basis for expressing internal audit issues and opinions in line with risk impact definitions recognised by each client in Risk Management Policies.
- The Head of Internal Audit Annual Report should be enhanced through inclusion of a summary of the significant risks being faced and those other assurances available to the Head of Internal Audit in reaching an annual opinion.

### Good Practice identified during the review

- The approach to maintaining a Quality Assurance Improvement Programme (QAIP) reflects best industry practice.
- Appropriate attention is given to gaining feedback and demonstration of the quality of services through use of KPI's which are routinely presented to Audit Committees.
- The Internal Audit team has a strong commitment to training, with service delivery being supported by a comprehensive skills matrix and a detailed Internal Audit Manual cross referenced to the PSIAS and use of Pentana Audit Software.
- Audit planning is supported by appropriately detailed notes of discussions with management.
- Where a shortfall of resources occurs, there is a commitment to the use of external resources with relevant skills and experience.

# Executive summary

Kent County Council (KCC) internal audit services has developed a commercial approach to the delivery of services in addition to the core service to the County Council; this should enable the team to develop an appropriate depth and breadth of skills to successfully meet the needs of clients. The team now also provides services under service level agreements to Tonbridge and Malling Borough Council, Kent Fire and Rescue Services, HoldCo, IC24 and a number of Academies. The service also provides Grant Audit, although this has not been subject of this review. The Internal Audit service aims to continue to grow its client base and the range of clients with which it contracts, providing both full Internal Audit services as well as ad-hoc services, tailored to meet the needs of clients.

Services are provided by a dedicated team of in-house staff, which is headed by Jonathan Idle as Head of Internal Audit and Counter Fraud, who assumes the role of Chief Audit Executive for the purposes of this review and regarding all internal audit appointments. The team is supported by contracted in resources when required with regard to both specialist services such as technology and more general audit provision.

In 2020/21 services have been impacted by the effects of the pandemic which has led to 'remote auditing' being required; this appears not to have adversely impacted on the methodology but has been reflected in the availability of client staff to engage whilst dealing with other front-line priorities. A number of vacancies have also been experienced during the year and as a consequence the CAE has now undertaken a planned restructure.

The service has responded to the changes of focus in professional standards by developing an increasingly risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has recently been updated to reflect this.

From an internal audit perspective, considerable advantage may be gained through increasing recognition of management objectives and inherent risk, as this will enable internal audit plans and assignments to focus on the value of 'Control Risk' and therefore attention on significant key controls and the assurances available. This represents recognition of those key controls which management feel reduce risk to an acceptable level (risk appetite) and aligns with current initiatives within internal audit and in discussion with the Corporate Risk Manager to identify sources of assurance.

Nevertheless, with a constantly changing risk environment, particularly as the service responds to the changing needs of clients post COVID-19; there is a need and opportunity for the internal audit service to continue to enhance its delivery through acting as a catalyst to ensure that robust risk management systems are operational, thereby increasing its awareness of the assessment of risk at each client and as a consequence informing its own approach.

Current services are assessed to '**generally conform**' with the PSIAS and compare favourably with peers. A series of specific recommendations are made in the report that follows to reflect building on the existing considerable strengths in relation to resources, competency and delivery in order to enhance future service delivery.



# Overall assessment

1	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are fully embedded within every-day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	<b>COMPETENCY</b>		<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
3	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.

# Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with client Audit Committees (AC).	The combination of the Charter and the Service Level Agreement is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A team wide process is in place regarding the identification and management of potential conflicts and/or declarations of interest.
311	The service has conducted internal assessment exercises of its performance.	Performance review is embedded within QAIP procedures and supported by a staff appraisals process which identifies and supports performance development needs.
2020	Active engagement at Board and management level	Represents the establishment of a good understanding of key issues through routine interaction with Executive Management and Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other sources.	This represents a firm basis for the consideration of the successful delivery of the internal audit plan and the use of support from other parties, if required.
2040	A detailed Internal Audit Manual is in place which aligns with the PSIAS.	Provides the basis for a consistent approach to delivery of internal audit services delivered through a series of templates and administered through use of Pentana software
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained at the conclusion of each engagement and at year end.	Demonstration of a consistent approach for communication which is generally well received by management and the AC's – effective follow-up ensures issues are not lost.
2400	Reports are clear and express opinions in a manner that is understood by stakeholders.	Reports are produced on a timely basis, with comprehensive detail of internal audit activity being produced for AC attention including detailed key performance indicators.
2500	Establish and maintain a system to monitor the disposition of results communicated to management.	A formal process for follow-up and reporting on actions taken regarding recommendations has been established.

# Part one

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## Compliance with the Public Sector Internal Audit Standards (PSIAS)

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1  Page 218	<p><b>Internal Audit Charter</b></p> <p>Whilst the Head of Internal Audit's Annual Opinion is correctly expressed in relation to Risk Management, Governance and Internal Control – the reference in the Internal Audit Charter does not comply with the PSIAS expectation and should be amended to include Governance.</p>	<p>When the Internal Audit Charter is next revised update the requirement for the Head of Internal Audit to provide an Annual Opinion in relation to Risk Management, Governance and Internal Control.</p> <p><b>PSIAS 1010</b></p>	
	<p><b>Internal Audit Management</b></p> <p>The Internal Audit Team has experienced a number of changes at management level over the last two years and have gained a number of new clients.</p> <p>This has necessitated providing a flexible response to the provision of leadership to staff allocated to contracts and with communication with client management.</p> <p>It would be beneficial to consider within the current re-structure:</p> <ul style="list-style-type: none"> <li>a) Where it is both desirable and practical for the Head of Internal Audit to act as the Chief Audit Executive (CAE), and</li> <li>b) Where a manager is nominated as the CAE at a client appointment, how supervisory arrangements will be arranged to allow the Head of Internal Audit to act in a 'Managing Director' role.</li> </ul>	<p>Specific arrangements should be implemented for client management within the new structure that allow for the Head of Internal Audit to act in a Managing Director role whilst still retaining CAE responsibility for key clients and therefore responsibility for issue of reports.</p> <p><b>PSIAS 2440</b></p>	

## Resources continued

	Issue identified	Recommended action	
3	<p><b>2020/21 engagement completion</b></p> <p>Current year provision has been impacted by Covid and the team holding a number of vacancies.</p> <p>The shortfall in resources has been supported through use of contracted in services particularly using SWAP.</p> <p>At the time of the review, internal audit plan outcomes for 2020/21 were not available,</p>	<p>Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual opinion, a reflection on the advice provided by CIPFA should be referred to.</p> <p><b>PSIAS 2450</b></p>	

	Issue identified	Recommended action	
Page 220	<p><b>1 Audit Planning</b></p> <p>“KCC’s Internal Audit mission statement is, ‘To support service delivery by providing an independent and objective evaluation of our clients’ ability to accomplish their business objectives, manage their risks effectively and, where relevant, provide advice and insight’”</p> <p>and is supported by a statement regarding a focus on risk: “Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates’, annual operating plans, consultation with managers and Internal Audit’s experience of the directorates. These are used to determine the strategic and annual plans.”</p> <p>The internal audit service no longer completes a strategic plan for KCC but does for some clients.</p> <p>Current plans are supported by evidence of review of risk registers particularly at a Corporate and to a lesser extent Directorate level, being supported with comprehensive notes of meetings with managers.</p> <p>KCC Risk registers do however focus on Residual and Target risk, therefore not seeking to quantify inherent risk.</p>	<p>The current KCC corporate risk management framework is not fully based on a full three lines model; an assessment of inherent risk, existing controls and assurances is therefore not consistently available to support internal audit planning at a strategic level. Where existing mitigating controls are shown at a departmental level these should represent a basis for internal audit review.</p> <p>Consideration of risk is therefore focused largely on residual and target levels and consequently Internal Audit should determine and evidence:</p> <ul style="list-style-type: none"> <li>a) how successive annual internal audit plans provide assurance regarding each client’s business objectives and risks at a corporate and directorate level, where in the latter case at KCC ‘High’ risks (above 16) are identified.</li> <li>b) Resources are not available to provide assurance on all content within the organisations risk registers and therefore increasing documentation of how conflicting priorities have been resolved on an annual basis to focus on ‘what matters most’, whilst also providing continuous assurance over time would be beneficial, and</li> <li>c) how the intended original focus on areas included in the annual plan is aligned with the constantly changing risk environment and movements when reviewing engagement plans (see also observations regarding use of Management Objectives as a basis for each engagement, which follows).</li> </ul> <p>Note: Risk Management processes have not been examined at all clients.</p> <p style="text-align: right;"><b>PSIAS 2010</b></p>	

# Competency continued

Issue identified	Recommended action
<p><b>2 Management Objectives</b></p> <p>The Internal Audit service currently specifies the Audit Objective as part of the Scoping Document for engagements. This reflects a standard statement reflecting the purpose of internal audit.</p> <p>PSIAS 2201 provides advice regarding planning considerations for engagements and states that:</p> <p>On planning the engagement, internal auditors must consider:</p> <ul style="list-style-type: none"> <li>the objectives of the activity being reviewed and the means by which the activity controls its performance and the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level".</li> </ul>	<p>The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align with the associated controls that are designed to mitigate this risk.</p> <p>Examples of how this approach might have been used as a basis for two engagements in 2020/21 has been provided.</p> <p><b>PSIAS 2200/1</b></p>
<p><b>3 Engagement Plans</b></p> <p>Engagement plans identify any risks that can be identified within the Corporate Risk Register or Directorate risk register and are then supplemented by further risks identified either by management in pre-engagement planning meetings and/or by internal audit.</p> <p>The risks identified are then supported either by a list of areas for review or identification of controls that will be audited.</p> <p>Consequently, different approaches to the structure of audits emerge.</p>	<p>The Internal Audit service intends to commission a Risk Based Audit training session once the current re-structure has been completed. It would be beneficial if this contained both an appreciation of risk management best practice and associated risk-based auditing methodologies and specific instruction on its deployment by the team.</p> <p>It would be beneficial if a direct link were created within the methodology to align achievement of a stated Management Objective with the basis for providing an opinion.</p> <p>This would also align with the functionality of the Pentana software.</p> <p><b>PSIAS 2120/2300</b></p>

# Competency continued

Issue identified	Recommended action
<p>4 <b>Use of Pentana software</b></p> <p>The Internal Audit service has relatively recently changed the audit software which is used to record engagements.</p> <p>File review identified examples of different use of the functionality of the system,</p>	<p>The team should provide further guidance on how the software is to be used and then provide consistent instruction where necessary regarding its use as this will enhance efficiency and the ability of managers to supervise audit engagements.</p> <p>The team might find it beneficial to create an 'Example file' which could be reviewed by staff as part of mandatory training.</p> <p><b>PSIAS 2300</b></p>
<p>5 <b>Grading of Issues</b></p> <p>Issues on which the audit opinion is based currently reflect 'a risk rating' which has been devised by internal audit. This is inconsistent with terminology used by the Council in the Risk Management Policy,</p> <p>The PSIAS use consistent terminology relating to the identification and reporting on 'significant' risk.</p> <p>This will also be the case with other individual clients, where risk impact and appetite will be set according to the local risk environment and nature of the services provided.</p>	<p>It would be beneficial to align future grading of issues with those impact definitions used within the risk management process relating to each clients' risk appetite.</p> <p>In the case of KCC it is suggested that where definitions may result in a risk value of 'High' (16+), this would reflect impact definitions in categories relating to 'Serious or Major' events.</p> <p>This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in determining an opinion within assurance reports through use of a consistent understanding and application of risk.</p> <p><b>PSIAS 2120/2201</b></p>



	Issue identified	Recommended action	
Page 223	<p><b>1 Engagement boundaries</b></p> <p>The Internal Audit Service undertakes audits for both KCC and HoldCo and therefore is responsible for the review of both client and contractor aspects of processes.</p> <p>In an audit of BACS payments which was reviewed, the audit included issues relating to both client and contractor processes, without documented recognition that the objectives of each party may be different.</p>	<p>Whilst we recognise that HoldCo is a wholly owned subsidiary audit reviews should be focused on the specific client's management objectives.</p> <p>In the case of a commercial entity these may not be the same as that of KCC and therefore it is important that a clear understanding of the system boundaries is established.</p> <p>In other organisations, this is often achieved by allocating the contractor audit to a different team than that which services the client.</p> <p><b>PSIAS 2210/(1100)</b></p>	
	<p><b>2 IA Opinions</b></p> <p>Internal Audit currently uses five levels of opinion – High, Substantial, Adequate, Limited and No – there appears only marginal difference in the supporting statements clarifying the differences between the latter levels.</p> <p>CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three.</p> <p>Within the profession, we believe it to be increasingly rare to find use of the latter category of 'No' on the basis that no system is totally flawed. We therefore believe the profession is moving towards acceptance of the use of three levels with the highest two levels confirming assurance, albeit with a caveat if other than significant control risk issues are found, and a single negative opinion indicating that management action is required to restore the position within the risk appetite defined by the Board.</p>	<p>Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited.</p> <p>Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified.</p> <p>Where a risk/recommendation of a 'Critical' nature is identified this would indicate that a 'Limited Assurance' opinion should be used.</p> <p><b>PSIAS 2410 A1/2060</b></p>	

# Delivery continued

	Issue identified	Recommended action	
Page 224	<p><b>3 Quality Assurance Improvement Programme (QAIP)</b>            The internal audit team has a robust process for undertaking the QAIP which includes aspects of:</p> <ul style="list-style-type: none"> <li>• Self-assessment</li> <li>• Hot reviews</li> <li>• Cold reviews</li> <li>• Internal assessment</li> <li>• External assessment, and</li> <li>• Customer feedback</li> </ul> <p>The PSIAS requires a summary of outcomes to be included in the Head of Internal Audit Annual Report.</p>	<p>The Head of Internal Audit maintains a summary of those areas of its service require further development, it would be good practice to include this as an Appendix in the Annual Report.</p> <p>In Annual Reports produced for clients, other than KCC, it would be appropriate to simply include a summary of key areas of development that the service will be focusing on in the coming year.</p> <p style="text-align: right;"><b>PSIAS 1320</b></p>	
	<p><b>4 Head of Internal Audit Annual Report</b>            The Annual Report provides an evidenced approach regarding the basis upon which the opinion regarding risk management, governance and control has been reached.</p> <p>This includes best practice relating to the alignment with the Eight Themes of the Risk Assurance model and the of opinions over recent years provide effective oversight of the approach which works well.</p> <p>The PSIAS does however also require the CAE to bring to the attention of the Audit Committee an assessment of the significant risks facing the Council along with reference to other assurances that are available to support the opinion.</p> <p>Whilst the Councils risk management system does not include an analysis of the sources of assurance, the internal audit team are increasingly undertaking assurance mapping as routine.</p>	<p>The Head of Internal Audit should include a summary of the significant risks facing each client along with significant other sources of assurance that have been recognised when reaching the annual opinion in the Annual Report.</p> <p style="text-align: right;"><b>PSIAS 2060/2450</b></p>	

# Delivery continued

	Issue identified	Recommended action
5  Page 225	<p><b>Communication</b></p> <p>The feedback received from stakeholders in the review contains a number of negative observations which principally relate to maintaining an appropriate relationship with each client, its business and the service it requires from internal audit.</p> <p>These appear to differ to that gained from surveys by internal audit and may reflect the nature of an independent exercise.</p>	<p>This feedback which is summarised on page 25, may relate to the changes which have been seen in the membership of the senior internal audit management team in recent years.</p> <p>In responding to the recommendation in Resources – item 2 Internal Audit Management – the Head of Internal Audit should consider how the revised arrangements best provide for client engagement at senior levels in order to respond to the issues being raised but particularly in relation to the question ‘Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods’, and other noted comments.</p> <p>The matter of ‘Adding Value’ has been separately addressed within the section on suggested enhancements which follows as Part Two of the report.</p> <p><b>PSIAS 2410</b></p>

## Part two

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## Suggested enhancements for consideration

# Suggested Enhancements for consideration

	Issue identified	Recommended action
Page 227	<p><b>1. Exit meeting template</b></p> <p>Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report.</p> <p>A summary of the discussion is then recorded in a narrative note, although file review identified this was not on file in two cases.</p>	<p>It may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies.</p> <p>This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.</p>
	<p><b>Client surveys</b></p> <p>Progress has been made in obtaining feedback from auditees following each audit.</p> <p>Within KCC clients, in 2020/21 a - responses rate 47.6% has shown a satisfaction level of 94%.</p>	<p>The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.</p>
	<p><b>3. Contractual arrangements</b></p> <p>Present arrangements for contracting with clients utilise a Service Level Agreement and an Internal Audit Charter.</p> <p>Those matters of a professional nature relating to the PSIAS are best reflected in a detailed Internal Audit Charter that is adopted by all clients, therefore promoting a standard approach.</p> <p>It is standard practice within outsourced arrangements for the SLA therefore to include a broad statement that places the responsibility on the contractor to comply with the PSIAS and for the contractor to ensure that it has arrangements in place to manage staff and adhere to both professional requirements as well as administrative matters such as declaration of interests and PDR's, as these are not the responsibility of the client.</p>	<p>It may be more to develop an appropriate Service Level Agreement for the provision of a future internal audit services by Kent County Council, which could include expectations of each client including appropriate performance measures.</p> <p>Matters of a professional nature regarding routine compliance with the PSIAS should become matters covered within an Internal Audit Charter, which reflects the service provided and appropriate to all clients.</p> <p>Such requirements would then be managed using standard contract and performance monitoring arrangements.</p>

# Suggested Enhancements for consideration

	Issue identified	Recommended action
4.	<b>Standard Engagement report</b> The current template includes a statement reflecting compliance with the Standards for the Professional Practice of Internal Auditing	Consider whether this should more appropriately reflect the PSIAS for public sector clients.  It may also be appropriate to include reference to compliance with the Code of Ethics.
5	<b>Release of Engagement Reports</b> Engagement reports are currently issued under the name of the report Author and Audit Manager.	Consider in conjunction with recommendation Resources (1) releasing the report in the name of the responsible CAE and then referencing any internal staff that have been involved.
6	<b>Adding Value</b> Whilst there is no reference to how internal audit is expected to 'add value' with the PSIAS, the concept can be seen in many different forms. Nevertheless, the definition of internal audit shown below does imply a requirement to make recommendations which make a positive difference being:  "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."  The client expectation in terms of 'Added Value' is often unique to a client or an individual however observations recorded within the client survey indicate that a number of respondents would like to see more from internal audit in terms of new ideas and best practice.	Whilst it is appreciated that where outsourced service providers have limited access to a range of clients within each of the sectors being serviced, in order to advise on best practice, the internal audit service should consider how it can best react to the feedback provided and consider: a) Inclusion of relevant wording of advice to highlight such matters' b) Enhancing the skills and training matrices to focus on specific sector or technical areas. c) Forming a peer group of internal audit providers with whom views regarding alternative approaches can be shared. d) Researching Audit Committee papers from other organisations to identify common themes and recommended practice elsewhere. e) Increasing the range of specialist and professional groups with which internal audit staff engage, and f) Developing a 'best practice' database of relevant management objectives, significant risks, controls and relevant legislation that can be used to support planning.

# Suggested Enhancements for consideration

	Issue identified	Recommended action
Page 229	<p><b>7. Internal Audit Manual</b> The current manual provides extensive guidance regarding the policies and procedures which guide internal audit activity.</p> <p>The Manual is cross referenced appropriately to the PSIAS and is supported by detailed instruction regarding the recording of internal audit activity on the Pentana Audit Software.</p>	<p>A previous recommendation noted that the team intended to commission a Risk Based Internal Audit training session.</p> <p>It may be useful to support this with inclusion of a 'softer' explanation within the introduction to each section of the Internal Audit Manual to provide guidance regarding:</p> <ul style="list-style-type: none"> <li>a) The relevance of the section to maintaining a constructive relationship with the client, bearing in mind the nature of their business,</li> <li>b) The aims and anticipated outcomes arising from each element of audit work, particularly in relation to any practices that are amended as a result of this review such as focus on Management Objectives or the conduct of an Exit Meeting using the proposed template, and</li> <li>c) How these relate to the conduct of the engagement particularly in relation to significant risk and its alignment with each client's approach to risk management.</li> </ul>
	<p><b>8. Use of sub-contract support</b> There has been a need to use contracted-in support during 2020/21 to supplement internal audit delivery.</p> <p>Experience in the current market-place shows that the available resources are limited and therefore ensuring that quality is maintained is a key aspect.</p> <p>Support can be obtained from professional firms/outsourced providers and through the use of individual self-employed auditors.</p>	<p>When contracting with external arrangements, it would be good practice to review or confirm the status of the most recent EQA report, where there is available with regard to professional firms and other outsourced providers.</p>

# Part three

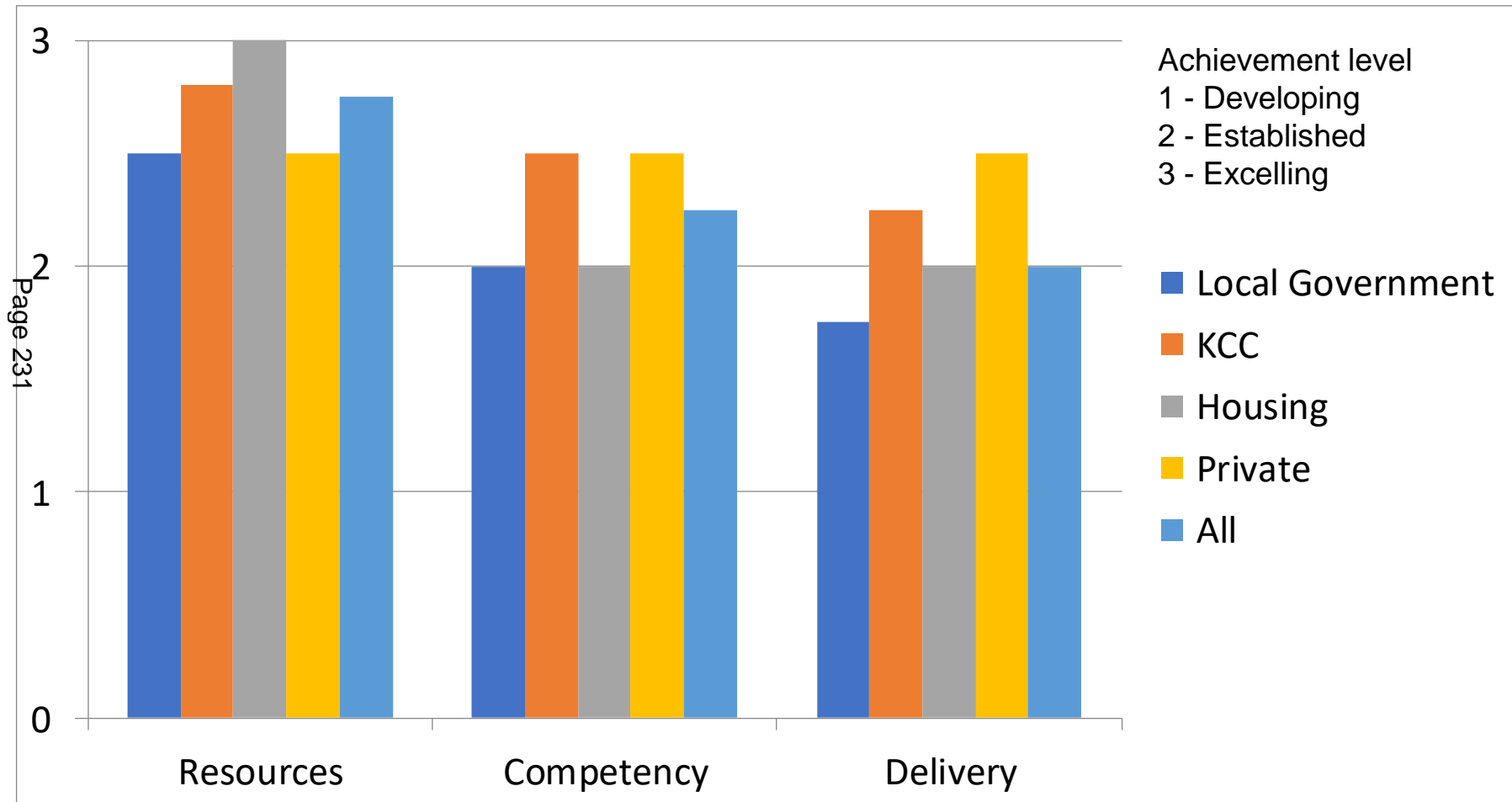
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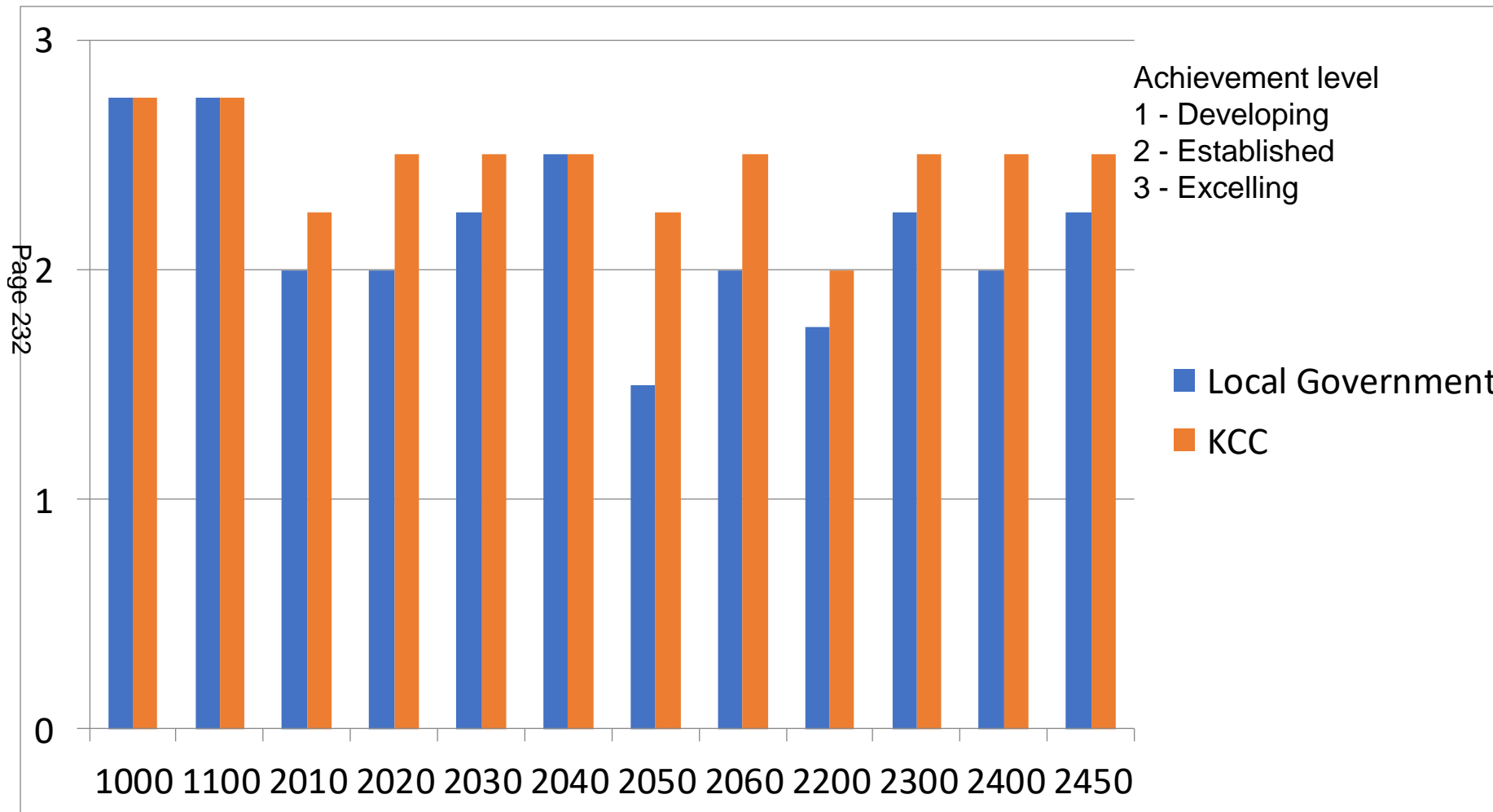
## Benchmarking



# Benchmarking - Sector analysis



# Benchmarking - Industry analysis



# Appendix

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1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

# Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	90	10
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	90	10
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	90	10
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	75	25
<b>Average</b>	<b>93%</b>	<b>7%</b>

## Conclusion:

Feedback from stakeholders confirms that Kent County Council is considered to provide a high-quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded.

Those responses where negative feedback has been received may reflect a number of the findings of the review in so far as they reflect the potential increased recognition of management objectives and inherent risk in addition to consideration of adding value through continuing to develop client relationships to mutual benefit.

## Relevant observations (summarised for purposes of report)

The IA function is stretching itself too thinly. The Audit Plan is too ambitious and doesn't include much of the added value work through embedded assurance. As such, total resources are too limited which is leading to challenges on timeliness of reports (not the quality of reports). IA should really reconsider whether they are sufficiently considering risk in determining the Audit Plan

I think that the service has noticeably transformed over the past 18 months. The culture has moved from being one of bayonetting the wounded towards an evidence-based model of helping the organisation be the best that it can be.

In our experience audits are positive engagements. However, I do believe that IA field operatives need to develop their reference points wider than KCC as those operating as commercial entities have have a different risk appetite for some operational activities.

My responses to this questionnaire have been based on what I have seen delivered by our previous Head of Internal Audit.

I agree with the statement about Internal Audit understanding the organisation and what it is trying to achieve, but there is room for improvement as the function sometimes sees disagreement with its views/findings/plans as resistance and obstruction rather than a differing viewpoint.

Internal audit offer a good quality service which is extremely valuable.

The service we receive is extremely good and there is a good working relationship.

Issued	26	Returned	22	Response rate	85%
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### % Client responses received

KCC	80	KFRS	100	HoldCo	100	IC24	100	TMBC	67
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# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

# Basis for EQA

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## Compliance with IPPF/PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

# Basis for overall opinion

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

**Partially Conforms** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**Does Not Conform** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Source: Institute of Internal Auditors (2016)



# Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
<b>Enhance</b>	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
<b>Review</b>	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
<b>Consider</b>	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.

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## Internal Audit External Quality Assessment Action Plan – June 2021

Ref.	Issue	Recommendation	IACF Response and Action Plan
R1	<b>RESOURCES - Internal Audit Charter (Consider)</b> Whilst the Head of Internal Audit's Annual Opinion is correctly expressed in relation to Risk Management, Governance and Internal Control – the reference in the Internal Audit Charter does not comply with the PSIAS expectation and should be amended to include Governance.	When the Internal Audit Charter is next revised update the requirement for the Head of Internal Audit to provide an Annual Opinion in relation to Risk Management, Governance and Internal Control.	<p><b>Response:</b> Recommendation Agreed</p> <p><b>Action Plan:</b> The insert will be included within the annual review of the Charter, which will be submitted to the Governance and Audit Committee in July 2021.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> August 2021</p>
R2	<b>RESOURCES - Internal Audit Management (Review)</b> The Internal Audit Team has experienced a number of changes at management level over the last two years and have gained a number of new clients. This has necessitated providing a flexible response to the provision of leadership to staff allocated to contracts and with communication with client management. It would be beneficial to consider within the current re-structure: a) Where it is both desirable and practical for the Head of Internal Audit to act as the Chief Audit Executive (CAE), and b) Where a manager is nominated as the CAE at a client appointment, how supervisory arrangements will be arranged to allow the Head of Internal Audit to act in a 'Managing Director' role.	Specific arrangements should be implemented for client management within the new structure that allow for the Head of Internal Audit to act in a Managing Director role whilst still retaining CAE responsibility for key clients and therefore responsibility for issue of reports.	<p><b>Response:</b> Recommendation Agreed</p> <p><b>Action Plan:</b> The service is currently implementing a restructure. When this is completed and the accompanying changes have been embedded, a review of Chief Audit Executive (CAE) responsibilities will be undertaken in advance of 2022-23.</p> <p>This will include consideration of the circumstances as to if / when there should be nominated CAEs within the shared service.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> February 2022</p>
R3	<b>RESOURCES - 2020/21 Engagement Completion (Consider)</b> Current year provision has been impacted by Covid and the team holding a number of vacancies. The shortfall in resources has been supported through use of contracted in services particularly using SWAP. At the time of the review, internal audit plan outcomes for 2020/21 were not available	Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual opinion, a reflection on the advice provided by CIPFA should be referred to.	<p><b>Response:</b> Recommendation Agreed</p> <p>The CIPFA Guidance has been referred to throughout 2020-21 when it was necessary to make changes to the Audit Plan.</p> <p><b>Action Plan:</b> In compilation of the Annual Opinion for 2020-21 to be submitted to the Governance and Audit Committee in July</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
Page 242			<p>2021, there will be due consideration and reference to the CIPFA Annual Opinion Guidance, with reference to be included within the Opinion Report to Committee.</p> <p><b><u>Action Owner:</u></b> Head of Internal Audit</p> <p><b><u>Due Date:</u></b> July 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
C1	<p><b>COMPETENCY - Audit Planning (Review)</b></p> <p>"KCC's Internal Audit mission statement is, 'To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives, manage their risks effectively and, where relevant, provide advice and insight'"</p> <p>and is supported by a statement regarding a focus on risk:</p> <p>"Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual plans."</p> <p>The internal audit service no longer completes a strategic plan for KCC but does for some clients.</p> <p>Current plans are supported by evidence of review of risk registers at a Corporate and Directorate level and comprehensive notes of meetings with managers.</p> <p>Risk registers do however focus on Residual and Target risk therefore not seeking to identify those existing controls which mitigate risk.</p>	<p>The current KCC risk management framework is not based on a full three lines model; an assessment of inherent risk, existing controls and assurances is therefore not available to support internal audit planning at a strategic or engagement level.</p> <p>Consideration of risk is therefore focused on residual and target levels and consequently Internal Audit should determine and evidence:</p> <ol style="list-style-type: none"> <li>how successive annual internal audit plans provide assurance regarding each client's business objectives and risks at a corporate and directorate level,</li> <li>transparency regarding how conflicting priorities have been resolved within the resources available, and</li> <li>how the intended focus of areas included in the annual plan is aligned with the changed risk environment when compiling engagement plans (see also observations regarding use of Management Objectives as a basis for each engagement, which follows).</li> </ol> <p>Note: Risk Management processes have not been examined at all clients.</p>	<p><b>Response:</b> Recommendation Agreed</p> <p>The current audit planning arrangements are considered robust and a major strength of the Internal Audit service and the widespread engagement undertaken is acknowledged by stakeholders. The ability to adapt to a changing risk environment is aptly illustrated in 2020-21 with the identification of and delivery of extensive covid-related coverage and Brexit-related engagement by the service.</p> <p>Furthermore, the compilation of an Audit Plan is based upon several different factors, not purely on theoretical considerations.</p> <p>Further clarification has been sought from the Assessor and will be reviewed.</p> <p><b>Action Plan:</b> While, therefore, this Issue and recommendation is not wholly considered to be reflective of the approaches undertaken by the service, as part of the continuous improvement ethos of the section to enhance existing arrangements, factors a-c will be reviewed as part of the audit planning process with a position statement for 22-23 Audit planning to be prepared.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> December 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
C2	<b>COMPETENCY - Management Objectives (Review)</b> The Internal Audit service currently specifies the Audit Objective as part of the Scoping Document for engagements. This reflects a standard statement reflecting the purpose of internal audit. PSIAS 2201 provides advice regarding planning considerations for engagements and states that: "In planning the engagement, internal auditors must consider: The objectives of the activity being reviewed and the means by which the activity controls its performance and the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level".	The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align with the associated controls that are designed to mitigate this risk. Examples of how this approach might have been used as a basis for two engagements in 2020/21 has been provided. .	<b>Response:</b> Recommendation Agreed  <b>Action Plan:</b> The explicit focus upon agreed Management Objectives will be incorporated into the Audit Manual.  This will be communicated to members of the Internal Audit Team in in-house training and development and monitored by supervisors and Audit Managers during the preparation of Engagement Plans as business as usual.  <b>Action Owners:</b> Head of Internal Audit Audit Managers  <b>Due Date:</b> September 2021
C3 Page 244	<b>COMPETENCY - Engagement Plans (Review)</b> Engagement plans identify any risks that can be identified within the Corporate Risk Register or Directorate risk register and are then supplemented by further risks identified either by management in pre-engagement planning meetings and/or by internal audit. The risks identified are then supported either by a list of areas for review or identification of controls that will be audited. Consequently, different approaches to the structure of audits emerge.	The Internal Audit service intends to commission a Risk Based Audit training session once the current re-structure has been completed. It would be beneficial if this contained both an appreciation of risk management best practice and associated risk-based auditing methodologies and specific instruction on its deployment by the team.  It would be beneficial if a direct link were created within the methodology to align achievement of a stated Management Objective with the basis for providing an opinion.  This would also align with the functionality of the Pentana software.	<b>Response:</b> Recommendation Agreed - to be reviewed and implemented appropriately.  The Internal Audit service will continue to review and refine its ongoing risk-based approach.  <b>Action Plan:</b> To commission best practice risk based internal audit training for all members of the Internal Audit Team. this will be followed up with any necessary amendments to audit approaches undertaken in the Audit Manual.  <b>Action Owner:</b> Head of Internal Audit Audit Managers  <b>Due Date:</b> December 2021

Ref.	Issue	Recommendation	IACF Response and Action Plan
C4	<p><b>COMPETENCY - Use of Pentana software (Consider)</b></p> <p>The Internal Audit service has relatively recently changed the audit software which is used to record engagements. File review identified examples of different use of the functionality of the system,</p>	<p>The team should provide further guidance on how the software is to be used and then provide consistent instruction where necessary regarding its use as this will enhance efficiency and the ability of managers to supervise audit engagements.</p> <p>The team might find it beneficial to create an 'Example file' which could be reviewed by staff as part of mandatory training.</p>	<p><b>Response:</b> Recommendation Agreed</p> <p>The need to develop the use of Pentana to enhance our efficiency is recognised.</p> <p><b>Action Plan:</b> The 2021/22 Internal Audit Plan includes a provision for Pentana development which will address the factors in the issue and recommendation.</p> <p>Pentana development will be factored into resourcing on an ongoing basis for future years Audit Plans.</p> <p><b>Action Owner:</b> Head of Internal Audit Audit Managers</p> <p><b>Due Date:</b> March 2022</p>
Page 245	<p><b>COMPETENCY - Grading of Issues (Review)</b></p> <p>Issues on which the audit opinion is based currently reflect 'a risk rating' which has been devised by internal audit. This is inconsistent with terminology used by the Council in the Risk Management Policy.</p> <p>The PSIAS use consistent terminology relating to the identification and reporting on 'significant' risk.</p> <p>This will also be the case with other individual clients, where risk impact and appetite will be set according to the local risk environment and nature of the services provided.</p>	<p>It would be beneficial to align future grading of issues with those impact definitions used within the risk management process relating to each clients' risk appetite.</p> <p>In the case of KCC it is suggested that where definitions may result in a risk value of 'High' (16+), this would reflect impact definitions in categories relating to 'Serious or Major' events.</p> <p>This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in determining an opinion within assurance reports through use of a consistent understanding and application of risk.</p>	<p><b>Response:</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p><b>Action Plan:</b></p> <p>The Internal Audit Management Team will review the recommendations and consider whether enhancements to the grading of issues are beneficial for KCC and individual external clients, with the underlying ethos of the efficiency of processes for a shared service being a key consideration.</p> <p><b>Action Owner:</b> Head of Internal Audit Internal Audit Management Team</p> <p><b>Due Date:</b> October 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
D1	<b>DELIVERY - Engagement boundaries (Consider)</b> The Internal Audit Service undertakes audits for both KCC and HoldCo and therefore is responsible for the review of both client and contractor aspects of processes. In an audit of BACS payments which was reviewed the audit included issues relating to both client and contractor processes.	Whilst we recognise that HoldCo is a wholly owned subsidiary audit reviews should be focused on the specific client's management objectives. In the case of a commercial entity these may not be the same as that of KCC and therefore it is important that a clear understanding of the system boundaries is established. In other organisations, this is often achieved by allocating the contractor audit to a different team than that which services the client.	<p><b>Response:</b> Recommendation Agreed.</p> <p>Although the theoretical point is understood, it is considered that it is appropriately addressed, but accept that the separation of duties could be better documented.</p> <p>it is inevitable that the occasional review will require audit coverage of processes at both client and contractor side to occur in the best interest of reviewing overall control arrangements. Thus, a further example is when we reviewed a significant overpayment to a supplier, which necessitated looking at processes and arrangements within the Council and within one of the companies. If this had not been approached on such a holistic basis, then it would not have added value to our stakeholders nor identified the key and critical weaknesses that contributed to the overpayment.</p> <p>Similarly, the BACS review required coverage of both client and contractor arrangements. The service, in auditing the LatCo's and the Council, have been very clear in who audits which service and what is referred to in the recommendation is considered to be consistently undertaking as business as usual.</p> <p>In terms of allocating the contractor audit to a different team than which services the client, this has been occurring on an ongoing / business as usual basis for several years.</p> <p><b>Action Plan:</b> Current arrangements could be enhanced by including within our checklist to document that the same auditor is not auditing the contractor and client to formalise our longstanding approach and for this to be formalised within the planning and audit allocation process.</p> <p><b>Action Owner:</b> Head of Internal Audit Audit Managers</p> <p><b>Due Date:</b> October 2021</p>



Ref.	Issue	Recommendation	IACF Response and Action Plan
D2	<p><b>Delivery - IA Opinions (Review)</b></p> <p>Internal Audit currently uses five levels of opinion – High, Substantial, Adequate, Limited and No – there appears only marginal difference in the supporting statements clarifying the differences between the latter levels. CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three. Within the profession, we believe it to be increasingly rare to find use of the latter category of 'No' on the basis that no system is totally flawed. We therefore believe the profession is moving towards acceptance of the use of three levels with the highest two levels confirming assurance, albeit with a caveat if other than significant control risk issues are found, and a single negative opinion indicating that management action is required to restore the position within the risk appetite defined by the Board.</p>	<p>Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited.</p> <p>Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified.</p> <p>Where a risk/recommendation of a 'Critical' nature is identified this would indicate that a 'Limited Assurance' opinion should be used</p>	<p><b>Response:</b> Recommendation Agreed</p> <p>This will be considered while acknowledging that stakeholder and client expectations are also relevant to the review. As a shared service a key factor should also be that having one basis for reporting opinions is paramount to consistency and efficiency of the service.</p> <p><b>Action Plan:</b> The Internal Audit Management Team will review the recommendation and consider whether moving to three levels of opinion and updating the issue grading definitions are beneficial for KCC and external clients.</p> <p>Dependent upon this review, any proposed changes would be discussed with senior management from KCC and external clients and proposed to respective Audit Committees.</p> <p><b>Action Owner:</b> Head of Internal Audit Internal Audit Management Team</p> <p><b>Due Date:</b> October 2021</p>
D3	<p><b>DELIVERY - Quality Assurance Improvement Programme (QAIP) (Consider)</b></p> <p>The internal audit team has a robust process for undertaking the QAIP which includes aspects of:</p> <ul style="list-style-type: none"> <li>• Self-assessment</li> <li>• Hot reviews</li> <li>• Cold reviews</li> <li>• Internal assessment</li> <li>• External assessment, and</li> <li>• Customer feedback</li> </ul> <p>The PSIAS requires a summary of outcomes to be included in the Head of Internal Audit Annual Report.</p>	<p>The Head of Internal Audit maintains a summary of those areas of its service require further development, it would be good practice to include this as an Appendix in the Annual Report.</p> <p>In Annual Reports produced for clients, other than KCC, it would be appropriate to simply include a summary of key areas of development that the service will be focusing on in the coming year.</p>	<p><b>Response:</b> Recommendation Agreed.</p> <p>This will enhance the Annual Internal Audit Report and Opinion.</p> <p><b>Action Plan:</b> More detailed reporting of the QAIP will be incorporated into the 2020-21 Annual Report and then on an ongoing basis.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> August 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
Page 248	<p><b>D4 DELIVERY - Head of Internal Audit Annual Report (Review)</b></p> <p>The Annual Report provides an evidenced approach regarding the basis upon which the opinion regarding risk management, governance and control has been reached.</p> <p>This includes best practice relating to the alignment with the Eight Themes of the Risk Assurance model and the of opinions over recent years provide effective oversight of the approach which works well.</p> <p>The PSIAS does however also require the CAE to bring to the attention of the Audit Committee an assessment of the significant risks facing the Council along with reference to other assurances that are available to support the opinion.</p> <p>Whilst the Councils risk management system does not include an analysis of the sources of assurance, the internal audit team are increasingly undertaking assurance mapping as routine.</p>	<p>The Head of Internal Audit should include a summary of the significant risks facing each client along with significant other sources of assurance that have been recognised when reaching the annual opinion in the Annual Report.</p>	<p><b>Response:</b> Recommendation Agreed.</p> <p>This will enhance the Annual Internal Audit Report and Opinion.</p> <p><b>Action Plan:</b> For the 2020-21 Annual Opinion, an assessment of other sources of assurance will be undertaken, determining whether reliance can be placed to include within the overall assessment for the Head of Internal Audit Opinion. In line with guidance from the EQA Assessor, it is intended to concentrate on those corporate risks with a residual risk rating of 25.</p> <p>Moving forward, the Internal Audit service will continue to work closely with the Risk Management service in developing assurance mapping across the Council.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> August 2021</p>
	<p><b>D5 DELIVERY – Communication (Review)</b></p> <p>The feedback received from stakeholders in the review contains a number of negative observations which principally relate to maintaining an appropriate relationship with each client, its business and the service it requires from internal audit.</p> <p>These appear to differ to that gained from surveys by internal audit and may reflect the nature of an independent exercise.</p>	<p>This feedback, which is summarised on page 25, may relate to the changes which have been seen in the membership of the senior internal audit management team in recent years.</p> <p>In responding to the recommendation in Resources – item 2 Internal Audit Management – the Head of Internal Audit should consider how the revised arrangements best provide for client engagement at senior levels in order to respond to the issues being raised but particularly in relation to the question ‘Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods’, and other noted comments.</p> <p>The matter of ‘Adding Value’ has been separately addressed within the section on suggested enhancements which follows as Part Two of the report.</p>	<p><b>Response:</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p>All stakeholder and client feedback are reviewed and addressed as appropriate.</p> <p>Feedback arrangements are strong, both based on surveys following each individual audit engagement and also in the annual Stakeholder survey and this is considered to comply with and potentially exceed Standards. The surveys for the EQA have identified 93% positives, which while not grounds for complacency is considered more than satisfactory.</p> <p>Various arrangements are already in place in sharing good practice from other local authorities via established networks, however the value of this can be enhanced and also communicated more extensively.</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
			<p><b>Action Plan:</b> All factors in the issue and recommendation will be reviewed by the Head of Internal Audit and incorporated to enhance the quality of the service.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> September 2021</p>

## **SUGGESTED ENHANCEMENTS FOR CONSIDERATION**

Ref	Issue	Recommendation	IACF Response and Action Plan
1	<p><b>Exit Meeting Template</b></p> <p>Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report.</p> <p>A summary of the discussion is then recorded in a narrative note, although file review identified this was not on file in two cases.</p>	<p>It may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies.</p> <p>This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.</p>	<p><b>Response:</b> Recommendation Agreed</p> <p><b>Action Plan:</b> A template will be prepared. It will be communicated to the team, incorporated into the Audit Manual and its' usage monitored during quality assurance reviews as business as usual.</p> <p><b>Action Owner:</b> Head of Internal Audit Audit Managers</p> <p><b>Due Date:</b> September 2021</p>
2 Page 250	<p><b>Client surveys</b></p> <p>Progress has been made in obtaining feedback from auditees following each audit.</p> <p>Within KCC clients, in 2020/21 a - responses rate 47.6% has shown a satisfaction level of 94%.</p>	<p>The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.</p>	<p><b>Response:</b> Recommendation Agreed. This can be considered. Another method has previously been reviewed, however there were data /GDPR issues associated with its usage.</p> <p><b>Action Plan:</b> The use of MS Forms Survey will be progressed. The template will be prepared and utilised as part of the ongoing feedback arrangements relating to each audit at the earliest opportunity. Summary</p> <p><b>Action Owner:</b> Head of Internal Audit Business Support Officer</p> <p><b>Due Date:</b> July 2021</p>
3	<p><b>Contractual Arrangements</b></p> <p>Present arrangements for contracting with clients utilise a Service Level Agreement and an Internal Audit Charter.</p> <p>Those matters of a professional nature relating to the PSIAS are best reflected in a detailed Internal Audit Charter that is adopted by all clients, therefore promoting a standard approach.</p>	<p>It may be more to develop an appropriate Service Level Agreement for the provision of a future internal audit services by Kent County Council, which could include expectations of each client including appropriate performance measures.</p> <p>Matters of a professional nature regarding routine compliance with the PSIAS should become matters covered within an Internal Audit Charter, which reflects the service</p>	<p><b>Response:</b> Recommendation Agreed.</p> <p>Service Level Agreements are currently in place where Internal Audit provide services in the delivery of Annual Audit Plans and most of the elements referred to in the findings and recommendation are already incorporated.</p> <p><b>Action Plan:</b></p>

Ref	Issue	Recommendation	IACF Response and Action Plan
	It is standard practice within outsourced arrangements for the SLA therefore to include a broad statement that places the responsibility on the contractor to comply with the PSIAS and for the contractor to ensure that it has arrangements in place to manage staff and adhere to both professional requirements as well as administrative matters such as declaration of interests and PDR's, as these are not the responsibility of the client.	provided and appropriate to all clients.  Such requirements would then be managed using standard contract and performance monitoring arrangements.	Existing SLA's will be reviewed to review the factors identified within the finding and recommendation and, where appropriate, amendments will be proposed with relevant external clients.  <b>Action Owner:</b> Head of Internal Audit  <b>Due Date:</b> October 2021
4	<b>Standard Engagement report</b> The current template includes a statement reflecting compliance with the Standards for the Professional Practice of Internal Auditing	Consider whether this should more appropriately reflect the PSIAS for public sector clients.  It may also be appropriate to include reference to compliance with the Code of Ethics.	<b>Response:</b> Recommendation Agreed. This will enhance existing reporting arrangements.  <b>Action Plan:</b> Relevant inserts will be incorporated into report templates.  <b>Action Owner:</b> Head of Internal Audit Audit Managers  <b>Due Date:</b> September 2021
5	<b>Release of Engagement Reports</b> Engagement reports are currently issued under the name of the report Author and Audit Manager.	Consider in conjunction with recommendation Resources (1) releasing the report in the name of the responsible CAE and then referencing any internal staff that have been involved.	<b>Response:</b> Recommendation Agreed  <b>Action Plan:</b> This will be considered in review with Resources Recommendation 2 and, if appropriate, amendments to the front page of the report templates will be undertaken to include naming the CAE.  <b>Action Owner:</b> Head of Internal Audit  <b>Due Date:</b> July 2021

Ref	Issue	Recommendation	IACF Response and Action Plan
6	<p><b>Adding Value</b></p> <p>Whilst there is no reference to how internal audit is expected to 'add value' with the PSIAS, the concept can be seen in many different forms. Nevertheless, the definition of internal audit shown below does imply a requirement to make recommendations which make a positive difference being:</p> <p>"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."</p> <p>The client expectation in terms of 'Added Value' is often unique to a client or an individual however observations recorded within the client survey indicate that a number of respondents would like to see more from internal audit in terms of new ideas and best practice.</p>	<p>Whilst it is appreciated that where outsourced service providers have limited access to a range of clients within each of the sectors being serviced, in order to advise on best practice, the internal audit service should consider how it can best react to the feedback provided and consider:</p> <ul style="list-style-type: none"> <li>a) Inclusion of relevant wording of advice to highlight such matters'</li> <li>b) Enhancing the skills and training matrices to focus on specific sector or technical areas.</li> <li>c) Forming a peer group of internal audit providers with whom views regarding alternative approaches can be shared.</li> <li>d) Researching Audit Committee papers from other organisations to identify common themes and recommended practice elsewhere.</li> <li>e) Increasing the range of specialist and professional groups with which internal audit staff engage, and</li> <li>f) Developing a 'best practice' database of relevant management objectives, significant risks, controls and relevant legislation that can be used to support planning.</li> </ul>	<p><b>Response:</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p>There are many ways in which any Internal Audit service can provide added value and there are many differing professional interpretations. There are many examples of where the service has provided added value.</p> <p>The EQA survey was 100% positive to the added value question and other comments highlighted perceived added value.</p> <p>The suggestions (a-f) are mainly undertaken already- we are in several peer groups, audit committee papers are referred to from other organisations. Thus, for example, with peer groups, we are currently in 3 separate peer groups, Kent Audit Group (KAG), Local Authority Chief Auditor Network (LACAN) and the Home Counties Chief Internal Auditors Group (HCCIAG) with which we have excellent relationships, contribute actively and share and learn extensively from each other.</p> <p>It is uncertain whether the database idea would be an efficient utilisation of time in terms of the time to set up and maintain.</p> <p><b>Action Plan:</b> The service will continue to seek and aspire to improving its value to each of the organisations it delivers for. The factors a-f will be reviewed.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> December 2021</p>

Ref	Issue	Recommendation	IACF Response and Action Plan
7	<p><b>Internal Audit Manual</b></p> <p>The current manual provides extensive guidance regarding the policies and procedures which guide internal audit activity.</p> <p>The Manual is cross referenced appropriately to the PSIAS and is supported by detailed instruction regarding the recording of internal audit activity on the Pentana Audit Software.</p>	<p>A previous recommendation noted that the team intended to commission a Risk Based Internal Audit training session.</p> <p>It may be useful to support this with inclusion of a 'softer' explanation within the introduction to each section of the Internal Audit Manual to provide guidance regarding:</p> <ul style="list-style-type: none"> <li>a) The relevance of the section to maintaining a constructive relationship with the client, bearing in mind the nature of their business,</li> <li>b) The aims and anticipated outcomes arising from each element of audit work, particularly in relation to any practices that are amended as a result of this review such as focus on Management Objectives or the conduct of an Exit Meeting using the proposed template, and</li> <li>c) How these relate to the conduct of the engagement particularly in relation to significant risk and its alignment with each client's approach to risk management.</li> </ul>	<p><b>Response:</b> Recommendation Agreed - to be considered.</p> <p><b>Action Plan:</b> The recommendation will be considered in the next review of the Audit Manual.</p> <p><b>Action Owner:</b> Head of Internal Audit Audit Managers</p> <p><b>Due Date:</b> March 2022</p>
Page 253	<p><b>Use of Sub-Contract Support</b></p> <p>There has been a need to use contracted-in support during 2020/21 to supplement internal audit delivery.</p> <p>Experience in the current market-place shows that the available resources are limited and therefore ensuring that quality is maintained is a key aspect.</p> <p>Support can be obtained from professional firms/outsourced providers and through the use of individual self-employed auditors.</p>	<p>When contracting with external arrangements, it would be good practice to review or confirm the status of the most recent EQA report, where there is available with regard to professional firms and other outsourced providers.</p>	<p><b>Response:</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p>The issue and recommendation are understood, however not necessarily considered relevant to practice by the service. Thus, for example, in engaging the services of another provider in 20-21, it is considered that this risk was adequately mitigated with a Letter of Engagement with the provider containing a formal commitment to the Code of Ethics and the Standards. Furthermore, the quality and high reputation of the organisation engaged is widely known within the Local Government Internal Audit community.</p> <p><b>Action Plan:</b> In the eventuality of engaging another provider, the good practice referred to will be adopted.</p> <p><b>Action Owner:</b> Head of Internal Audit</p> <p><b>Due Date:</b> March 2021</p>

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By: James Flannery – Counter Fraud Manager

To: Governance and Audit Committee – 22<sup>nd</sup> July 2021

Subject: **ANNUAL COUNTER FRAUD REPORT 2020-21 AND PROPOSED COUNTER FRAUD PLAN 2021-22**

Classification: Unrestricted

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### **Summary:**

This report details:

- The Counter Fraud activity undertaken for 2020/21, including reported fraud and irregularities.
- The Counter Fraud Action Plan for in 2021/22 covering reactive and proactive activity.
- A Review of the Anti-Fraud and Corruption Strategy, Anti-Bribery Policy and Anti Money Laundering Policy.

### **Recommendation: FOR DECISION AND ASSURANCE**

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### **Introduction**

1.1 The report provides:

- An overview of the work of the Counter Fraud Team for 2020/21;
- Details of savings identified through counter fraud activity;
- A spotlight on the volume and variety of investigations work that the Counter Fraud Team undertakes and the competing priorities;
- A review of key policies that support a strong counter fraud culture; and
- The proposed work Counter Fraud work programme for 2021/22.

### **Irregularity Referrals 2020/21**

- 1.2 Referral rates are a good indication to demonstrate awareness of fraud risks. Overall, irregularity referrals have fallen in 2020/21 compared with previous years. The reduction is linked to the impact of lockdown over the past year on the number of Blue Badge misuse reports received, however we have seen an increase in referrals in existing fraud risk areas as well as other areas following fraud awareness sessions.
- 1.3 For 2020/21, there were 296 suspected irregularities (Trend analysis shown in tables below) reported to the Counter Fraud Team (compared to 368 in 2019/20). The distribution and characteristics of the irregularities reported to date show that the highest areas of financial risk this year are from misuse of social care support paid via a Direct Payment, Spear Phishing & Cyber Attack threats and blue badges.
- 1.4 During 2020/21, the Counter Fraud Team cleared 300 referrals and investigations. Reported outcomes of cases are only possible where a prosecution has occurred. During 2020/21 three successful prosecutions occurred, two on blue badge offences by the general public and one abuse of position case in relation to a School Finance Manager. Two simple cautions and 38 warning letters have been issued in relation to blue badge offences.

- 1.5 Actual fraud losses for 2020/21 was £25,967 compared to £88,764 for 2020/21. Prevented fraud losses for 2020/21 was £382,673 compared to £216,237 for 2020/21. Prevented fraud losses will fluctuate depending on the nature of cases referred.

### **Direct Payments**

- 1.6 There have been 38 cases referred during 2020/21 compared to 15 cases in 2019/20. The majority of cases is where spend has been determined to be outside of the agreed care and support plan. This has resulted in an actual loss of £17,307 which is recoverable from the service user or their representative.

### **Spear Phishing**

- 1.7 At the beginning of lockdown, there was a significant increase in the number of spear phishing attempts, mainly on schools. This type of fraud uses the spoofing of emails by fraudsters pretending, for example, to be the headteacher requesting an urgent payment to a supplier.
- 1.8 On average, requests for payment of £7,755 were made, however due to the quick reporting of schools with intelligence being disseminated further by the Counter Fraud Team across Kent schools, no actual loss occurred. This fraud type made up the most significant part of the potential loss amounting to £344,489.

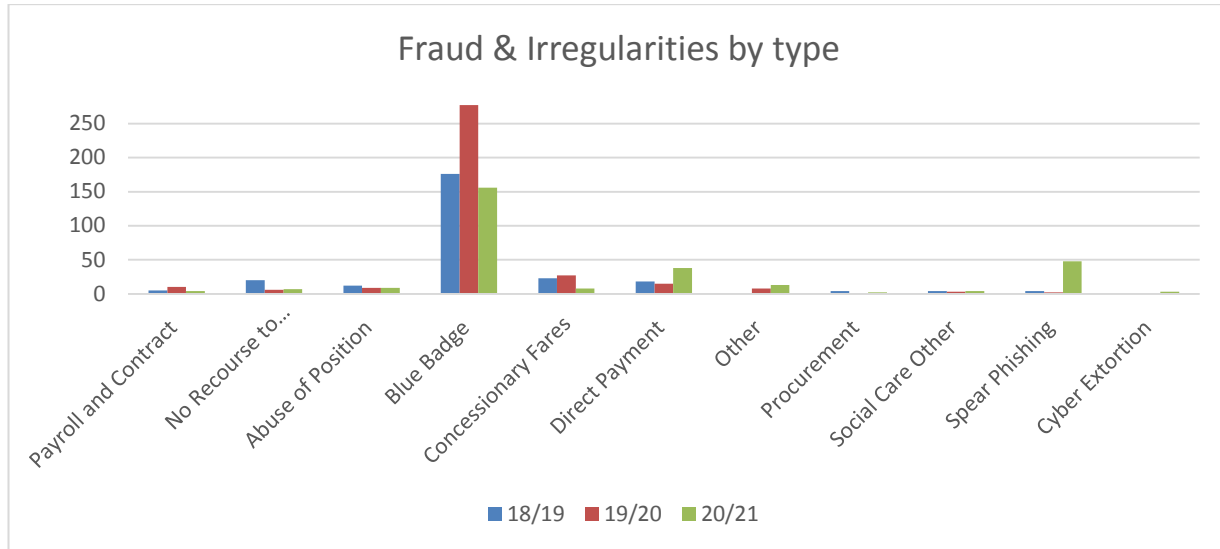
### **Blue Badges**

- 1.9 Many of the irregularities (156) reported relate to the misuse of the Blue Badge. These types of fraud are low value, high volume activity. The approach to these investigations is risk based and Blue Badge low level fraud and misuse is being addressed through educational warning letters to the badge holder and person misusing the badge.
- 1.10 In 2020/21, two prosecution cases were progressed by the Counter Fraud Team. Both cases were delayed due to the impact of lockdown measures on the court service. Press releases were issued and received good local news coverage to act as a deterrent to others. Both cases received a community punishment order and required to pay a contribution to KCCs investigation and prosecution costs.
- 1.11 Work continues to engage Borough & District Councils to monitor the use of blue badges in their area through attendance at the parking managers meetings. Further training is being planned for 2021/22 through two enforcement days in areas where there are the least amount of referrals.
- 1.12 Referrals from the general public have increased during the lockdown periods as residential parking is more in demand due to an increase in home working. Engagement with Borough & District Councils occurs for them to monitor the area to ensure correct use of the scheme is applied.

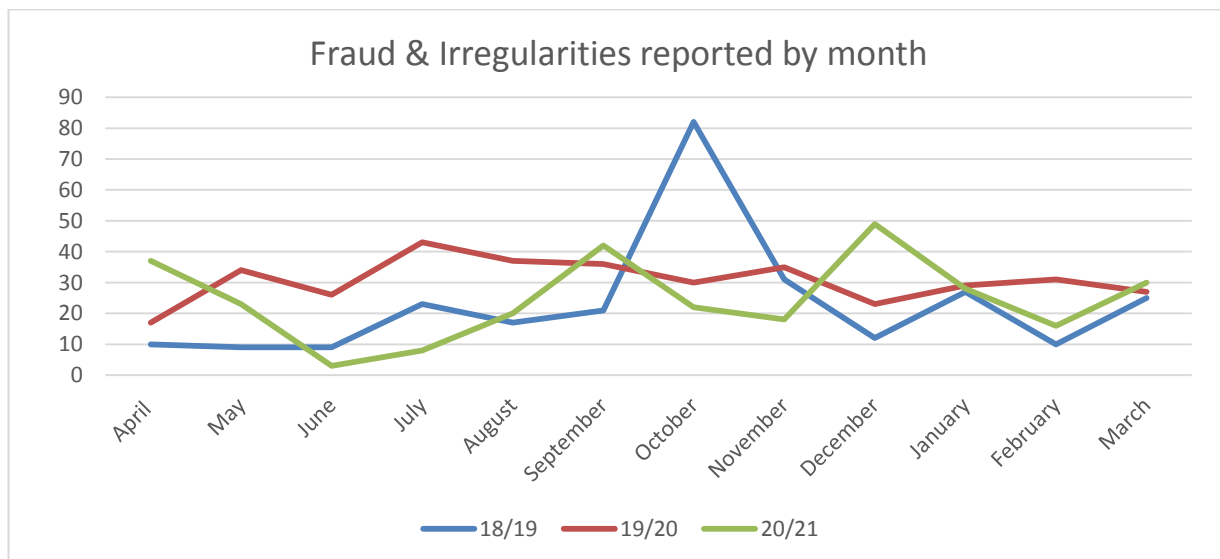
### **Fraud and Irregularity Trends**

1.13 The Tables below show trends in reported fraud and irregularities:

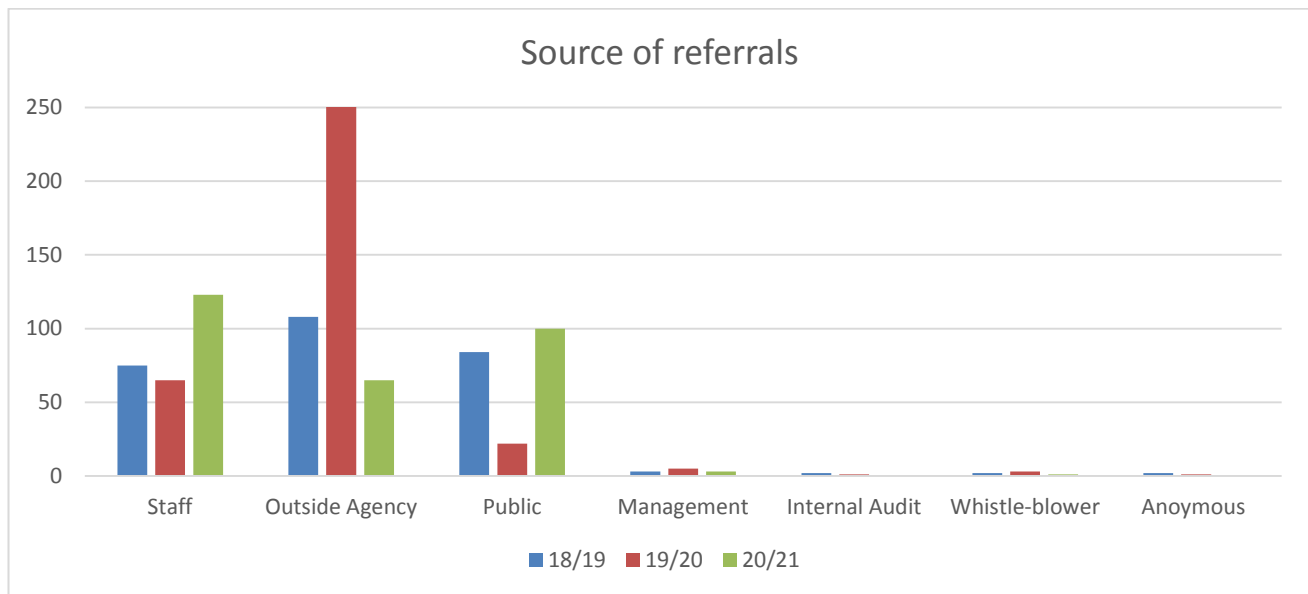
**Table CF1 - Top Seven areas of reported fraud and irregularities over the past 3 years**



**Table CF2 – Number of Irregularities Reported by Month**



**Table CF3 – Referrals by Source**



### Kent Intelligence Network (KIN)

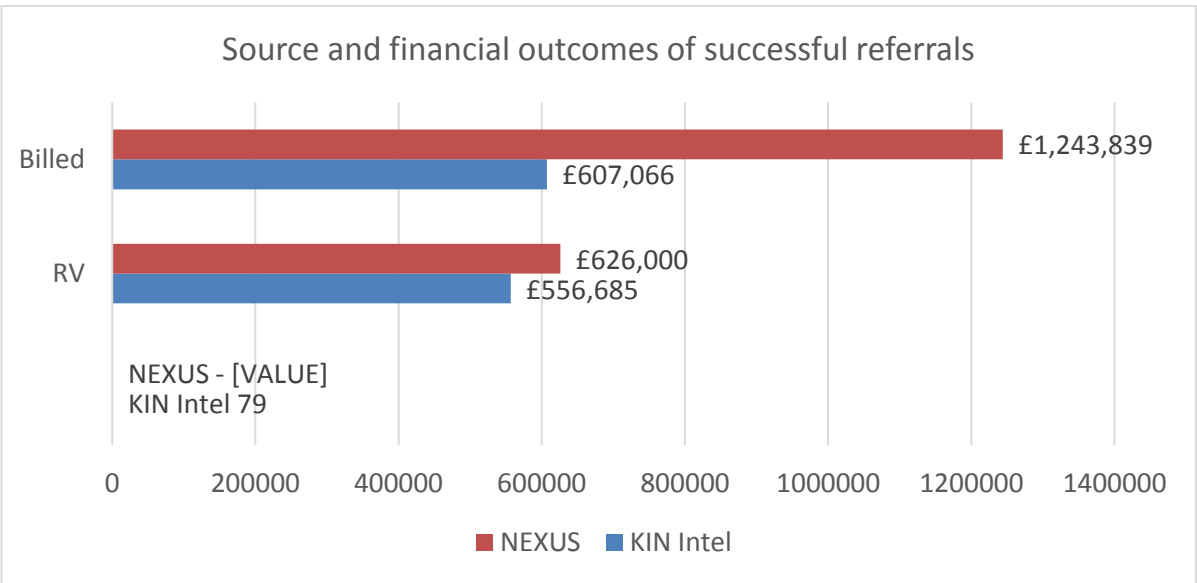
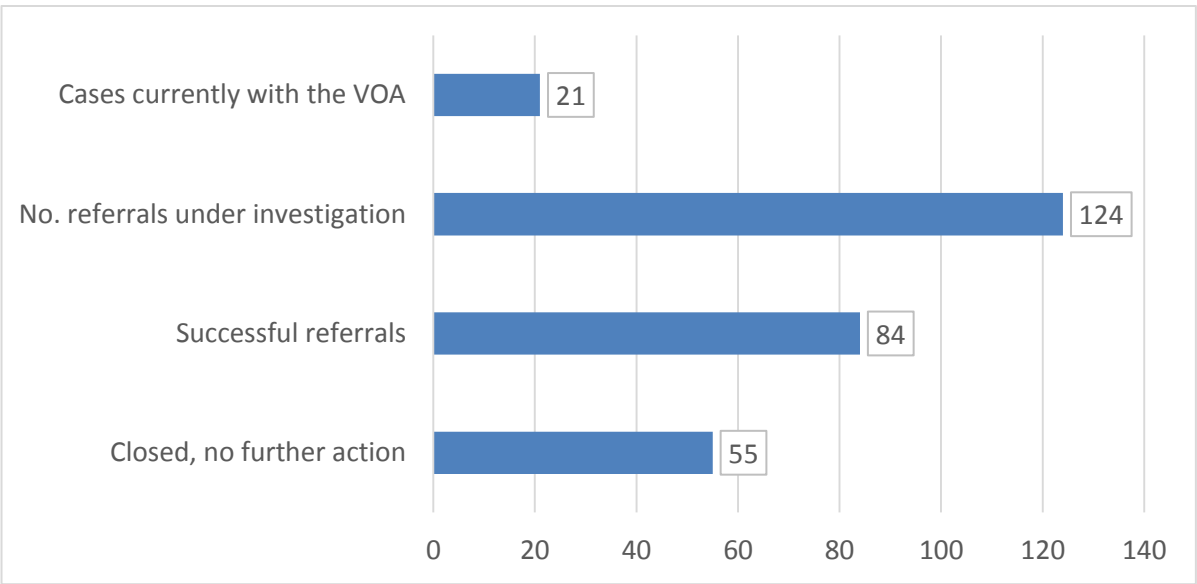
- 1.14 The Kent Intelligence Network was set up to support a co-ordinated approach to the activity by billing authorities (District and Borough Councils) in increasing the Council Tax and Business Rates tax base.
- 1.15 Having gone through unprecedented challenges over the past 12 months, the final Infographic for 2020/21 below shows that the KIN has still delivered some impressive results and financial returns.



- 1.16 Acknowledging the challenges, it is quite remarkable what has been achieved. The financial returns continue to demonstrate the value of the KIN, however, this has only been possible because of the shared commitment to work together and the motivation to drive the project forward.
- 1.17 In addition, the results set out in this report have only been achieved because of all those involved in the project, in particular our counter-fraud professionals who manage and investigate the KIN's referrals and who remain dedicated to combatting fraud and abuse.

**Business Rates**

- 1.18 The additional business rates revenue generated from the 84 new business premises that have been identified is £3,643,365, of which £1,850,905 is the total billed for current/previous years and £1,792,460 being in respect of the 3-year 'future loss prevention' provision.
- 1.19 The tables below summarise the outcomes of the 284 referrals issued and the source of the successes to date.

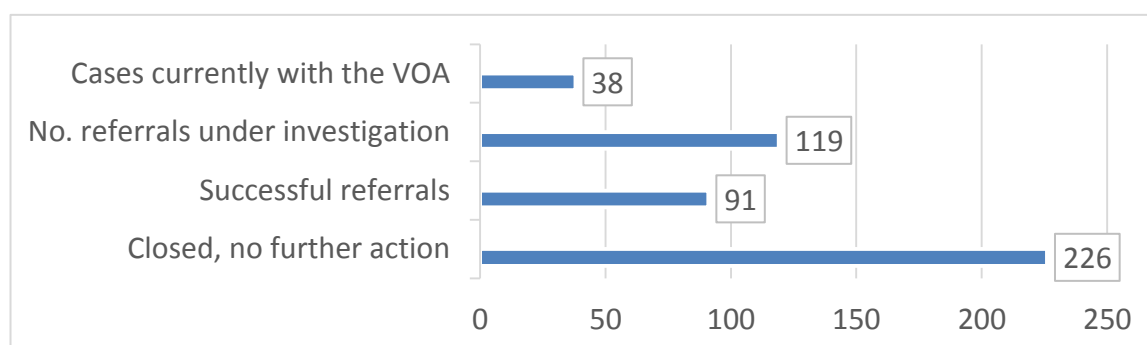


- 1.20 It is pertinent to highlight that 50% of the referrals are either still under investigation or with the Valuation Office Agency awaiting review and assessment, a position that should help to deliver

further positive outcomes in 2021/22.

### **Council Tax**

- 1.21 The project to identify dwellings missing from the valuation list this year has also been very successful, with an additional 91 dwellings previously missing from the list having been added as a result of the work undertaken by the KIN.
- 1.22 The council tax revenue generated from the addition of these dwellings to the valuation list is £504,713, of which £126,875 is the total billed for current/previous years and £377,838 being in respect of the 3-year 'future loss prevention' provision.
- 1.23 The tables below summarise the outcomes of referrals issued, properties added to the valuation list by Band and the source of the successes to date.



Source	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
KIN Intel	67	11	6	2	0	0	0	0	86
NEXUS	0	0	0	2	1	0	1	1	5

- 1.24 The addition of these dwellings to the list has also helped to generate additional New Homes Bonus of £509,600, of which 80% goes to districts (£407,680) and 20% to KCC (£101,920).
- 1.25 It is pertinent to highlight that 33% of the referrals are still under investigation or with the VOA awaiting review and assessment.

### **Awards Summary**

- 1.26 Since winning the Alarm Risk Award in 2019, the KIN has gained further recognition for its work having had further successes in 2020/21 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

1.27 The Counter Fraud Pro-Active Work delivered for 2020/21 as shown in **Appendix A** included some early pro-active work as we entered lockdown during the end of quarter four in 2019/20:

- Supporting the Serious and Organised Crime Project Board;
- Reacting to the COVID-19 lockdown when contacted by services, by conducting fraud risk assessments as new process and ways of working are adopted;
- Providing guidance and support to Kent schools following an increase in spear phishing and sextortion emails;
- Fraud awareness delivered to:
  - The Education People's Schools Financial Services Team;
  - 200+ attendees at the Schools' Finance Information Group;
  - 30+ commissioners across KCC; and
  - Cross directorate resilience forum on fraud risks in emergency planning.
- Reviewing and updating the Financial Abuse Toolkit to support safeguarding vulnerable adults from financial abuse;
- Fraud risk assessments at divisional levels;
- Supporting the review of the Financial Regulations;
- Engaging with local teams within CYPE to discuss fraud risks in relation to No Recourse to Public Funds;
- Engaging with the Parking Managers Forum to support blue badge enforcement activity and to report back the success of prosecutions.

## Counter Fraud Resources

1.28 Resources within the team is based on a structure of Counter Fraud Manager, 2.6 FTE Counter Fraud Specialists and a Counter Fraud Technician. There is currently a recruitment process in place to recruit a Counter Fraud Apprentice into the team. This provides a total allocated resource of 744 days to deliver the Counter Fraud action plan for KCC 2021-22.

1.29 The Counter Fraud Team also provide chargeable services to a number of other organisations (in line with the way Internal Audit operates).

1.30 The Counter Fraud Specialists were successful in being grandfathered into the Government Counter Fraud Profession (backed by the Cabinet Office). The criteria set for entry is for each Counter Fraud Specialist to meet 53 competencies through a self-assessment and management sign off process.

1.31 Following this, a peer review has been conducted by Medway Councils Internal Audit and Counter Fraud Team. The review assessed the learning and development arrangements within the organisation and within the team to ensure continuous professional development is in place. The assurance provided to the Head of Internal Audit on the Counter Fraud function is that staff learning and development is at the forefront of the counter fraud function within Kent County Council.

## Counter Fraud Action Plan – 2021/22

1.32 The Counter Fraud Action Plan can be found at **Appendix B**. The plan is based on risk areas of fraud and error identified within the Council from referrals, audits and from wider sources of risks across other public and private sector organisations obtained via formal and informal networks.

1.33 The plan is an ambitious one with activity already commencing, in particular the National Fraud Initiative, tax strategy and the planning of blue badge enforcement days. Fraud risk assessment

have been completed on new initiatives, in particular the reconnect grant programme aimed at funding organisations in reconnecting children to activities post lockdown.

## Policy Review

- 1.34 The Anti-Fraud and Corruption Strategy received a significant review in 2020, following the release of Fighting Fraud and Corruption Locally – A strategy for the 2020s. Members may find it beneficial to review this strategy - <https://www.cifas.org.uk/insight/public-affairs-policy/fighting-fraud-corruption-local-authorities/FFCL-Strategy-2020> as an insight into the way the strategy was developed by local authorities for local authorities.
- 1.35 Due to this review, no additional amendments are being recommended to the KCC Anti-Fraud and Corruption Strategy, which is available at **Appendix C**.
- 1.36 Similarly, the Anti-Bribery Policy (**Appendix D**) and the Anti-Money Laundering Policy (**Appendix E**) was reviewed in 2020. The Anti Money Laundering Policy was updated to align with the new regulations that were introduced in January 2020. Therefore, no recommended additions or amendments are being made for this policy review.
- 1.37 The Whistleblowing policy and procedures are due for a review and the Counter Fraud Team will be working with HR colleagues in progressing this and will report back to the Committee on the policy at the next committee meeting.

## Conclusions

- 1.38 Referrals are still increasing overall which is a good indication of awareness levels and further work is required in key risk areas with a 25% increase compared to the same period in 2018/19. Currently, some of the lower-level cases are not being progressed due to insufficient resources. Fraud Awareness is receiving positive feedback and the culture work is support services in understanding what training is needed to improve their counter fraud culture.

## Recommendations

- 1.39 To note and comment on the outturn of the Counter Fraud Activity for 2020/21.
- 1.40 To review and agree the Counter Fraud Plan for 2021/22.
- 1.41 To review and agree the Anti-Fraud and Corruption Strategy, Anti-Bribery and Anti-Money Laundering Policies.

## Supporting Documents

Appendix A – Counter Fraud Action Plan output for 2020/21  
Appendix B – Counter Fraud Action Plan for 2021/22  
Appendix C – Anti-Fraud and Corruption Strategy  
Appendix D – Anti-Bribery Policy  
Appendix E – Anti-Money Laundering Policy

**James Flannery, Counter Fraud Manager**  
July 2021



## Appendix A

### Progress against the Counter Fraud Action Plan 2020/21 - 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.	Strategic Commissioning Fraud Awareness.  KNet Fraud Awareness Week.  249 Fraud E-Learning Courses completed  Fraud Awareness to 250+ School Finance Officers  Fraud Awareness to Schools' Financial Services  Fraud Awareness to the Cross Directorate Resilience Forum  Fraud Awareness to Children Services Teams
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 being progressed
CF03 – 2021	Review Policies & Procedures • Anti-Fraud Strategy • Whistleblowing • Bribery • Code of Conduct	Review each policy annually ahead of the April G&A Committee and ensure that this is presented to CMT and once agreed to be communicated across KCC management via Kmail for managers.	Completed

CF04 – 2021	Kent Intelligence Network	Actively participate in the Kent Intelligence Network and develop data matching proposals to increase detection of fraud at KCC and across Kent authorities	Ongoing
CF05 – 2021	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments	To ensure that key Senior Stakeholders are kept up to date on the fraud risks and mitigation: <ul style="list-style-type: none"> <li>• Leader as Portfolio Holder</li> <li>• CMT (In particular, Head of Paid Service) S.151 and Monitoring Officer, Corporate Directors</li> <li>• Governance and Audit Committee</li> <li>• Directorate/ Divisional Directors</li> </ul>	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. HR&OD to be completed invited to Div MT meeting Strategic Commissioning to be arranged.
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 300 closed referrals and investigation in 2020/2021

CF11 – 2021	Data Analytics Development - Payments	To identify a way to use data analytics to help identify fraud and error within the payments systems.	Ongoing Results from NFI creditor data received, with over 18,000 matches. Majority will be known false positive, however use of multiple appearance reports will reduce false positive matches. Other data matching results either cleared or being progressed.
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.	Ongoing Training provided to Internal Audit on fraud risks and controls in Q3.  Review of relevant engagement plans and draft reports to support understanding of fraud risks.

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## Appendix B: Proposed Counter Fraud Plan 2021/22

Ref	Risk Area	Activity	Description
CF01-2022	Payroll Pension Blue Badge Concessionary fares Trade Creditors	Progression of NFI Data Matches	Coordinate the Council's and its LATCO's participation in the National Fraud Initiative.
CF02-2022	Corporate risk of Fraud	Policy and Strategy Review	Review each policy annually ahead of the July G&A Committee and ensure that this is presented to CMT and once agreed to be communicated across KCC management via Kmail for managers. Expected policies to be reviewed: Anti-Fraud and Corruption Strategy Anti Bribery Policy Anti Money Laundering Policy Financial Regulations To review key procedures that align with policies. To address any areas of development following the Counter Fraud Review against the FFCL Checklist.
CF03-2022	Corporate Fraud	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.
CF04-2022	All risk areas to support the prevention and detection of fraud and corruption	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments.	To ensure that key Senior Stakeholders are kept up to date on the fraud risks and mitigation: Leader as Portfolio Holder CMT (In particular, HoPS, Sect 151 and Monitoring Officer) Corporate Directors Governance and Audit Committee Directorate/ Divisional Directors to progress Fraud, Bribery and Corruption Risk Assessments  Counter Fraud Report to be provided to Leader, CMT prior to be issued to G&A  Counter Fraud Networking meetings within Kent and nationally.
CF05-2022	All fraud risk areas faced by schools to support the prevention and detection of fraud	Proactive Fraud Exercise - Schools	Provide Fraud awareness sessions to school finance staff, emerging leaders and governors. Including existing and emerging risks.
CF06-2022	Blue Badge fraud risk	Proactive Fraud Exercise - Blue Badges	Provide regular attendance at the parking managers meetings to inform them of latest guidance, what's working well what needs improving Provide enforcement awareness sessions to district CEOs. Conduct a Blue Badge amnesty with district Councils
CF07-2022	Social Care fraud risks	Proactive Fraud Exercise - Social Care	Maintain the Financial Abuse tool Kit to support Social Care in identifying and managing financial abuse.

CF08-2022	Procurement fraud risks	Proactive Fraud Exercise - Commissioning	Work with Commissioning in enhancing the commissioning standards to ensure fraud risks are identified and mitigated against.
CF09-2022	Payment/ procurement fraud risks	Data analytics development - payments	To identify a way to use data analytics to help identify fraud and error within the payments systems.
CF10-2022	Procurement fraud risks	Data analytics development - procurement card usage	To identify a way to use data analytics to help identify fraud and error within the procurement card system.
CF11-2022	Counter Fraud Profession	Professional standards	Engagement with the Cabinet Office on the Counter Fraud Profession.
CF12-2022	Tax evasion	Support the development and introduction of a tax evasion strategy and risk assessment	Working with the Chief Accountant and project lead to provide project support in the assessment of tax evasion risks and the mitigating controls and actions.
CF13-2022	Payment fraud risks	Supporting Audit on specific audits where there is a fraud risk	Provide advice and support on key fraud controls in specific audits, support in testing and reporting as required.
CF14-2022	All fraud risk areas	Reactive Investigations	To manage and complete referrals/ investigations.

# Anti-Fraud and Corruption Strategy

Document Owner	Jonathan Idle, Head of Internal Audit and Counter Fraud
Version	Version 7

## Document Review History

Version	Reviewed	Reviewer	Approver	Date approved
Original				
2	30 June 2013	Internal Audit	Governance & Audit Committee	24 July 2013
3	25 June 2014	Internal Audit	Governance & Audit Committee	24 July 2014
4	11 Sept 2015	Internal Audit	Governance & Audit Committee	2 Oct 2015
5	July 2016	Internal Audit	Governance & Audit Committee	6 Oct 2016
6	5 Sep 2018	Internal Audit	Governance & Audit Committee	24 October 2018
7	29 March 2019	Internal Audit	Governance & Audit Committee	24 April 2019
8	15 June 2020	Internal Audit	Governance & Audit Committee	21 July 2020
9	18 June 2021	Internal Audit	Governance & Audit Committee	

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## A. Policy Statement

1. Fraud against Local Government is estimated to cost £7.8<sup>1</sup> billion per year. The Government's Economic Crime Plan states the numbers of fraud offences rose by 12% during 2018 to 3.6m constituting a third of all crimes in UK. This is a significant loss and threat to the public purse. To reduce these losses Kent County Council is committed to:
  - The highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets.
  - The prevention of fraud and the promotion of an anti-fraud culture.
  - A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
  - The investigation of a risk-based response to all instances of actual, attempted or suspected fraud. The Council will seek to recover any losses and pursue appropriate sanctions against the perpetrators. This may include criminal prosecution, disciplinary action, legal proceedings and professional sanctions.
  - The Local Government Fraud Strategy: Fighting Fraud Locally which means the Council will:
    - **Govern** the anti-fraud, bribery and corruption measures to ensure they are robust and holistic;
    - **Acknowledge** the threat of fraud and the opportunities for savings that exist;
    - **Prevent** and detect all forms of fraud;
    - **Pursue** appropriate sanctions and recover any losses;
    - **Protect** itself and the community against serious and organised crime, protecting the organisation from becoming a victim of fraud.

### Definition of Fraud

2. The Council defines fraud as 'any activity where deception is used for personal gain or to cause loss to another.' Fraud can be committed in one of three ways:
  - **Fraud by false representation** – Examples include providing false information on a grant or Blue Badge application, staff claiming to be sick when they are in fact fit and well or submitting time sheets or expenses with exaggerated or entirely false hours and/or expenses.

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<sup>1</sup> CIPFA Fraud and Corruption Tracker Summary Report 2019

- **Fraud by failing to disclose information** – Examples include failing to disclose a financial interest in a company KCC is trading with or failing to disclose a personal relationship with someone who is applying for a job at the council.
  - **Fraud by abuse of position** – Examples include a carer who steals money from the person they are caring for, or staff who order goods and services through the Council's accounts for their own use.
3. While fraud is often seen as a complex financial crime, in its simplest form, fraud is lying. Some people will lie, or withhold information, or generally abuse their position to try to trick someone else into believing something that is not true.

### **Definition of Corruption**

4. The Council defines corruption as the abuse of entrusted power for private gain; involving the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.<sup>2</sup>

### **Current Threats and their Impact**

5. KCC faces a range of fraud and corruption threats and the impact can be significant causing financial loss, reputational damage and harm to service users and the residents of Kent. In the last 12 months the most frequent types of fraud and similar crimes that have impacted on KCC are as follows:
- **Blue Badge Fraud.** This type of fraud causes a financial loss to the wider Kent economy, undermines the public's confidence in the Blue Badge scheme and prevents genuine Blue Badge users from accessing safe, convenient parking. Using the National Fraud Authority's methodology for calculating losses we estimate the Kent economy could be losing as much as £1.3m per year.
  - **False Applications for Financial Support.** The applications are from parents falsely presenting to the Council as destitute and having no recourse to public funds. This type of fraud has been increasing in Kent. It has a direct financial impact on the council. Estimating the losses is difficult, but based on previous allegations we believe this type of fraud could result in losses of £250,000 per year.
  - **Misuse of Direct Payments.** This type of fraud causes financial loss to the Council and undermines the public's confidence in the services provided. The individual values vary significantly depending on need but we estimate misuse could result in losses of £100,000 per year.

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<sup>2</sup> HM Government (2014) UK anti-corruption plan

- **Cyber Crime.** This type of offence can manifest in a number of forms, through ransomware and denial of service attacks, change of bank details on mandates, payroll and requests for urgent payments. We estimate the potential losses could result into £100,000s per year.
- **Procurement Fraud.** This type of fraud occurs throughout a procurement process, from bribery & cartel risks at tendering stage, through to duplicate/ false invoicing, defective/ non-existent goods and false performance reporting.

## Setting the Culture

### B. Standards

6. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption based on the seven principles of public life. The Council will ensure probity in local administration and governance and expects the following from all employees, agency workers, volunteers, suppliers and those providing services under a contract with KCC.
  - **Selflessness** - Act solely in terms of the public interest.
  - **Integrity** - Avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
  - **Objectivity** - Act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
  - **Accountability** - Be accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
  - **Openness** - Act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
  - **Honesty** - Be truthful.
  - **Leadership** - Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

## **Further reading**

7. In addition to this strategy, there are a range of policies and procedures that help reduce the Council's fraud risks. These include:
  - Anti-Bribery Policy;
  - Anti-Money Laundering Policy;
  - Whistleblowing Policy and Procedure;
  - The Kent Code;
  - Disciplinary Policy;
  - Financial Regulations;
  - Code of Member Conduct;
  - Financial Regulations;
  - Data Protection Policy.

## **C. Roles and Responsibilities**

### **The Role of Elected Members**

8. As elected representatives, all Members of Kent County Council have a duty to act in the public interest and to do whatever they can to ensure that the Council uses its resources in accordance with statute.
9. This is achieved through Members operating within the Constitution which includes the Code of Member Conduct, Financial Regulations and Spending the Council's Money.

### **The Role of Employees**

10. Kent County Council expects its employees to be alert to the possibility of fraud and corruption and to report any suspected fraud or other irregularities to the Head of Internal Audit.
11. Employees are expected to comply with the appropriate Code of Conduct and the Council's policies and procedures.
12. Employees are responsible for complying with Kent County Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.
13. Employees are under a duty to properly account for and safeguard the money and assets under their control/charge.

14. Employees are required to provide a written declaration of any financial and nonfinancial interests or commitments, which may conflict with KCC's interests. KCC Financial Regulations specify that employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.
15. Failure to disclose an interest or the acceptance, or offering of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosures of gifts and hospitality – both offered and accepted.
16. Managers at all levels are responsible for familiarising themselves with the types of fraud that might occur within their directorates and the communication and implementation of this strategy.
17. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

#### **The role of the Head of Paid Services**

18. Ensuring that the authority is measuring itself against the checklist for Fighting Fraud and Corruption Locally and there are sufficient resources to manage the risk of fraud.
19. Ensure the Governance & Audit Committee receives regular reports on the work of those leading on fraud and the external auditor is aware of the reporting.

#### **The role of the Corporate Director of Finance**

20. The Corporate Director of Finance is responsible for developing, reviewing and maintaining an Anti-Fraud and Corruption Strategy and for advising on effective systems of internal control to prevent, detect and pursue fraud and corruption; advising on anti-fraud and anti-corruption strategies and measures; and, ensuring that effective procedures are in place to investigate promptly any fraud or irregularity.
21. Ensuring the Head of Internal Audit is assessing its resources and capability at least annually against the current fraud risks and Counter Fraud staff have unfettered access to people and records to prevent and detect fraud.

### **The Monitoring Officer**

22. Ensuring that Members, Governance & Audit Committee and Portfolio leads are aware of Counter Fraud Activity and provide training on Counter Fraud risks and approaches.
23. The Counter Fraud Team are independent of processes and reports to Governance & Audit Committee to ensure there is Member scrutiny.

### **The role of the Governance and Audit Committee**

24. The Governance and Audit Committee is responsible for ensuring that 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, that the Council monitors the implementation of the Bribery Act policy to ensure that it is followed at all times.
25. Ensuring that the Portfolio lead is up to date and understands the activity being undertaking to Counter Fraud.
26. Provide support and challenge to the Counter Fraud Activity being undertaken across the Council.

### **Kent County Council's Commitment**

27. Fraud and corruption are serious offences and employees and Members may face disciplinary action if there is evidence that they have been involved in these activities. Where criminal offences are suspected consideration will be given to pursuing criminal sanctions, which may involve referring the matter to the police.
28. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss including the costs of the investigation whenever appropriate.
29. In order to make employees, Members, the public and other organisations aware of the Council's continued commitment for taking action on fraud and corruption, details of completed investigations, including sanctions applied, will be publicised where it is deemed appropriate. This will include use of the Council's Intranet and releasing press statements immediately after criminal convictions are secured. In addition, the council will promote an anti-fraud culture through fraud awareness campaigns, presentations, training and e-learning.

## **D. Prevention – Capability, Competence & Capacity**

### **Responsibilities of management**

30. The primary responsibility for the prevention and detection of fraud is with management. Management must ensure that they promote an anti-fraud culture and assess the risk of fraud, bribery and corruption. They must ensure appropriate controls are in place to minimise the risk of fraud, for example, this could include establishing procedures, authorisation limits and segregating duties. Management must ensure the controls are operating as expected and are being complied with. They must ensure that adequate levels of checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.
31. Management must also ensure that the development of new policies, strategies and initiatives are fraud-proofed by engaging with Counter Fraud Specialists to support the assessment of the fraud risks.

### **Internal Audit and Counter Fraud**

32. The Head of Internal Audit and Counter Fraud is responsible for the independent appraisal of controls and for assisting managers in the investigations of fraud and corruption.
33. Internal Audit includes proactive fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.
34. The Head of Internal Audit will establish performance measurements for counter fraud activity and will report progress against the performance measurements proactive counter fraud activity and on a quarterly basis to the Governance and Audit Committee.
35. The Counter Fraud Team will provide management with specialist support to assess the risk of fraud, bribery and corruption that it faces through the completion of risk assessments. In particular to the introduction of new policies, strategies and initiatives.
36. Through the completion of proactive and reactive work make recommendations to management on how to strengthen the counter fraud culture and control framework to help prevent and detect fraud.

## **Working with others and sharing information - Collaboration**

37. The Council is committed to working and co-operating with other organisations to prevent fraud and corruption and protect public funds. This will include:

- Coordinating our activity with the other enforcement teams across the Council, such as Waste and Trading Standards, to maximise our impact.
- Working in partnership with district, borough and city councils to share intelligence and target our collective resources at the areas at most susceptible to fraud.
- Working with and supporting the Police and other enforcement agencies.
- Working with the Cabinet Office in the development and introduction of the Government Counter Fraud Profession.

38. The Council may use personal information and data-matching techniques to detect and prevent fraud, and ensure public money is targeted and spent in the most appropriate and cost-effective way. In order to achieve this, information may be shared with other bodies responsible for auditing or administering public funds including, but not limited to, the Cabinet Office National Fraud Initiative, the Department for Work and Pensions, other local authorities, HM Revenue and Customs, and the Police.

## **National Fraud Initiative**

39. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (to the Cabinet Office) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by public and private sector bodies. Enquires are made into any positive matches (e.g. an employee on the payroll in receipt of housing benefit).

## **Training and awareness – Communication**

40. The successful prevention of fraud is dependent on risk awareness, the effectiveness of training (including induction) and the responsiveness of staff throughout the Council.

41. Management will provide induction and ongoing training to staff, particularly those involved in financial processes and systems to ensure that their duties and responsibilities are regularly highlighted and reinforced.

42. Internal Audit will provide fraud awareness training to risk areas and on request and will publish its successes to raise awareness.



## **E. Detection and Investigation – Capability, Competence & Capacity**

43. The Council is committed to the risk-based investigation of all instances of actual, attempted and suspected fraud committed against the Council and the recovery of funds and assets lost through fraud.

44. Any suspected fraud, corruption or other irregularity must be reported to the Head of Internal Audit. The Head of Internal Audit will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with Council policy and procedures, key investigation legislation and best practice. This will ensure that investigations do not jeopardise any potential disciplinary action or criminal sanctions.

45. Action could include:

- Investigation carried out by Internal Audit staff;
- Joint investigation with Internal Audit and relevant directorate management;
- Directorate staff carry out investigation and Internal Audit provide advice and guidance;
- Referral to the Police.

46. The responsibility for investigating potential fraud, corruption and other financial irregularities within KCC lies mainly (although not exclusively) with Internal Audit. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

## **F. Raising Concerns and the Whistleblowing Policy**

### **Suspensions of fraud or financial irregularity**

47. All suspected or apparent fraud or financial irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.

48. If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also contact the Council's External Auditor, all of whom may be contacted in confidence.

49. The Council's Internal Audit Section can be contacted by telephone on 03000 414500 or by mail to [internal.audit@kent.gov.uk](mailto:internal.audit@kent.gov.uk).

## **Whistleblowing Policy**

- 50. Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing Policy and associated procedures.
- 51. The Council's Whistleblowing Policy encourages individuals to raise serious concerns internally within KCC, without fear of reprisal or victimisation, rather than over-looking a problem or raising the matter outside. All concerns raised will be treated in confidence and every effort will be made not to reveal the individual's identity if this is their wish. However, in certain cases, it may not be possible to maintain confidentiality if the individual is required to come forward as a witness.
- 52. Employees wishing to raise concerns can obtain a copy of the Whistleblowing policy and procedure on KNet.

## **G. Conclusion**

- 53. Kent County Council will maintain systems and procedures to assist in the prevention, detection and investigation of fraud. This strategy will be reviewed annually and is available on the Council's Intranet (KNet).

# KENT COUNTY COUNCIL

## ANTI-BRIBERY POLICY

Document Owner	Benjamin Watts General Counsel
Version	Version 5

Version	Reviewed	Reviewer	Approver	Date approved
Original				
4	1 May 2017	Internal Audit	Governance and Audit Committee	01 Nov 2017
5	2 March 2020	Internal Audit	Governance and Audit Committee	21 Jul 2020
6	18 June 2021	Internal Audit	Governance and Audit Committee	

## **1. Introduction**

- 1.1. This policy is introduced to ensure compliance with the Bribery Act 2010. It explains the process through which the Council intends to maintain high standards and to protect the organisation, employees, Members and business partners against allegations of bribery and corruption.
- 1.2. It is the Council's policy to conduct business in an honest and open way, and without the use of corrupt practices or acts of bribery to obtain an unfair advantage. The Council attaches the utmost importance to this policy and will apply a "zero tolerance" approach to acts of bribery and corruption by any of its Members, employees, or persons and partners acting on our behalf. Any breach of this policy will be regarded as a serious matter and is likely to result in disciplinary action and possibly criminal prosecution.

## **2. Policy Statement**

- 2.1. Bribery is a criminal offence. The Council will not pay bribes, or offer improper inducements to anyone for any purpose, nor will the Council accept bribes or improper inducements. The use of a third party to channel bribes is also a criminal offence. The Council will not engage indirectly in or otherwise encourage bribery.
- 2.2. The Council is committed to ensuring compliance with the highest legal and ethical standards. The Council will commit to policies and procedures to prevent, deter, and detect acts of bribery. The Council will ensure that anti-bribery compliance is an essential aspect of its governance process and at the core of its business principles. It is an ongoing process and not a one-off exercise.

## **3. Objective**

- 3.1. This policy presents a clear and precise framework to understand and implement the arrangements required to comply with the Bribery Act 2010. It provides the context for the detailed rules, procedures and controls in place. It should provide no room for misinterpretation and will ensure that Members, employees, volunteers and business partners know what is expected of them in preventing bribery.
- 3.2. This policy should be read in conjunction with, and reinforce, other related policies and documents (see Section 7 of the Bribery Act Procedures). The provisions in these policies and documents should be reflected in every aspect of the way the Council operates. The requirement to act honestly and with integrity at all times is made clear and is fundamental and non-negotiable.
- 3.3. This policy explains the procedures established to prevent acts of bribery and allow any breach to be identified and reported.

## **4. Scope**

- 4.1. This policy applies to all of the Council's activities. The Council requires that all Members (including independent and co-opted Members), employees at all levels and grades, temporary and agency staff, volunteers, contractors, agents, consultants and partners acting on the Council's behalf, comply with the provisions of this policy. The Council will also seek to promote the adoption of reciprocal anti-bribery and corruption measures that are consistent with the Council's policy by joint venture partners and major suppliers.
- 4.2. The responsibility to mitigate the risk of bribery resides at all levels of the Council and includes all directorates. It does not rely solely on the Council's assurance functions.

## **5. Policy Commitment**

- 5.1. The Council commits to:
  - setting out a clear anti-bribery policy and keeping this up-to-date with regular reviews;
  - making all Members, employees and partners aware of their responsibilities to adhere to this policy at all times;
  - providing training, where appropriate, to allow Members, employees and partners to recognise and avoid the use of bribery by themselves or others;
  - encouraging Members, employees and partners to be vigilant and to report any suspicions of bribery;
  - providing suitable channels of communication (e.g. Whistleblowing Procedure) to ensure that sensitive information is handled appropriately;
  - investigating instances of alleged bribery and assisting the police and other authorities in any prosecution;
  - taking action against anybody acting for or on behalf of the Council who is involved in bribery;
  - reporting breaches and suspected breaches of this policy to Members, employees and partners in an open and transparent way; and
  - including appropriate clauses in contracts with suppliers to advise on the Council's approach to the provisions of the Bribery Act 2010.

## **6. The Bribery Act 2010**

- 6.1. The Bribery Act 2010 was introduced to update and enhance English law on bribery. It creates a strict liability corporate criminal offence of failing to prevent bribery. The only defence against this corporate offence is for organisations to have adequate procedures in place to prevent bribery.

6.2 The Act includes four offences:

- Bribing a person to induce or reward them to perform a relevant function improperly;
- Requesting, accepting or receiving a bribe as a reward for performing a relevant function improperly;
- Using a bribe to influence a foreign official to gain a business advantage;
- In relation to a commercial organisation, committing bribery to gain or retain a business advantage, there being no adequate procedures in place to prevent such actions.

6.3 Acts of bribery are intended to influence an individual or organisation in the performance of their duty and for them to act illegally.

6.4 The penalties under the Bribery Act have been raised significantly and are severe. The new corporate offence is punishable with an unlimited fine. An individual guilty of an offence may be liable to imprisonment for up to 10 years or to a fine, or to both.

6.5 The Council accepts that public bodies may be classed as a “commercial organisation” in relation to the corporate offence of failing to prevent bribery. In any event, it represents good governance and practice to have adequate procedures in place to protect the Council, Members, employees and partners from reputational and legal damage. It is in the interests of everybody connected to the Council to act with propriety at all times.

**KENT COUNTY COUNCIL**  
**BRIBERY ACT PROCEDURE**

## 1. Council Procedures on the Bribery Act

- 1.1. The Council will follow the guidance issued by the Ministry of Justice. The actions are intended to be proportionate to the risks faced by the Council and to the nature, scale and complexity of the Council's activities. The actions are expected to provide a defence of "adequate procedures" against any corporate offence. The following steps will be taken:
- 1.2. **Top Level Commitment** – The Corporate Management Team is committed to preventing bribery by persons associated with the Council. A report on the Bribery Act 2010 and the introduction of this policy has been approved by the Corporate Management Team (on 23 August 2011) and the Governance and Audit Committee (on 14 September 2011).
- 1.3. **Risk Assessment** – The nature and extent of the Council's exposure to external and internal risks of bribery will be assessed as part of the Council's risk management process. Any risk assessment is intended to be an on-going process based on regular communication and review.
- 1.4. **Due Diligence** – A proportionate and risk-based approach will be taken in respect of persons and other organisations that perform services for or on behalf of the Council. Due diligence will include an evaluation of the background, experience and reputation of business partners. The transactions will be properly monitored and written agreements and contracts will provide references to the Bribery Act 2010 and this policy. Reciprocal arrangements may be required for business partners to have their own policies in place. They will be advised of the Council's policy and be expected to operate at all times in accordance with such policy.
- 1.5. **Communication** – The Council will ensure that this policy and other related policies and procedures are embedded in the Council's working arrangements through appropriate communication, including training, which is proportionate to the risks the Council faces. The Council's induction programme will include reference to the Bribery Act 2010 and this policy.
- 1.6. **Monitoring and Review** – This policy, control arrangements, risk management processes and other related policies and procedures designed to prevent bribery and corruption will be monitored, reviewed and improved where necessary on a regular basis. All incidents of bribery or suspected bribery will be reported to the Governance and Audit Committee. An assurance of compliance will be included in the Annual Governance Statement.
- 1.7. In the context of this policy, it is unacceptable for persons acting for or on behalf of the Council to:
  - Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given.
  - give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to facilitate or expedite a routine procedure.



- accept payment from a third party that is known to be, or suspected to have been, offered with the expectation that it will obtain a business advantage for them.
- accept a gift or hospitality from a third party if it is known to be, or suspected to have been, offered with an expectation that a business advantage will be provided by the Council in return.
- retaliate against or threaten a person who has refused to commit an act of bribery or who has raised concerns under this policy.
- engage in any activity in breach of this policy.

## **2. Gifts and Hospitality**

- 2.1. This policy is not intended to change the requirements of the Council's Gifts and Hospitality policies and procedures. This is contained in the Kent Code and in the Members Code of Conduct in the Council's Constitution. The guidelines clearly set out the restrictions on accepting gifts and hospitality, the need to inform the manager and the need to register any approved gifts that are retained.
- 2.2. If there is any doubt about whether an invitation or gift should be accepted, then the offer should be refused. Each Corporate Director is required to review their respective Gifts and Hospitality registers at least annually. The Corporate Director of Finance and Procurement will ensure that reminders on this subject and the need for officers to complete a Register of Interests form are sent out every year.
- 2.3. The procedures for Members' registers of interest are set out in the Members' Code of Conduct.

## **3. Public Contracts**

- 3.1. Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK) a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. It is understood that there are no plans to amend the 2006 regulations for these to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The Council will use its discretion as to whether to exclude organisations convicted of this offence and any instances where this is the case will be reported to the Corporate Management Team for a decision.

## **4. Member, Staff and Partner Responsibilities**

- 4.1. The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or acting for or on its behalf. All Members, staff, volunteers and partners are required to avoid activity that breaches this policy. Adherence to the policy is mandatory.

4.2. Members, staff, volunteers and partners must:

- Ensure that they have read, understood and comply with the Bribery Act Policy.
- Raise concerns as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future.

4.3. In addition to the possibility of criminal prosecution, members of staff who breach the policy will face disciplinary action, which could result in dismissal for gross misconduct.

## **5. Raising a concern**

5.1. Staff are encouraged to raise any concerns with their manager. In addition, the Council has published a Whistleblowing Procedure. This provides information on the courses of action available to report serious concerns (including bribery) in confidence. Members, staff or partners who refuse to accept the offer of a bribe may worry about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

5.2. The Council is committed to ensuring that nobody suffers detrimental treatment through refusing to take part in bribery.

## **6. Review of the Bribery Act Policy**

6.1. It is the responsibility of the Corporate Director of Finance and Procurement to routinely refresh, review and reinforce this policy and its underlying principles and guidelines. All members of staff are responsible for reading and understanding this policy which will also form part of the induction programme.

## **7. Other relevant policies**

7.1. The following policies, procedure documents and codes of conduct should be read in conjunction with the Bribery Act Policy:

- Constitution
- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Procedure
- Kent Code
- Disciplinary Procedure
- Members Code of Conduct
- Spending the Council's Money

# Anti-Money Laundering Policy

Document Owner	Zena Cooke Corporate Director Finance
Version	Version 6

Version	Reviewed	Reviewer	Approver	Date approved
Original				
2	29 Sept 2014	Internal Audit	Governance & Audit Committee	29 Jan 2015
3	16 Oct. 2017	Internal Audit	Governance & Audit Committee	1 Nov 2017
4	05 Sept 2018	Internal Audit	Governance & Audit Committee	24 Oct 2018
5	06 Sept 2019	Internal Audit	Governance & Audit Committee	21 Jul 2020
6	18 Jul 2021	Internal Audit	Governance & Audit Committee	

## **1. Introduction**

- 1.1. Kent County Council has a zero tolerance policy concerning money laundering and is committed to the highest standards of conduct.
- 1.2. The Proceeds of Crime Act (POCA) 2003, the Terrorism Act 2000 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on Kent County Council and its employees to ensure that procedures are in place to prevent the Council's services being used for money laundering.
- 1.3. This policy sets out the process to minimise the risk, as well as provide guidance on the Council's money laundering procedures. Adhering to this policy and guidance will protect employees from the risk of prosecution if an employee becomes aware of money laundering activity while employed by the Council.
- 1.4. The policy is not intended to prevent customers and service providers from making payments for Council services, but to minimise the risk of money laundering in high value cash transactions.

## **2. Policy Statement**

- 2.1. Kent County Council is committed to:
  - Preventing the Council's services and employees from becoming a victim of, or unintentional accomplice to, money laundering activities.
  - Identifying the potential areas where money laundering may occur and strengthening procedures to minimise the risks.
  - Complying with all legal and regulatory requirements, with particular regard to the reporting of actual or suspected cases of money laundering.
- 2.2. It is important that every member of staff is aware of their responsibilities and remains vigilant.

## **3. Scope of Policy**

- 3.1. This policy applies to **all** employees and Members of the Council, whether permanent or temporary.
- 3.2. The aim of this policy is to support employees and Members in responding to concerns that have been highlighted in the course of their work for the council. If staff or Members are concerned about a matter unrelated to work, the Police should be contacted.

#### **4. Definition of Money Laundering**

- 4.1. The term 'Money Laundering' can be used to describe a number of offences involving the proceeds of crime or terrorist financing. In simple terms, money laundering is a process used by criminals to make the proceeds of their crimes appear as though they originated from a legitimate source. Money launderers aim to disguise the identity of the criminal and/or conceal their connection to the proceeds of the crimes.
- 4.2. The following constitute money laundering offences:
- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002).
  - Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328).
  - Acquiring, using or possessing criminal property (section 329).
  - Doing something that might prejudice an investigation e.g. falsifying a document.
  - Failure to disclose one of the offences listed above, where there are reasonable grounds for knowledge or suspicion.
  - Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation.
- 4.3. There is a possibility that any member of staff could be prosecuted for money laundering offences if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This policy sets out the appropriate practice and how any concerns should be raised.
- 4.4. Although the risk to the Council of contravening the legislation is low, it is important that all employees are aware of their responsibilities as serious criminal sanctions may be applied to those who breach the legislation.
- 4.5. **The significant requirement for employees is to immediately report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO; see section 7.1). Failure to do so could lead to prosecution.**

## **5. Identifying Money Laundering**

- 5.1. There is no clear definition of what constitutes a suspicion of money laundering – common sense will be needed, see Annex 1 for a list of areas that may be affected. Although you do not need to have actual evidence that money laundering is taking place, mere speculation is unlikely to be sufficient to give rise to knowledge or suspicion. However, if you deliberately shut your mind to the obvious, this will not absolve you of your responsibilities under the legislation.
- 5.2. Examples of money laundering activity include:
  - Large cash payments;
  - Asking for cash refunds on credit card payments; or
  - Overpaying bills and invoices and then asking for cash refunds.
- 5.3. Any transaction involving an unusually large amount of cash should cause concern and prompt questions to be asked about the source. This will particularly be the case where the value of cash paid exceeds the amount due to settle the transaction and the person(s) concerned ask for a non-cash refund of the excess.
- 5.4. If the person(s) concerned use trusts or offshore funds for handling the proceeds or settlement of a transaction, then the reasons for this should be questioned.
- 5.5. Care should be exercised and questions asked where:
  - A third party intermediary becomes involved in a transaction;
  - The identity of a party is difficult to establish, or is undisclosed;
  - A company is used where the ultimate ownership of the company is concealed or difficult to verify; and/or
  - A party is evasive about the source or destiny of funds.

## **6. The Council's Obligations**

- 6.1. The Council is obligated to:
  - Appoint a money laundering reporting officer;
  - Maintain client identification procedures in certain circumstances;
  - Implement a procedure to enable the reporting of suspicions of money laundering;
  - Report any cash transactions over €10,000 (or the Sterling equivalent);

- Provide training to officers at risk of being exposed to money laundering;
- Maintain sufficient records.

## **7. The Money Laundering Reporting Officer (MLRO)**

- 7.1. The Council has nominated the following officers to be responsible for anti-money laundering measures within the Council:

MLRO: **Zena Cooke**, Corporate Director of Finance  
Email: [zena.cooke@kent.gov.uk](mailto:zena.cooke@kent.gov.uk) Tel: 03000 419205

Deputy MLRO: **Jonathan Idle**, Head of Internal Audit & Counter Fraud  
Email: [Jonathan.idle@kent.gov.uk](mailto:Jonathan.idle@kent.gov.uk) Tel: 03000 417840

- 7.2. In the absence of the MLRO or in instances where it is suspected that the MLRO themselves are involved in suspicious transactions, concerns should be raised with David Cockburn, the Head of Paid Service.

## **8. Further information**

- 8.1. Further information can be obtained from the MLRO and the following websites:

- [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk)
- Proceeds of Crime (Anti- Money Laundering) - Practical Guidance for Public Service Organisations'- CIPFA
- Money Laundering Guidance at [www.lawsociety.org.uk](http://www.lawsociety.org.uk)
- HM Revenue & Customs <http://www.hmrc.gov.uk/mlr/>

## **9. Conclusion and Risk Assessment**

- 9.1. The risk of Kent County Council service being exposed to money laundering is extremely low. This is assessed due to the low amount of cash Kent County Council receives that are from known cash income sources and low volumes and low amounts of refunds being made. However, the legislation and requirements that have been implemented must be followed. Failure to comply with such legislation and requirements by individuals could lead to prosecution.

## Anti Money Laundering Procedures

### 1. Reporting concerns

- 1.1. In the event of an employee suspecting a money laundering activity they must immediately report their suspicion to the MLRO, or to the deputy MLRO, using the disclosure report available on Knet. The report must contain as much detail as possible, ideally using the form at Annex 2.
- 1.2. If the suspicious transaction is happening right now, for example someone is trying to make a large cash payment, every effort should be made to speak with the MLRO or deputy, who will decide whether to accept the payment or suspend the transaction. If it is not practical or safe to do so, a report should be made to the MLRO or deputy immediately after the transaction is complete.
- 1.3. The information provided to the MLRO will be used to decide whether there are reasonable grounds to demonstrate knowledge or suspicion of money laundering, whether further investigation is necessary, whether the transaction should be accepted or suspended, and if appropriate, whether a suspicious activity report should be made to the National Crime Agency (NCA). If it is not practical or safe to suspend a suspicious transaction a report should be made to the National Crime Agency immediately after the transaction is complete.
- 1.4. The employee must follow directions given to them by the MLRO and must **not** discuss the matter with others or notify the person(s) who is suspected of money laundering. 'Tipping off' a person suspected of money laundering is a criminal offence.
- 1.5. The MLRO or deputy must immediately evaluate any disclosure to determine whether the activity should be reported to the National Crime Agency (NCA).
- 1.6. The MLRO or deputy must, if they so determine, promptly report the matter to NCA in a prescribed manner and on their standard report form (currently referred to as a suspicious activity report (SAR)). This can be found on the NCA website: [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk)

### 2. Identification of Clients

- 2.1. In general, management should ensure that appropriate checks are carried out on new partners, suppliers and contractors in accordance with the Council's existing policies and procedures.



2.2. However, where the Council is carrying out a ‘**relevant business**,<sup>1</sup> and as part of this:

- forms an ongoing business relationship with a client; or
- undertakes a one-off transaction involving payment by or to the client of €10,000 (or the equivalent in sterling) or more; or
- cash payments totalling €10,000 or more which appear to have been broken down into smaller amounts so that they come below the high value limit; or
- it is known or suspected that a one-off transaction (or a series of them) involves money laundering.

Then the client identification procedures (listed below) must be followed before any business is undertaken for that client. In the event the business relationship with the client existed before 1<sup>st</sup> March 2004 this requirement does not apply.

2.3. Where the ‘relevant business’ is being provided internally signed, written instructions on Council headed notepaper or an email on the internal email system should be provided at the outset of the business relationship.

2.4. If the ‘relevant business’ is being provided externally then the following additional checks must be completed:

- Check the organisation’s website and other publically available information such as telephone directory services and Companies House to confirm the identity of the personnel, their business address and any other details;
- Ask the key contact officer to provide evidence of personal identity and position within the organisation, for example a passport, photo ID card, driving licence and signed, written confirmation from the Head of Service or Chair of the relevant organisation that the person works for the organisation. This can be obtained through electronic ID verification if it is free from fraud and provide sufficient assurance of the identity of the individual;
- Enhanced due diligence will be required for any transaction where the organisation is established in a high-risk third country, or where the transaction is complex or unusually large.

2.5. Remember, these additional client identification procedures are **only** required when conducting a ‘relevant business.’

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<sup>1</sup> Relevant business is defined as the provision ‘by way of business’ of advice about tax affairs; accounting services; audit services; legal services; services involving the formation, operation or arrangement of a company or trust; or dealing in goods wherever a transaction involves a cash payment of €15000 or more

### 3. The types of activities that may be affected

3.1. The following table sets out the types of activities that might be suspicious, and how the Council may come across those activities. It is not intended to be exhaustive, and just because something you are suspicious about is not on the list, it doesn't mean you shouldn't report it.

Activity	The types of activity that may be affected
New customers with high value transactions	<ul style="list-style-type: none"> <li>• Selling property to individuals or businesses</li> <li>• Renting out property to individuals or businesses</li> <li>• Entering into other lease agreements</li> <li>• Undertaking services for other organisations</li> </ul>
Secretive clients	<ul style="list-style-type: none"> <li>• People buying or renting property from the Council who may not want to say what it is for</li> <li>• People receiving grant funding who refuse to demonstrate what funding was used for</li> </ul>
Customers who we think are acting dishonestly or illegally	<ul style="list-style-type: none"> <li>• People paying for Council services who do not provide details about themselves</li> <li>• People making odd or unusual requests for payment arrangements</li> </ul>
Illogical transactions	<ul style="list-style-type: none"> <li>• People paying in cash then requesting refunds</li> <li>• Requests for the Council to pay seemingly unconnected third parties in respect of goods / services provided to the Council</li> <li>• Requests for the Council to pay in foreign currencies for no apparent reasons</li> </ul>
Payments of substantial sums by cash	<ul style="list-style-type: none"> <li>• Large debt arrears paid in cash</li> <li>• Refunding overpayments</li> <li>• Deposits / payments for property</li> </ul>
Movement of funds overseas	<ul style="list-style-type: none"> <li>• Requests to pay monies overseas, potentially for "tax purposes"</li> </ul>
Cancellation of earlier transactions	<ul style="list-style-type: none"> <li>• Third party "refunds" grant payment as no longer needed / used</li> <li>• No payment demanded even though good / service has been provided</li> <li>• Sudden and unexpected termination of lease agreements</li> </ul>
Requests for client account details outside normal course of business	<ul style="list-style-type: none"> <li>• Queries from other companies regarding legitimacy of customers</li> <li>• Council receiving correspondence / information on behalf of other companies</li> </ul>

Extensive and overcomplicated client business structures / arrangements	<ul style="list-style-type: none"> <li>• Requests to pay third parties in respect of goods / services</li> <li>• Receipt of business payments (rent, business rates) in settlement from seemingly unconnected third parties</li> </ul>
Poor accounting records and internal financial control	<ul style="list-style-type: none"> <li>• Requests for grant funding / business support indicates third party not supported by financial information</li> <li>• Companies tendering for contracts unable to provide proper financial information / information provided raises concerns</li> <li>• Tender for a contract which is suspiciously low</li> </ul>
Unusual property investments or transactions	<ul style="list-style-type: none"> <li>• Requests to purchase Council assets / land with no apparent purpose</li> <li>• Requests to rent Council property with no apparent business motive</li> </ul>
Overcomplicated legal arrangements / multiple solicitors	<ul style="list-style-type: none"> <li>• Property transactions where the Council is dealing with several different parties</li> </ul>

#### 4. Training

- 4.1. Officers considered to be most at risk of being exposed to suspicious situations will be made aware by their senior officer and provided with appropriate training.
- 4.2. Additionally, all officers and Members will be familiarised with the legislation and regulations relation to money laundering and how they affect the employees (themselves) and the Council.
- 4.3. It is not necessary for all staff to be aware of the specific criminal offences, staff that are likely to encounter money laundering should be aware of the procedures that are in place. This policy and procedures provides sufficient information to raise awareness for most staff.
- 4.4. It is recommended that staff in areas that are highly vulnerable to money laundering, should be provided with targeted training that is specific to the Council activity at hand. This could be achieved by in-house resources, or through training courses and seminars run by external provider.

## Anti Money Laundering Reporting Form

### Your Contact Details

Please provide your contacts details in the box below so we can confirm that we have received the report and get into contact with you if required.

Name :	
Role:	
Email:	
Contact Telephone:	

### Main Subject

Please provide the details of the person you suspect of money laundering. If you suspect more than one person, please fill in the additional boxes below.

Name:			
Date of Birth:		Gender:	
Occupation:			
Address	Type: (Home, work etc)		

### Transaction(s)

Please enter the details of the transactions you think are suspicious

Date:			
Amount:		Currency:	
Credit/Debit			
Reason for the transaction:			

Date:			
Amount:		Currency:	
Credit/Debit			
Reason for the transaction			

**Account(s)**

Please enter details of the account(s) used.

Account Holder's Name		Acc. No	
		Sort Code:	
Current balance:		Balance date:	

Account Holder's Name		Acc. No	
		Sort Code:	
Current balance:		Balance date:	

**Associated Subjects:**

If there are any other people you suspect are involved in money laundering, please enter their details below.

Name:			
Date of Birth:		Gender:	
Occupation:			
Reason for association			
Address	Type: (Home, work etc)		

Name:			
Date of Birth:		Gender:	
Occupation:			
Reason for association			
Address	Type: (Home, work etc)		

**Linked addresses:**

Please enter details of any linked addresses:

Address	Type: (Home, work etc)	

**Reason for Suspicion:**

Please enter details of your suspicions. Please provide as much information as possible.

By: Jonathan Idle – Head of Internal Audit

To: Governance and Audit Committee – 22<sup>nd</sup> July 2021

Subject: **INTERNAL AUDIT ANNUAL REPORT AND OPINION FOR 2020-21**

Classification: Unrestricted

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## Summary:

This Annual Report details:

- The overall outcomes and key themes from Internal Audit work undertaken during 2020-21
- The translation of these outcomes to the resultant annual opinion on the Council's systems of governance, risk management and internal control that is incorporated into the Annual Governance Statement.
- The related performance of the Internal Audit service in delivering this work.

## Recommendation: FOR ASSURANCE

---

### 1. Introduction

- 1.1 Public Sector Internal Audit Standards (PSIAS) require that an annual report on the work of Internal Audit should be prepared and submitted to those charged with governance to support the Council's Annual Governance Statement (AGS), as required by the Accounts and Audit Regulations (England) 2015. This report should include the following:
- An annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework;
  - A summary of the audit work from which the opinion is derived;
  - Any issue the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
  - A comparison of the work undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and criteria;
  - A statement on conformance with the PSIAS and the result of the Internal Audit Quality Assurance and Improvement Programme;
  - Disclosure of any qualifications to the opinion, together with the reasons for the qualification; and
  - Disclosure of any impairments (in fact or appearance) or restriction in scope.
- 1.2 Accordingly, the Internal Audit Annual Report is prepared and submitted to both the Executive and the Governance and Audit Committee. Additionally, in year update reports have periodically been provided to the Committee and the Executive detailing key issues arising throughout the year.

1.3 The Annual Report includes the following components:

- Purpose and Background;
- Annual Opinion;
- Summary of Internal Audit work undertaken;
- Analysis of Council Implementation of Agreed Actions;
- Conformance with PSIAS;
- Internal Audit Performance;
- Internal Audit Resources; and
- Disclosure on Impairment and Escalation.

This year, an Annual Counter Fraud Report has been prepared separately, which outlines Counter Fraud activity for 2020-21.

1.4 The issues detailed in the attached report have been considered by the Council in the formulation of the draft Annual Governance Statement for 2020-21.

1.5 The Governance and Audit Committee's Terms of Reference include ensuring that Internal Audit is effective. Sections 6 and 7 of the Annual Report sets out performance information to enable the Committee to continually assess and consider the effectiveness of Internal Audit.

1.6 The proposed formal wording for the relevant declaration into the Annual Governance Statement is as per Section 2 within the Annual Report.

## 2. Recommendations

2.1 Members are requested to:

Receive and note this report as a source of independent assurance regarding the risk, control and governance environment across the Council, noting the outcomes from 2020-21 Internal Audit work and the resultant '**Adequate**' opinion to the Annual Governance Statement.

## 3. Background Documents

Appendix A: Internal Audit Annual Report 2020-21.

**Jonathan Idle, Head of Internal Audit**

E: [Jonathan.Idle@kent.gov.uk](mailto:Jonathan.Idle@kent.gov.uk)

T: 03000 417840

July 2021





# Kent County Council

Internal Audit Annual Report 2020-21

July 2021

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## 1 Purpose and Background

- 1.1. This Annual Report provides a summary of the work completed by the Internal Audit service during 2020-21.
- 1.2. Public Sector Internal Audit Standards (PSIAS) require that an annual report on the work of Internal Audit should be prepared and submitted to those charged with governance to support the Council's Annual Governance Statement (AGS), as required by the Accounts and Audit Regulations (England) 2015. This report should include the following:
- An annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework;
  - A summary of the audit work from which the opinion is derived;
  - Any issue the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
  - A comparison of the work undertaken with the work that was planned and a summary of the performance of the Internal Audit function against its performance measures and criteria;
  - A statement on conformance with the PSIAS and the result of the Internal Audit Quality Assurance and Improvement Programme;
  - Disclosure of any qualifications to the opinion, together with the reasons for the qualification; and
  - Disclosure of any impairments (in fact or appearance) or restriction in scope.
- 1.3. The purpose of this report is to satisfy these requirements and members are requested to note its content and the Annual Internal Audit Opinion provided.
- 1.4. Additionally, the report highlights key messages and outcomes, issues, patterns, strengths and areas for development in respect of internal control, risk management and governance arising from work undertaken by Internal Audit.
- 1.5. The Annual Opinion is derived from evaluation of the outcomes of Internal Audit work with specific emphasis upon the following key factors:
- Assurance Opinions from audit assignments;
  - Assessment of audit outcomes against key themes of corporate health (the "Reasonable Assurance" model); and
  - The level of implementation by management of agreed actions to improve internal control and the management of risk.

- 1.6. The “Reasonable Assurance” Model evaluates the outcomes of Internal Audit and Counter Fraud work against the following 8 themes of what a healthy organisation requires to operate effectively.

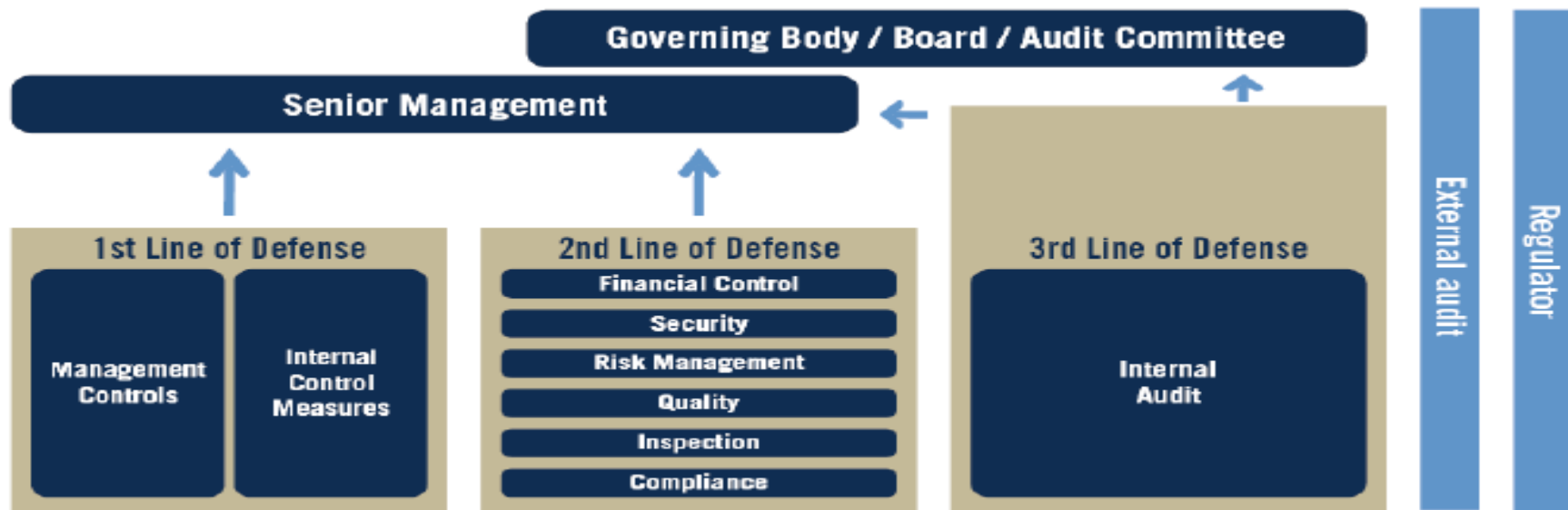
**Figure 1: Reasonable Assurance Model:**



- 1.7. Internal Audit is guided by the Internal Audit Charter, which is reviewed annually. Internal Audit provides an independent and objective opinion on the Council’s control environment through the work based on the Annual Internal Audit Plan agreed by the Governance and Audit Committee.

1.8. The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines of Defence Model:

**Figure 2: Three Lines of Defence Model**



## 2 Annual Opinion

### Overall Assurance and Opinion

- 2.1. Internal Audit concludes that **Adequate** Assurance can be assigned in relation to the Council's corporate governance, risk management and internal control arrangements.
- 2.2. This opinion is principally based upon the evaluation of the findings, conclusions and assurances from the work undertaken by Internal Audit compared to eight key indicators of corporate health, as set out in paragraphs 3.7-3.9, which concludes "Adequate" assurance for six of the eight indicators. The overall balance of systems, processes or functions assigned a "substantial" assurance or better has slightly improved from 2019-20 with the continuation of the upward trajectory in those audits being assigned "substantial" since 2016-17. There has, however, also been an increase in the systems, processes and functions being assigned "limited" assurance in 2020-21.
- 2.3. The opinion is also based on a significant reduction in the full implementation by management of actions to address internal control and risk management issues identified by Internal Audit reports. The unique and challenging nature of 2020-21 undoubtedly impacted upon implementation rates however the reduction from 62% to 37% full implementation and the accompanying increase in the level of actions "in progress" is significant. Furthermore, for 4 programmed Follow Up audits, only 24% of actions had been fully implemented. In the Annual Opinion report for 2019-20, it was highlighted that there was a concerning trend which required improvement and this concern has increased.
- 2.4. It should be emphasised that the assignment of an overall "Adequate" assurance opinion in 2020-21 is consistent with the overall opinion in 2019-20. Therefore, the "Adequate" assurance opinion does not reflect a deterioration in the Council's corporate governance, risk management and internal control arrangements and should be considered in the context of the unprecedented challenges faced by the Council in 2020-21.
- 2.5. No incidences of material external or internal fraud have been detected or reported and there was positive external assurance that the Council has effective arrangements in place to manage the risk of fraud.
- 2.6. Areas for further improvement have also been highlighted and reported in the Internal Audit Annual Report and the Council has been receptive to addressing issues raised by Internal Audit.

2.7. Internal Audit aims to add value and continues to work with the organisation to improve governance and internal control arrangements via identifying improvements such as:

- Being a critical friend in supporting the Council in its multi-agency response to EU Transition;
- Revising areas of coverage to reflect new key Covid-19 related risks such as PPE and office cleaning arrangements;
- Further development of the provision of assurance maps;
- Enhanced coverage of information technology and information governance risks;
- Reviewing processes relating to Care Act Easement;
- Attendance at various external groups to share best practice and inform horizon scanning of significant risks;
- Providing assurance and advice for major Council projects;
- Input to Council wide Information Governance and Risk groups; and
- The provision of an extensive grant certification programme for the Council.

The commitment to working with the Council has been recognised in the External Quality Assessment.

2.8. There have been no limitations to the scope of Internal Audit work, but it should be noted that the assurance expressed can never be absolute and as such Internal Audit provides “reasonable assurance” based on the work performed.

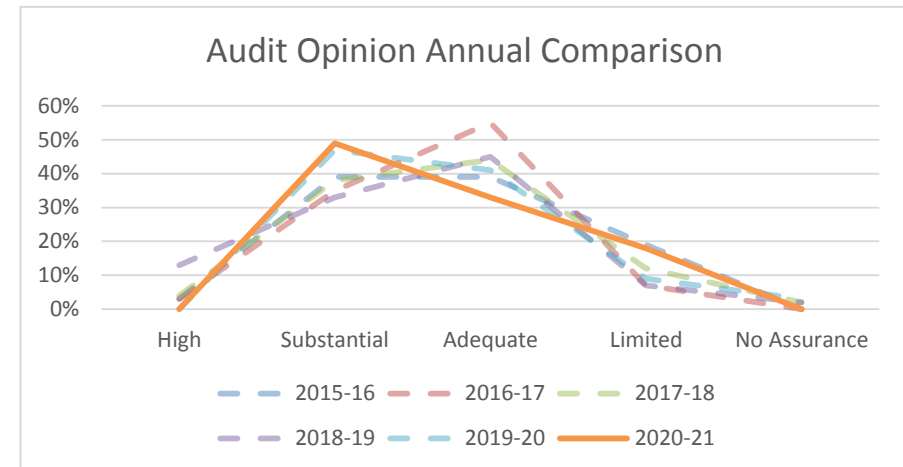
### 3 Summary of Internal Audit Work 2020-21

#### Delivery Against the Internal Audit Plan

- 3.1 Appendix 1 details delivery against the 2020-21 Internal Audit Plan including amendments and changes. During the year, several planned audits were cancelled or deferred which enabled audit resources to be moved to high priority audit and advisory work.

#### Assurance Opinions from Audit Assignments

- 3.2 Assurance levels are assigned to completed risk-based audit reviews based on the criteria in Appendix 2. For the 2020-21 Audit Plan, a total of 44 substantive audits were undertaken and the assurance levels assigned are set out in Appendix 3.
- 3.3 Overall, 49% of systems or functions have been assigned with “Adequate” assurance or lower with 33% assigned Adequate and 18% assigned Limited or No assurance. This represents a broadly similar performance since 2015-16 but an increase compared to last year of the assigning of “Limited” assurance opinions in 2020-21, as illustrated in Table 1.



**Table 1: Summary of Assurance Opinions 2015-16 to 2020-21**

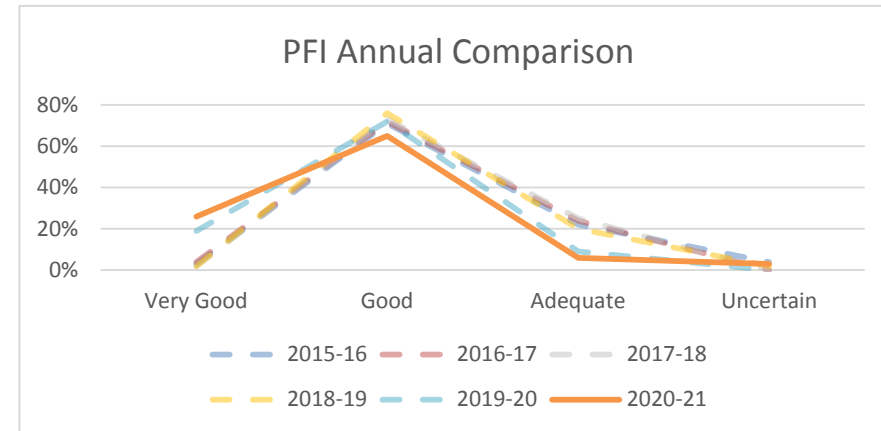
Assurance Level	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
High	3%	3%	4%	13%	0%	0%
Substantial	39%	35%	38%	33%	47%	49%
Adequate	39%	55%	44%	45%	41%	33%
Limited	19%	7%	12%	7%	9%	18%
No Assurance	0%	0%	2%	2%	3%	0%
<b>Substantial or above</b>	<b>42%</b>	<b>38%</b>	<b>42%</b>	<b>46%</b>	<b>47%</b>	<b>49%</b>

- 3.4 Detailed summaries on the outcomes from Internal Audit work completed for 2020-21 Audit Plan have been reported in Progress reports to the Governance and Audit Committee throughout the year.



## Prospects for Improvement

- 3.5 On the conclusion of each audit assignment, an assessment of the prospects for improvement is provided in the respective audit report. This is based on the criteria set out in Appendix 2.
- 3.6 Overall, 91% of systems or functions have been assessed as having good, or better, prospects for improvement. This represents a continued increase on previous financial years 2015-16 to 2020-21, as illustrated in Table 2:



**Table 2: Summary of Prospects for Improvement to 2020-21**


Prospects Category	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Very Good	3%	4%	2%	2%	19%	26%
Good	71%	72%	73%	76%	72%	65%
Adequate	22%	24%	25%	20%	9%	6%
Uncertain	4%	0%	0%	2%	0%	3%
<b>Good or above</b>	<b>74%</b>	<b>76%</b>	<b>75%</b>	<b>78%</b>	<b>91%</b>	<b>91%</b>


## Reasonable Assurance Methodology Analysis


- 3.7 Evaluation of Internal Audit outcomes from audits undertaken utilising the Reasonable Assurance Model (as referred to at paragraph 1.6) provides focus on those audits which assign an opinion on the 8 themes of corporate health. Thus, this analysis forms the key component of the derivation of the Head of Internal Audit Annual Opinion.
- 3.8 In planning to be able to conclude an opinion on the whole risk management, governance and internal control framework, Internal Audit work is assessed around the 8 key lines of enquiry. Internal Audit assessments for each theme is summarised in Table 3:


**Table 3: Audit Outcomes Evaluated on Reasonable Assurance Model**


1. Corporate Governance				2020-21 Assessment: ↓
				<div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
5	Annual Governance Statement Returns 2019/20	Adequate	Very Good	October 2020
7	ASCH Covid-19 Response Plan	Adequate	Good	January 2021
12	CYPE Assurance Map – Safeguarding	N/A	N/A	January 2021
16	Kent Pension Fund Investment Governance Follow-Up	N/A	N/A	January 2021
22	ASCH Assurance Map – Safeguarding	N/A	N/A	January 2021
27	Information Governance – Remote Working	Adequate	Good	April 2021
30	Provision of Laptops to Service Users	Adequate	Good	July 2021
31	Traveller Pitch Allocation and Charging (Management Letter)	N/A	N/A	July 2021
33	Health & Wellbeing Strategy	Substantial	Very Good	July 2021
	Annual Governance Statement Returns 2020-21	Adequate	Good	July 2021
<p>The Audit of Annual Governance Statement Returns has highlighted that although there have been enhancements to the process to produce the Annual Governance Statements, there remains a need to embed the process and for the key governance issues identified to be reviewed on a more regular frequency.</p> <p>The initial work undertaken in respect of Traveller Pitch Allocation and Charging highlighted that relevant policy had not been reviewed for 9 years.</p> <p>The Provision of Laptops for Service Users found that decision making relating to implementation of the scheme had not been formally recorded.</p> <p>Significant levels of advice were also provided in 2020-21 on the enhancement of governance arrangements for a significant project which was set up to implement the key decision to purchase and distribute digital assistive technology solution to facilitate a virtual care service.</p>				













2. Risk Management				2020-21 Assessment:
				
				<div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
1	Personal Protective Equipment (PPE)	Substantial	Good	October 2020
6	Deprivation of Liberties – Progress with Addressing the Backlog	Adequate	Adequate	January 2021
7	ASCH Covid-19 Response Plan	Adequate	Good	January 2021
15	Blue Badge Application Process	Substantial	Good	January 2021
21	Op Fennell (EU Transition) (Management Letter)	N/A	N/A	January 2021
24	Children Missing Education	Substantial	Good	April 2021
25	Office Cleaning Arrangements	Substantial	Good	April 2021
32	Adoption	Substantial	Very Good	July 2021
34	Risk Management	Substantial	Very Good	July 2021
	Accommodation for Young People / Care Leavers DRAFT	Limited	Very Good	July 2021
<p>The fundamental consideration in the assessment of this theme was the “Substantial” assurance opinion of the annual review of Risk Management.</p> <p>The advisory role undertaken by Internal Audit relating to Operation Fennell in respect of the multi-agency response to adverse volumes of international freight and international tourist and light goods vehicles (LGV) traffic towards the end of the EU transition period for the Kent Resilience Forum (KRF) highlighted prompt risk identification, assignment and prioritisation of remedial actions.</p>				

3. Financial Control				2020-21 Assessment:
				
				<div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
9	Review of Covid-19 Expenditure	Substantial	Good	January 2021
11	Charging Arrangements	Substantial	Good	January 2021
14	Urgent Payments Process	Limited	Good	January 2021
16	Kent Pension Fund Investment Governance Follow-Up	N/A	N/A	January 2021
17	Adult Social Care Billing	Limited	Good	January 2021
31	Traveller Pitch Allocation and Charging (Management Letter)	N/A	N/A	July 2021
38	Supplier Distress Payments (C	Limited	Good	July 2021
41	Schools Financial Services (TEP) DRAFT	Adequate	Very Good	July 2021
	Access Pool DRAFT	Substantial	TBC	July 2021
	Imprest Accounts Follow-up DRAFT	N/A	N/A	July 2021
	Strategic Commissioning Follow Up DRAFT	N/A	N/A	July 2021
In respect of the Kent Pension Fund Investment Governance Follow Up, Internal Audit noted the intended implementation of actions had not occurred within timescales as planned.				
The Traveller Pitch Allocation and Charging review highlighted that the debt recovery / write-off process for pitch rental debt was ineffective.				

4. Change Programme and Project Management				2020-21 Assessment: 
				<div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
3	Change for Kent Children	Adequate	Good	October 2020
23	Highways Term Services Commissioning Project (HTSCP)	N/A	N/A	January 2021
30	Provision of Laptops to Service Users	Adequate	Good	July 2021
<p>Significant weaknesses in the tracking of benefits realisation, cost monitoring was identified in the advice provided to Project Kara, which was set up to implement the key decision to purchase and distribute digital assistive technology solution to facilitate a virtual care service. The initial stages of this project were characterised by over-optimism in delivery and of a lack of effective tracking of the intended benefits which had been set out in the original Business Case.</p> <p>Internal Audit's role in the HTSCP evidenced the decision making relating to extending the contract was based on the effective identification and mitigation of key risks.</p>				

5. Procurement, Commissioning and Partnerships				2020-21 Assessment: 
				<div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
No.			Prospects for Improvement	Summary to Committee
1	Personal Protective Equipment (PPE)	Substantial	Good	October 2020
2	Supplier Distress Payments	N/A	N/A	October 2020
10	Purchase to Pay (P2P)	Substantial	Good	January 2021
13	Provider Data Protection Themed Report	N/A	N/A	January 2021
20	Winter Pressures (Management Letter)	N/A	N/A	January 2021
23	Highways Term Services Commissioning Project (HTSCP)	N/A	N/A	January 2021
25	Office Cleaning Arrangements	Substantial	Good	April 2021
36	Covid-19 Risk – Procurements & Contracts	Adequate	Good	July 2021
38	Supplier Distress Payments	Limited	Good	July 2021
	Strategic Commissioning Follow Up DRAFT	N/A	N/A	July 2021
	Enterprise Business Capabilities (Oracle) DRAFT	N/A	N/A	July 2021
<p>A review of Provider Data Protection was commissioned in which the design of the controls in place to safeguard the Councils Information was undertaken in which themes and trends were identified so that wider learning could be understood. Commissioners are working with each provider within the sample to address areas for development and a second tranche is to be undertaken as part of the 2021-22 audit plan.</p> <p>A review of Winter Pressures commissioning in Adult Social Care concluded that enhanced controls are required to ensure the appropriate level of oversight and authorisation for 'spot' or 'indi' contract in line with the Council's Constitution.</p> <p>Internal Audit's role in the HTSCP evidenced the decision making relating to extending the contract was based on the effective identification and mitigation of key risks.</p> <p>Internal Audit's initial engagement in the EBC Project concluded that there was a sound basis for effective governance of the Project however with several enhancements that required attention.</p> <p>The advisory role provides to Project Kara highlighted inadequate considerations in the initial procurement and in initial subsequent contract management.</p> <p>Additionally, the overall evaluation of this theme also includes an awareness that despite Strategic Commissioning developing a suite of commissioning standards, such as for contract management, they have not been formally adopted, communicated, or embedded throughout the Council. Furthermore, Internal Audit is aware that although work in progress relating to there being an effective Contract Register for planning contractual requirements, this was not complete or embedded during 2020-21 These conclusions were also made in the 2019-20 Annual Report.</p>				










6. Information Technology and Information Security				2020-21 Assessment: 
				<div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
4	ICT Asset Control (Covid-19 Impact)	Limited	Adequate	October 2020
18	ICT Access Controls / User Accounts for DSPT Assurance	Substantial	Good	January 2021
26	ICT Firewall -Management of Rulesets	Substantial	Good	April 2021
27	Information Governance – Remote Working	Adequate	Good	July 2021
30	Provision of Laptops to Service Users	Adequate	Good	July 2021
28	Information Governance – DSP Toolkit	Substantial	Good	April-2021
	School Themed Review – Cyber Security DRAFT	Adequate	TBD	July 2021
	Records Management DRAFT	Limited	Uncertain	July 2021
	Cyber Security - Management of Backups for Applications, Data and active Network Devices DRAFT	Adequate	Very Good	July 2021
<p>The increase in data breaches across the Council has been considered in the opinion assessment.</p> <p>Other sources of assurance to support assessment include the Information Governance Assurance and Information Security Assurance Maps.</p>				

7. Asset Management				2020-21 Assessment: 
				    
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
4	ICT Asset Control (Covid-19 Impact)	Limited	Adequate	October 2020
8	Succession Planning	N/A	N/A	January 2021
25	Office Cleaning Arrangements	Substantial	Good	April 2021
30	Provision of Laptops to Service Users	Adequate	Good	July 2021
33	Health & Wellbeing Strategy	Substantial	Very Good	July 2021
37	Workforce – Recruitment & Retention of Staff) DRAFT	Substantial	Good	July 2021
	Enterprise Business Capabilities (Oracle)	N/A	N/A	July 2021
An initial review of the Council's (staff) Succession Planning highlighted that there was a planned project to address the lack of formal written succession plans and management awareness across the Council.				
8. Counter Fraud Arrangements				2020-21 Assessment: 
				    
No.	Audit	Opinion	Prospects for Improvement	Summary to Committee
<p>Arrangements in respect of the Counter Fraud Team in place to support the organisation in meeting its objectives are Substantial. This is based on the Peer Review completed in April 2021 that provided assurance that the learning and development of Counter Fraud Staff is at the forefront of the counter fraud function. This has resulted in Counter Fraud Specialists being “grandfathered” into the Governments Counter Fraud Profession. The Counter Fraud Profession requires members to demonstrate their ability to meet nine standards of competency, including stakeholder engagement, multi-track investigations, legislation and departmental policies and quality performance and capability.</p> <p>However, the Counter Fraud Arrangements in place within the organisation (1<sup>st</sup> &amp; 2<sup>nd</sup> Line of Defence) to prevent and detect fraud is Adequate. This is based on a review of a number of audits within the 2020- 21 Audit Plan that have an identifiable or inherent fraud risk. There was substantial assurance for Blue Badge applications (this does not cover the use of a badge once issued), PPE distribution and stock control, charging arrangements for hospital discharge relating to covid funding and firewall management. There was adequate assurance on the provision of laptops for schools as well as the controls around remote working both having risks associated to them that could lead to financial loss. Limited assurance was provided in areas of social care client billing, urgent payment process, supplier distress payments and asset control of KCC laptops. The follow up audits on imprest accounts, Kent Pension Fund Investment Governance identified that a significant number of management actions to reduce risks were still in progress.</p> <p>Given this basis, it is concluded that there are adequate provisions in place across the Council to manage the risk of fraud and corruption.</p>				



This assessment of Audit outcomes indicates an overall opinion of “Adequate Assurance” as summarised in Table 4:

**Table 4: Audit Opinion based on Reasonable Assurance Model**

No.	Theme	Overall Opinion	No.	Theme	Overall Opinion
1	Corporate Governance	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>	5	Procurement, Commissioning and Partnerships	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
2	Risk Management	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>	6	Information Technology and Information Security	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
3	Financial Control	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>	7	Asset Management	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
4	Change Programme and Project Management	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>	8	Counter Fraud Arrangements	 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>
Overall Assurance Opinion		 <div> <div>No</div> <div>Limited</div> <div>Adequate</div> <div>Substantial</div> <div>High</div> </div>			

## Strengths and Areas for Development

3.9 The annual review of audit outcomes has highlighted the following key strengths and areas for development:

### Strengths:

- 49% of systems and functions that were assigned a Substantial Assurance opinion;
- 91% of systems and functions assessed as having good or better prospects for improvement;
- Positive levels of assurance in relation to Asset Management and Risk Management systems across the Council; and
- Adequate arrangements in place to manage the risk of fraud.

### Areas for further development:

- The prioritising of governance improvements and for it to be a continual process.
- Enhanced commitment and actions for the full implementation of agreed actions to address internal control and risk management issues identified by Internal Audit reports; and
- Increased focus on Information Technology security and Information Governance risks.

### Assessment against Significant Risks at KCC

3.10 Appendix 6 details the significant risks with a risk rating of 25 at KCC as reported to the Governance and Audit Committee in January 2021 with identification of relevant Internal Audit work undertaken against these risk areas. Reliance is placed against the work undertaken by the Corporate Risk Team in the identification of, assessment, recording and reviewing of risk mitigations, updating and monitoring of and their regular reporting of the Corporate Risk Register to the Governance and Audit Committee during the course of the year. It can, therefore, be confirmed that the system and process of risk management within the Council identifies and collates relevant risk information which is communicated on a timely manner to senior management and the Governance and Audit Committee.

3.11 Particular emphasis was undertaken on Covid-19 related risks within Internal Audit work within 2020-21. This included the following:

**Table 5: Summary of Audit Opinions for Covid-19 Related Risks**

No.	Audit	Opinion	Prospects for Improvement
1	Personal Protective Equipment (PPE)	Substantial	Good
2	Supplier Relief Payments (Part 1)	N/A	N/A
4	ICT Asset Control (Covid-19 Impact)	Limited	Adequate
7	ASCH Covid-19 Response Plan	Adequate	Good
9	Covid-19 Expenditure	Substantial	Good
25	Office Cleaning Arrangements	Substantial	Good
36	Covid-19 – Procurement & Contract Management	Adequate	Good
38	Supplier Distress Payments (Part 2)	Limited	Good

Table 5 indicates varying assurance levels relating to the governance, the management of risk and internal control relating to Covid-19 related risks in 2020-21.

## Other Sources of Assurance

- 3.12 In line with Institute of Internal Auditors' Practice Guidance, there is a criteria, summarised in Appendix 6, which should be utilised for Internal Audit to be able to place reliance upon other assurance providers, which maybe either internal or external sources of assurance. An extensive review of recent assurance sources was undertaken, which included reviews in relation to Care Quality Commission inspections and ISO certifications for various services.
- 3.13 All sources of assurance identified are taken at a point in time and, based on the criteria, absolute assurance for the vast majority of other assurances cannot be derived from these pieces of work undertaken.
- 3.14 This collating of assurance sources will provide the basis for the development of a more rigorous evaluation to draw conclusions from other assurance providers for 2021-22.
- 3.15 In order to identify gaps in assurance, prevent duplication in the assurance process and record the outcomes of the assessment of the adequacy and effectiveness of the service's internal control, risk management and corporate governance arrangements, assurance mapping processes are undertaken each year to ensure it reflects developing processes and procedures. A number of assurance mapping exercises have been undertaken across the Council by Internal Audit and will be refreshed as part of the 2021-22 Audit Plan. The maps currently completed are as follows in Table 6:

**Table 6: Summary of Assurance Mapping**

Risk	Last Reviewed	Risk Register		1st Line of Defence				2nd Line of Defence				3rd Line of Defence						Legend
		Current	Tolerance	Policies and Procedures	Training	Mgmt. Info	Self assess Process	Compliance	Quality	Internal Groups	Risk Mgmt.	3rd Parties	Partners	Regualtors	Internal Audit	External Audit	Other	
Information Governance	2019-20	High	Medium															No Assurance Available
ICT	2019-20	High	Medium															Some Assurance
Safeguarding Children	2020-21	Medium	Medium															Assurance Available
Safeguarding Adults	2020-21	Medium	Medium															N/A

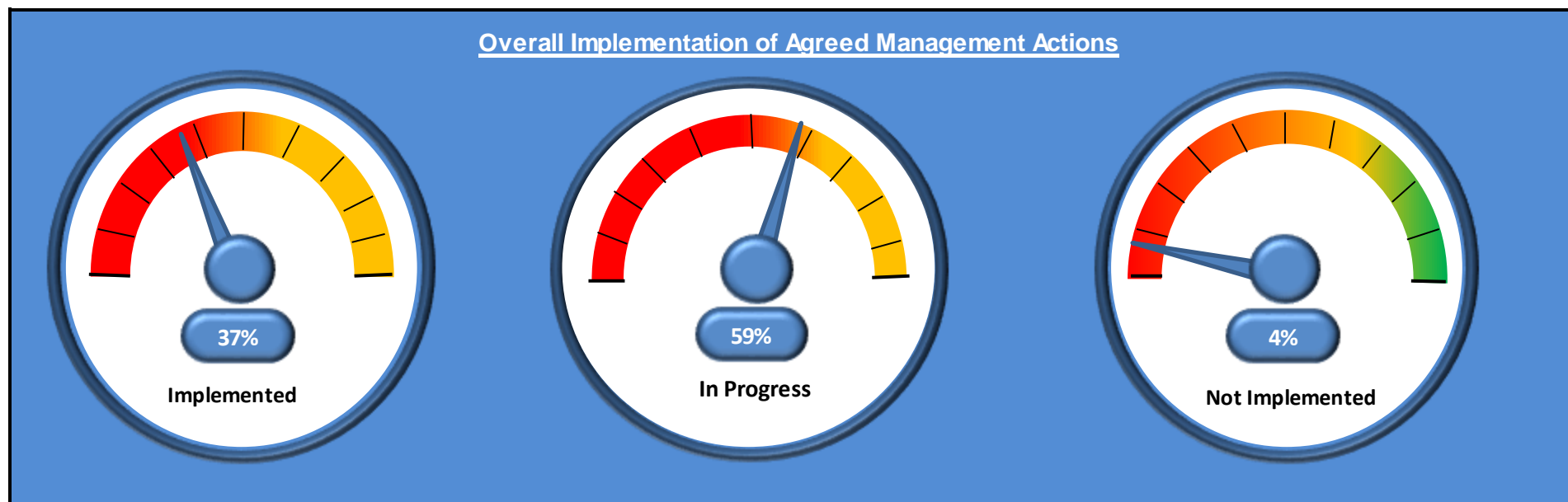
- 3.16 The assurance mapping exercises to date have highlighted a number of areas for further review from Internal Audit such as Records Management which was reviewed as part of the 2020-21 Audit Plan and referred to in the Internal Audit Progress Report. More broadly, the maps have highlighted there are internal working groups to provide oversight for each risk reviewed. Risk management is also present for each area however greater focus around the management of ICT associated risks will be picked up as part of the 2021-22 Audit Plan.

## 4 Implementation of Agreed Actions

- 4.1 Details of the year end position on the implementation of actions from Internal Audit reports is set out at Appendix 4. This sets out the implementation status of 101 actions categorised by the age of actions assigned to the original report.
- 4.2 The status of implementation in Appendix 4 is summarised in Table 7:

**Table 7: Summary of Action Implementation**

	Total Number due for implementation		Implemented		In Progress		Not Implemented	
Risk Priority	High	Medium	High	Medium	High	Medium	High	Medium
<b>Total</b>	29	72	9	28	18	42	2	2
	<b>Total %</b>		31%	39%	62%	58%	7%	3%



4.3 Table 8 highlights key points and a decline in the direction of travel:

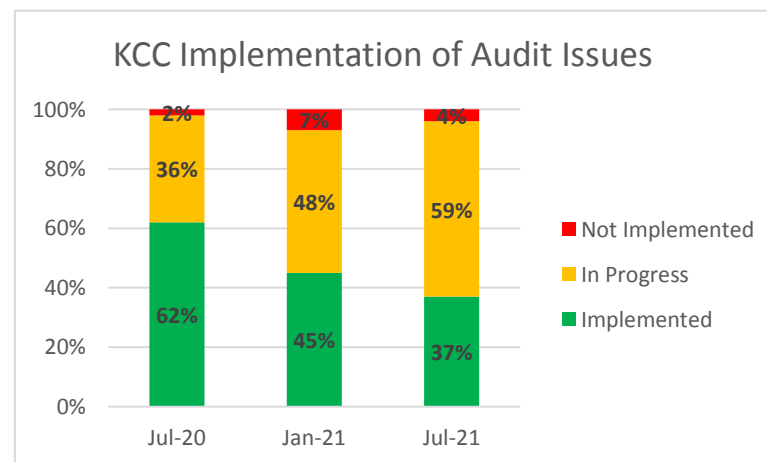
**Table 8: Summary of Implementation of Actions 2019-20 to 2020-21**

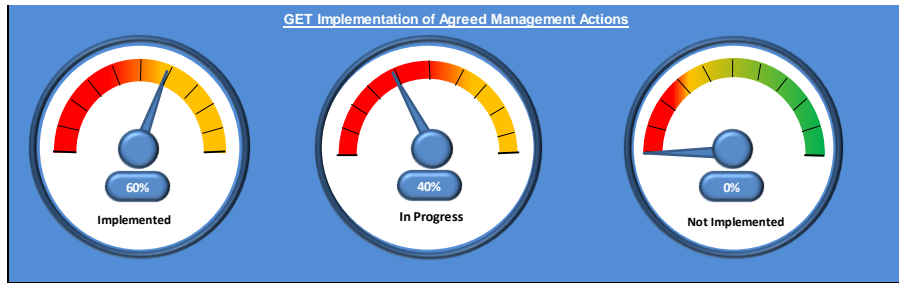
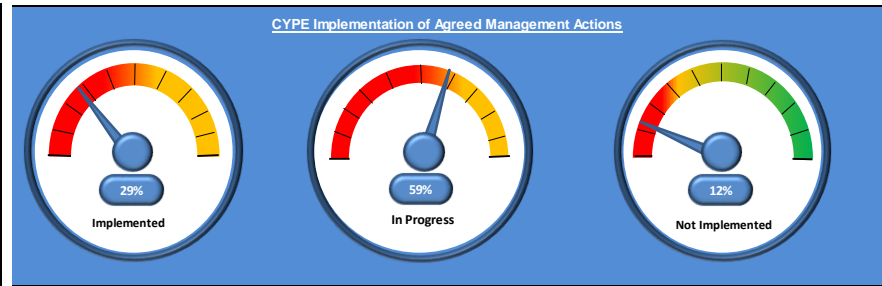
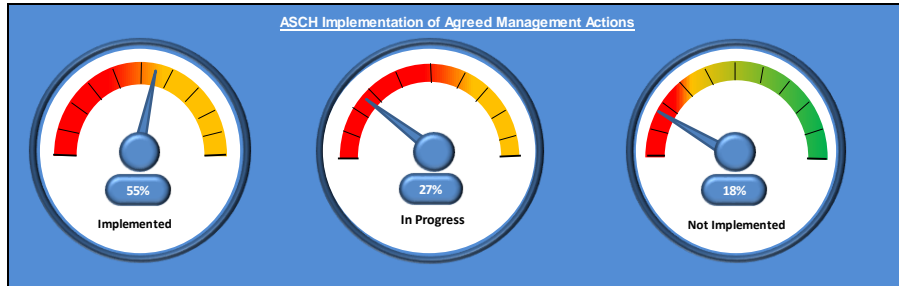
Indicator	19-20	20-21	Change
High Ranked Actions Implemented	62%	31%	↓
Medium Ranked Actions Implemented	62%	39%	↓
High and Medium Ranked Actions Implemented	60%	37%	↓
High Ranked Actions In Progress and not Fully Implemented	38%	62%	↑
Medium Ranked Actions In Progress and not Fully Implemented	35%	58%	↑
High and Medium Ranked Actions In Progress and not Fully Implemented	36%	59%	↑

The analysis of the implementation of actions to address internal control and risk management actions following Internal Audit reports, therefore highlights a declining position in 2020-21 for the majority of implementation indicators compared with the previous financial year as shown in the above graph.

4.5 Implementation of issues has marginally improved, however, and the overall full implementation rate of 37% leaves room for significant improvement.

4.6 Internal Audit maintains analysis of outstanding recommendations across all Directorates and this is utilised in the monitoring and promotion of action implementation, as illustrated in the following graphics:





## Programmed Follow Ups

- 4.7 As part of the 2020-21 Internal Audit Plan, three in depth follow ups were undertaken of areas where, mainly, in the previous year audit opinions had been Limited, with the following results:

**Table 9: Programmed Follow Ups 2020-21**

Audit	Previous Opinion	Number of Issues Previously Raised		Implemented		In Progress		Not Implemented	
		High	Medium	High	Medium	High	Medium	High	Medium
Kent Pension Fund Investment*	Limited	9	6	2	1	5	4	2	1
Imprest Accounts	Limited	4	6	0	1	4	5	0	0
Strategic Commissioning	Adequate	0	5	0	1	0	3	0	1
Respite Overpayments	Limited	2	1	2	1	0	0	0	0
<b>Total</b>		15	18	4	4	9	12	2	2

\*Includes updated position following additional follow-up work undertaken and also awaiting evidence / evaluation at the time of this draft report.

- 4.8 The Respite Overpayment Follow Up audit highlighted that there had been significant progress since the original audit including completion of all management actions for the 2 high and 1 medium priority issues that were raised. The scope of the follow up audit enabled the assignment of a Substantial Assurance Opinion.
- 4.9 With the exception of the Respite Overpayments Follow Up audit, there has been insufficient progress in the full implementation of agreed actions with only 24% fully implemented. Revised audit opinions have not been given for the three of the audits because of the limited scope of the follow-up, which focussed only on the areas where issues were raised in the previous report. Where action remains outstanding, revised dates for implementation have been agreed and these will be followed-up to their conclusion.

## 5 Other Audit Work including Grant Certification

5.1 Internal Audit perform a vital service for the Council in the auditing of grant claims to evidence spend is in accordance with grant terms and conditions. Thus, in 2020-21, Internal Audit audited / certified 59 grants to the value of £138.9m and €3.27m Euros.

The breakdown of the 59 grants was:

- 48 EU Interreg grant returns;
- 2 Bus grant returns; and
- 9 Department for Transport grants.

5.2 The work undertaken in the grant certifications undertaken did not highlight any material inaccuracies or control weaknesses.

5.3 The increase in the volume of grant certification work undertaken by the Internal Audit service for the Council has been challenging in respect of providing core assurance work and this was one of the factors outlined in the Business Case for the restructure of the service.

5.4 The diversification of Internal Audit by offering a proportion of our services to other public sector related or associated bodies has continued throughout 2020-21, including:

- KCC LATCos and Kent HoldCo – including Kent Commercial Services, Invicta Law, The Education People and Cantium Business Solutions;
- Appointed auditor to 10 Parish Councils;
- Appointed auditor to IC24;
- Internal audit of Kent and Essex Inshore Fisheries and Conservation Authority;
- Internal audit of Kent and Medway Fire and Rescue Service; and
- Management of the audit and fraud service at Tonbridge and Malling Borough Council.



## 6 Conformance with Public Sector Internal Audit Standards (PSIAS)

- 6.1 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. The Standards apply to the Internal Audit function in all parts of the public sector in the UK and are mandatory. Within the PSIAS there is a requirement for an independent external review of the internal audit function once every five years to assess conformance with the Standards.
- 6.2 The purpose of an assessment is to review compliance with the 4 elements of the Code of Ethics and against 52 elements of the Standards to provide assurance to all stakeholders that the Internal Audit function is operating efficiently and effectively.
- 6.3 In 2020-21, an independent assessor was appointed to complete the External Quality Assessment (EQA). The EQA assessed that the service *“Generally Conforms with the Public Sector Internal Audit Standards”*. This is the highest possible assessment available and reconciled with our own internal self-assessment, which was completed in advance of the EQA in January 2021.
- 6.4 The EQA report recognises a number of areas of existing good practice and additionally, some issues have been raised for consideration regarding continuous improvement *“.... to reflect building on the existing considerable strengths in relation to resources, competency and delivery in order to enhance future service delivery.”*
- 6.5 A summary of the EQA assessments, by each Standard is provided in Table 10:

**Table 10: EQA Outcomes**

	Level of Conformance
Mission Statement	Generally Conforms
Core Principles	Generally Conforms
Code of Ethics	Generally Conforms
<b>Attribute Standard</b>	
1000 Purpose, Authority and Responsibility	Generally Conforms
1100 Independence and Objectivity	Generally Conforms
1200 Proficiency and Due Professional Care	Generally Conforms
1300 Quality Assurance and Improvement Programme	Generally Conforms
<b>Performance Standard</b>	
2000 Managing the Internal Audit Activity	Generally Conforms
2100 Nature of Work	Generally Conforms
2200 Engagement Planning	Generally Conforms
2300 Performing the Engagement	Generally Conforms
2400 Communicating Results	Generally Conforms
2500 Monitoring Progress	Generally Conforms
2600 Communicating the Acceptance of Risk	Generally Conforms

- 6.6 There has been continual review against the Internal Audit Quality Assurance and Improvement Programme (QAIP) in 2020-21. This has confirmed that the quality standards continue to be generally complied with, although some areas for improvement have been identified and will be addressed through staff training sessions over the coming months. The key features of the QAIP are set out in Appendix 7.

## 7 Internal Audit Performance

### Internal Audit

7.1 The performance of the Internal Audit Team is measured and monitored throughout the year and the year-end position is shown in Table 8 below:

**Table 11: Internal Audit Performance 2020-21**

Performance Indicator	Target	18-19	19-20	20-21		Performance Against previous Period
Outputs				Original Plan	Revised Plan	
90% of audits completed (by year end)	90%	97%	93%	67%	96%	
Draft audit reports issued within agreed date on the engagement plan	60%	30%	53%	26%	NA	
Outcomes						
% of high priority / risk issues agreed	N/A	100%	100%	100%	NA	
% of high priority / risk issues implemented	N/A	56%	57%	34%	NA	
% of all other issues agreed	N/A	100%	100%	100%	NA	
% of all other issues implemented	N/A	55%	34%	46%	NA	
Client satisfaction	90%	91%	97%	98%	NA	

### Plan Delivery

7.2 Table 11 highlights performance in respect of the Audit Plan, reflecting a challenging year in respect of delivering the Original Audit Plan, which has been reported to the Committee at previous meetings.

#### Draft Audit Plan Completion within original agreed date

- 7.3 Performance relating to completion of audits to draft reports is a key area for service improvement in 2021-22 with the indicator declining from 53% to 26%. Performance against this KPI is reliant upon a range of factors which can have the impact of delaying the delivery of an audit and these are the subject of ongoing review and, where applicable, escalation to management.

#### Client Satisfaction

- 7.4 At the end of each audit review, a client satisfaction questionnaire is sent to the auditee. The cumulative result for these surveys was 98% satisfaction, which is above target and an improvement on 2019-20 performance.

- 7.5 The survey also requested any additional comments and comments received are replicated below:

- *“General communication of what was required to realise the objectives of the audit were made clear and concise, for the duration the process. The timings for achieving this were reasonable also, and the collaborative approach formed was undoubtedly beneficial.”*
- *“Approach was professional and considerate of our time, especially during this time of WFH.”*
- *“Excellent communications with auditor, clear instructions of what information (evidence) was required, flexibility to negotiate when information would be required, auditor always ensured any information added to report was an accurate reflection and correct.”*
- *“I was given the opportunity to input into the scope of the audit and how it would be undertaken. It was done in a very professional manner and my engagement with the Audit Manager was very helpful in understanding the intent behind the audit.”*
- *“The team were all working from home due to the COVID pandemic from home continuing to manage high case numbers: The auditor recognised this and addressed this in her response.”*
- *“The auditor was very diligent and respectful. He had clearly undertaken some research before meeting with me and he had read the information provided to him by the Service and others who he interviewed, which he used in his analysis. He was appropriately inquisitive and challenging and I felt he understood the nature of our business.”*
- *“Everything was transparent with clear communication channels. Very easy to suggest amendments to documents and provide updates with little complexity experienced.”*
- *“The auditor was very informative, amenable and devoted much time to get to know the ins and outs of our rather complex service. This ensured he had a full understanding of the service prior to starting the audit.”*

## 8 Internal Audit Resources

- 8.1 In accordance with the PSIAS, members of the Committee need to be appraised of relevant matters relating to the resourcing of the Internal Audit function. The resourcing of the service has been challenging in 2020-21, which culminated in the need to reduce the original Audit Plan to focus key areas of assurance to provide the annual opinion. During 2020-21, the in-house team has been enhanced by the procurement of specialist resources to assist in the delivery of assurances from the Internal Audit Plan and has continued to carry several vacancies throughout 2020-21, which in part have been addressed by a combination of additional capacity from a contracted provider, fixed-term, agency and placement recruitments.
- 8.2 With the actions undertaken, it is confirmed that resources have been sufficient to provide adequate Internal Audit and Counter Fraud coverage to enable an annual opinion to be derived. The CIPFA Guide on Head of Internal Audit Opinions, issued in November 2020, which relates to the impact upon Covid-19 upon the ability of Internal Audit to deliver sufficient assurance, was evaluated both in January 2021 and in the compilation of this opinion and it is concluded that there was no limitation of scope which adversely impacted upon the ability to provide an annual opinion.
- 8.3 During 2020-21, the Head of Internal Audit reviewed resourcing requirements and the subsequent Business Case, which was supported and approved by the Corporate Director of Finance (s.151 Officer) and the Corporate Management Team, provides the basis for a “fit for purpose” structure. This will enable the Internal Audit service to develop and progress, providing the necessary wide level of assurance service to reflect current risks faced by Council and to ensure there is sufficient level of resources, with emphasis on increasing the level of qualified auditors, to meet demand for assurance and consultancy services within the Council and its external clients to continue to deliver assurance and income to support the maintenance of an experienced skills base.
- 8.4 The short-term priority in 2021-22 is, therefore, to complete recruitment processes to fill the resource gaps and new posts which have been created as a result of the restructure, which will contribute to facilitating the continuous development of the service.

## 9 Disclosure on Impairment and Statement of Independence

- 9.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. (Source: Public Sector Internal Audit Standards and Local Government Application Note).
- 9.2 Internal Audit is a statutory requirement for local authorities. There are two key pieces of relevant legislation:
- Section 151 of the Local Government Act 1972 requires every local authority makes arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs
  - The Accounts and Audit Regulations 2015 (England) states that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance"
- 9.3 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Leader of the Council, Head of Paid Service, Senior Management Boards, which includes the s.151 Officer, and the Chair of the Governance and Audit Committee.
- 9.4 There has been no restriction on the scope of Internal Audit work or reporting of audit findings during 2020-21. Consequently, it is confirmed that there have been no material factors which have adversely impacted on the independence of Internal Audit and the ability to form an evidenced annual opinion.
- 9.5 Summaries of audit work completed have been provided to the Committee throughout the year and have identified areas that have required escalation.

## Appendix 1 – Delivery Against Internal Audit Plan 2020-21

Ref	Audit	Status as at 22/06/21	Assurance	Prospects for Improvement	Summary to Committee
CA01	Annual Governance Statement Assurance Statement (2019-20)	Final Report	Adequate	Very Good	GAC Oct 20
CA02	Corporate Governance	Complete	N/A - Protected time for HoIA Opinion		N/A
CA03	Records Management	Draft Report	Limited	Uncertain	GAC Jul 21
CA04	Risk Management	Final Report	Substantial	Very Good	GAC Jul 21
CA05	Information Governance - DSP Toolkit Annual Audit	Final Report	Substantial	Good	GAC Apr 21
CA06	Information Governance - Advisory/ Attendance at IG Steering Group.	In Progress	N/A – Advisory		N/A
CA07	Information Governance – Remote working	Final Report	Adequate	Good	GAC Apr 21
CA08	Strategic Delivery Plan	Removed			
CA09	Office Cleaning Arrangements	Final Report	Substantial	Good	
CS01	Imprest Accounts Follow-up	Draft Report	N/A - Follow-up		
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)	Final Report	Adequate	Very Good	
CS06	Capital Planning and Prioritisation	Removed			
CS07	Kent Pension Fund Investment Governance - Follow up audit	Final Report	N/A - Follow-up		GAC Jan 21
CS08	ACCESS Pool	Draft Report	Substantial	TBD	GAC Jul 21
CS09	Payment Project	Removed			
CS10	Finance - Urgent Payments Process	Final Report	Limited	Good	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	Final Report	Limited	Good	GAC Jul 21
CS12	Covid-19 expenditure	Final Report	Substantial	Good	GAC Jan 21
RB01	Revised Equality Impact Assessment (EQIA) process	Removed			
RB02	Strategic Commissioning Follow-up	In Progress	N/A - Follow-up		

Ref	Audit	Status as at 22/06/21	Assurance	Prospects for Improvement	Summary to Committee
RB03	Enterprise Business Capabilities (Oracle)	In Progress			
RB04	Health and Wellbeing Strategy	Final Report	Substantial	Very Good	GAC Jul 21
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	Adequate	GAC Oct 20
RB10	Covid-19 risk - Procurement and Contracts	Final Report	Adequate	Good	GAC Jul 21
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	Draft Report	Substantial	Good	GAC Jul 21
RB17	Capital Investment in Good Day Program	Removed			
RB18	ASCH Covid-19 Response Plan	Final Report	Adequate	Good	GAC Jan 21
RB19	Covid-19 risk - PPE Distribution and Stock Control	Final Report	Substantial	Good	GAC Oct 20
RB20	Project KARA - ASCH Digital Assistive Technology Project Board	Complete	N/A		
RB21	Charging Arrangements	Final Report	Substantial	Good	GAC Jan 21
RB22	ASCH Contingency	Complete	N/A		
RB23	Accommodation for Young People/ Care Leavers	Draft Report	Limited	Very Good	GAC Jul 21
RB24	Schools Themed Review (Cyber Security)	In Progress	Adequate		GAC Jul 21
RB25	Children Missing Education	Final Report	Substantial	Good	GAC Apr 21
RB26	Delivery of Statutory Services – Contract Management - TEP	Removed			
RB27	Adoption	Final Report	Substantial	Very Good	GAC Jul 21



Ref	Audit	Status as at 22/06/21	Assurance	Prospects for Improvement	Summary to Committee
RB28	Change for Kent Children	Final Report	Adequate	Good	GAC Oct 20
RB29	CYPE Assurance Map - Safeguarding	Final Report	N/A - Management Letter		GAC Jan 21
RB30	Provision of Laptops to service users	Final Report	Adequate	Good	GAC Jul 21
RB31	Establishments Themed Review	Removed			
RB32	Resilience and Emergency Planning Service	Removed			
RB33	Traveller Service - Pitch Allocation and Charging	Final Report	N/A - Management Letter N/A		GAC Jul 21
RB34	Kent Scientific Service	Removed			
RB35	Operation Fennel (EU Transition)	Final Report	N/A - Management Letter N/A		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	Good	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	In Progress			
ICT02	IT Access Controls/ User Accounts – for DSP Toolkit	Final Report	Substantial	Good	GAC Jan 21
ICT03	Cyber Security - Management of Backups for Applications, Data and active Network Devices.	Draft Report	Adequate	Very Good	GAC Jul 21
ICT04	Cyber Security - Management of Firewall rulesets / Anti-virus and Anti-Malware Software	Final Report	Substantial	Good	GAC Apr 21
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	Prospects for Improvement	Summary to Committee
1	Strategic Commissioning (Purchase to Pay Process)	Final Report	Substantial	Good	GAC Jan 21
2	Deprivation of Liberties - Progress with Addressing Backlog	Final Report	Adequate	Adequate	GAC Jan 21
3	ASCH – Winter Pressures	Final Report	N/A Management Letter		GAC Jan 21
4	Change for Kent Children	Final Report	Adequate	Good	GAC Oct 20

### C. Additions:

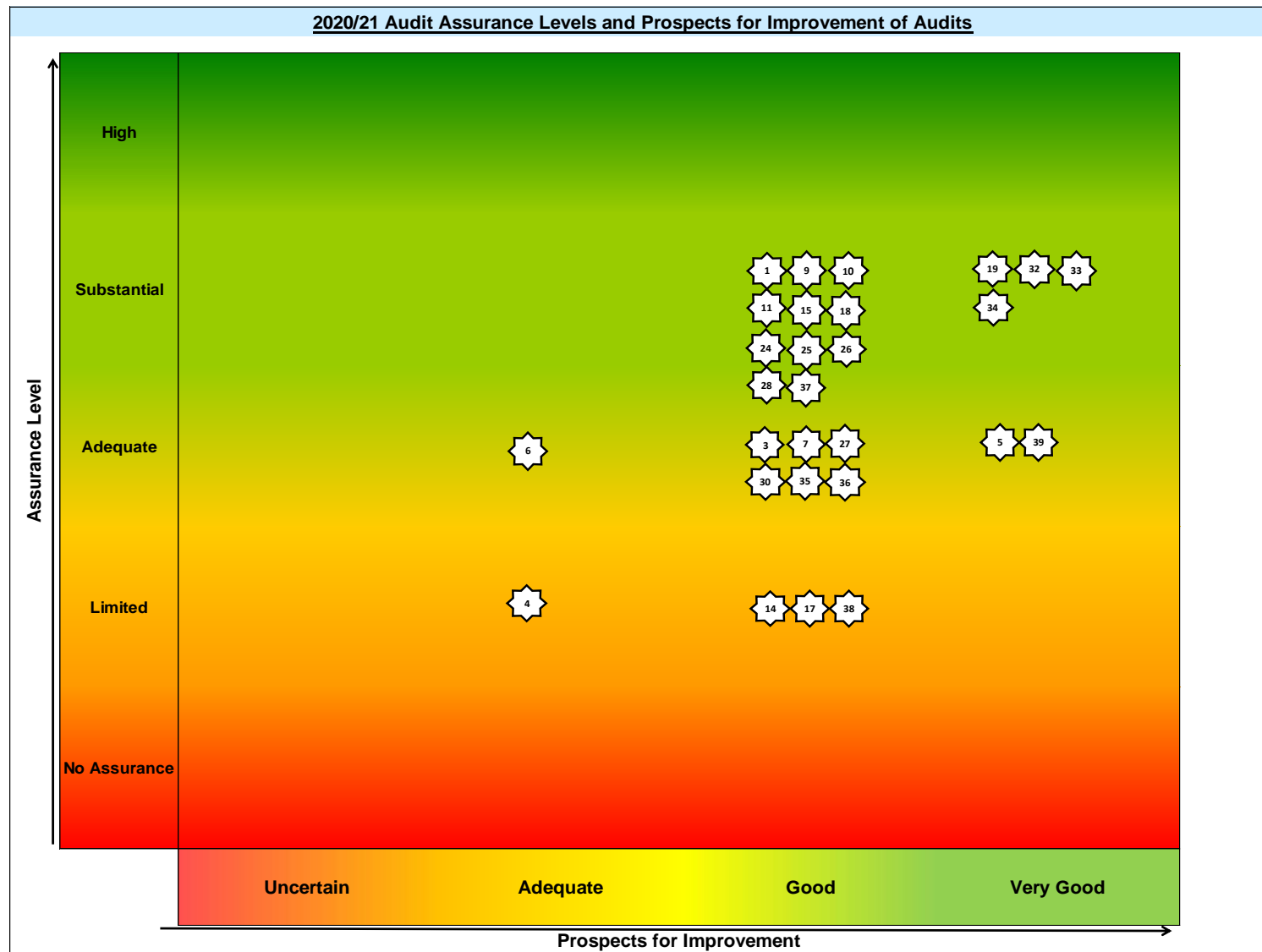
Ref	Audit	Status as at 6/4/2021	Assurance	Prospects for Improvement	Summary to Committee
	Sessions House Data Centre Incident	In Progress			
	Care Act Easement	Final Report	N/A	N/A	
	Highways Capital Grants	Complete	N/A	N/A	
	Annual Governance Statement (2020-21)	Final Report	Adequate	Good	GAC Jul 21

## Appendix 2 – Internal Audit Assurance Levels

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

Prospects for Improvement	Definition
<b>Very Good</b>	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
<b>Good</b>	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
<b>Adequate</b>	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
<b>Uncertain</b>	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.
<b>Not Applicable</b>	Internal audit advice/guidance only - no overall opinion provided.

## Appendix 3 – Distribution of Internal Audit Assurances 2020-21



Audit Opinion October G&A Committee				Audit Opinion January G&A Committee			
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
Audit Opinion April G&A Committee				11	Charging Arrangements	Substantial	Good
No	Audit	Assurance	Prospects for	12	CYPE Assurance Map - Safeguarding	N/A	N/A
24	Children Missing Education	Substantial	Good	13	Provider Data Protection Themed Report	N/A	N/A
25	Office Cleaning Arrangements	Substantial	Good	14	Urgent CHAPS Payments	Limited	Good
26	ICT Firewall - Management of Rulesets	Substantial	Good	15	Blue Badge Application Process	Substantial	Good
27	Information Governance - Remote Working Arrangements	Adequate	Good	16	Kent Pension Fund Investment Governance Follow-Up	N/A	N/A
28	Information Governance - DSP Toolkit Compliance Review	Substantial	Good	17	Adult Social Care Client Billing	Limited	Good
29	Care Act Easement - Consultancy	N/A	N/A	18	ICT Access Controls / User Accounts for DSPT Assurance	Substantial	Good
<p><b>Assurance Levels 2020/21</b></p> <p>Legend: High (Green), Substantial (Light Green), Adequate (Yellow), Limited (Orange), No (Red)</p>				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
				Audit Opinion July G&A Committee			
No	Audit	Assurance	Prospects for Improvement	30	Provision of Laptops to Service Users	Adequate	Good
31	Gypsy & Traveller Pitch Allocation and Charging (Mgt Letter)	N/A	N/A	32	Adoption	Substantial	Very Good
33	Health & Wellbeing Strategy	Substantial	Very Good	34	Risk Management	Substantial	Very Good
35	AGS Returns for 2020/21	Adequate	Good	36	Covid-19 Risk - Procurement and Contracts	Adequate	Good
37	Workforce - Recruitment and Retention of Approved Mental Health Professionals (AMHPs) (DRAFT)	Substantial	Good	38	Covid-19 Supplier Distress Payments (Part 2)	Limited	Good
39	SFS - School Compliance Regime	Adequate	Very Good	40	Records Management (DRAFT)	Limited	Uncertain
41	ACCESS Pool (DRAFT)	Substantial	TBD	42	Young Persons Accommodation (DRAFT)	Limited	Very Good
43	Cyber Security - Management of Backups for Applications, Data and active Network Devices. (DRAFT)	Adequate	Very Good	44	School Themed Review - Cyber Security	Adequate	TBD

Assurance Level	No	%
High	0	0%
Substantial	16	49%
Adequate	11	33%
Limited	6	18%
No	0	0%

PFI	No	%
Very Good	8	26%
Good	20	65%
Adequate	2	6%
Uncertain	1	3%

## Appendix 4 - Implementation of Agreed Actions

### 3+ Years

Engagement Reference	Engagement Name	Audit Opinion	Title	Risk Rating	Directorate	Status
ICT07-2015	PCI DSS	Limited	Issue 1 - Business Areas Processing Card Transactions	High	ST	In Progress
RB45-2017	National Driver Offender Retraining Scheme – Phase 2	Adequate	Issue 1 - Trainer Recruitment and Retention	High	GET	In Progress

### 2 - 3 Years

Engagement Reference	Engagement Name	Audit Opinion	Title	Risk Rating	Directorate	Status
CS01-2019	Payment Processing	Adequate	Issue 3 - Authorisation of manual invoices	Medium	ST	In Progress
CS01-2019	Payment Processing	Adequate	Issue 5 - Vacation Rule in iProc	Medium	ST	In Progress
ES05-2018	OPPD Day Services Themed Report	Adequate	Issue 1 - Utilisation	High	ASCH	Superseded
ES05-2018	OPPD Day Services Themed Report	Adequate	Issue 2 - Inclusivity	High	ASCH	Superseded
ES05-2019	OPPD Day Services Themed Report	Adequate	Issue 3 - Letting Policy	Medium	ASCH	In Progress
RB20-2019	LD Lifespan Pathway Post Implementation	Adequate	Issue 1 - Pathway Plans and Assessments	High	CYPE	In Progress
RB46-2019	Coroners Service - Financial Controls	Adequate	Issue 2 - Due Diligence and Cost Control	Medium	GET	Implemented

1 - 2 Years						
Engagement Reference	Engagement Name	Audit Opinion	Title	Risk Rating	Directorate	Status
AD01-2020	Pension Fund Investment	Limited	Issue 11 - Accountability for Investment Advice cannot be determined from minutes of Committee Meetings	High	ST	In Progress
AD02-2019	Youth services – Commissioning and Contract Management	Adequate	Issue 6 - Undocumented changes to the commercial arrangements	Medium	ST	In Progress
AD02-2019	Youth services – Commissioning and Contract Management	Adequate	Issue 7 - Fully documented justification for changes to the performance management regime	Medium	ST	In Progress
AD04-2020	Respite Overpayment - Symbol	Limited	Issue 1 - Exception reporting	High	CYPE	Management Accepts Risk
CA01-2021	Annual Governance Statement	Adequate	Issue 2 - New Issues Raised from 2019/20	High	ST	Implemented
CA02-2019B	Developer Contributions Community Infrastructure Levy	Limited	Issue 1 - Procedures for optimising developer contributions through the Community Infrastructure Levy	Medium	GET	In Progress
CA02-2019B	Developer Contributions Community Infrastructure Levy	Limited	Issue 2 - Agreements between KCC and CIL Charging Authorities	High	GET	Implemented
CA02-2019B	Developer Contributions Community Infrastructure Levy	Limited	Issue 3 - Capturing lessons from the CIL engagement	Medium	GET	Implemented
CA07-2019	Data Protection	Adequate	Issue 2 - Data Protection Impact Assessments - Project & Programme Management and Commissioning	Medium	ST	In Progress
CA09-2018	Departmental Governance Review – Adult Social Care and Health	Adequate	Issue 6 - Committee Terms of Reference	Medium	ST	In Progress
CS01-2019	Payment Processing	Adequate	Issue 2 - Retrospective Purchase Orders	Medium	ST	In Progress
RB02-2019	Property - Statutory Compliance	Limited	Issue 3 - Tenanted Properties – Requirement to notify KCC of Compliance Checks	Medium	ST	In Progress

RB05-2019	Client-side Relationship & Performance	Adequate	Issue 1 - Relationship & Performance Management Protocols	Medium	ST	Superseded
RB21-2020	Customer Care & Complaints	N/A	Issue 6 - Acceptance of Complaints - Formal Response Deadline	High	ASCH	In Progress
RB34 2020	Foster Care	Adequate	Issue 3 - Voice of the Child	Medium	CYPE	In Progress
RB55-2017	Kent Resilience Team Phase 3 and Follow-up	Adequate	Issue 3 - Business Case	Medium	GET	Implemented

Less than 1 Year

Engagement Reference	Engagement Name	Audit Opinion	Title	Risk Rating	Directorate	Status
AD01-2020	Pension Fund Investment	Limited	Issue 1 - A comprehensive understanding of the Committee's duties, its Investment Strategy and its Decision-Making Procedures	Medium	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 3 - Ensuring that a referenced and up to date version of the Investment Strategy Statement is available to Committee members	High	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 4 - Improving the assurance that key documents comply with Statutory Regulations	Medium	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 5 - Potential shortcomings in the Governance Compliance Statement, the Funding Strategy Statement and the Investment Strategy Statement	High	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 6 - Mapping out Roles and Responsibilities	Medium	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 7 - Procedures governing Investment Decision Making	High	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 9 - Regular Updates of Investment Risk at Investment Manager Level	High	ST	Implemented
AD01-2020	Pension Fund Investment	Limited	Issue 10 - Improving the Reporting, Tracking and Mitigation of Risks	High	ST	In Progress



AD01-2020	Pension Fund Investment	Limited	Issue 12 - Resources needed to manage and oversee Investment Fund Managers	High	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 13 - Improving the Committee's Access to Lessons Learned	Medium	ST	Implemented
AD01-2020	Pension Fund Investment	Limited	Issue 14 - Passing on Lessons that Key Officers have learned	Medium	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 15 - Assurance that the remit of the Local Pension Board complies with Scheme Regulations and The Pensions Regulator's Code of Practice	High	ST	In Progress
AD01-2020	Pension Fund Investment	Limited	Issue 16 - Improving Knowledge and Understanding about the Role of the Local Pension Board	Medium	ST	Implemented
CA01-2021	Annual Governance Statement	Adequate	Issue 1 - Progress Against 2017/18 & 2018/19 Issues	Medium	ST	In Progress
CA01-2021	Annual Governance Statement	Adequate	Issue 3 - Making AGS a Living Process	Medium	ST	In Progress
CA04-2020	Risk Management - Themed Report	Substantial	Issue 1 - Awareness of Risk Management Tools	Medium	ST	In Progress
CA06-2020	Data Protection Deep Dive	Adequate	Issue 1 - Record of Processing Activity (ROPA)	High	ST	In Progress
CA06-2020	Data Protection Deep Dive	Adequate	Issue 2 - Data Breaches	Medium	ST	In Progress
CA07-2021	Information Governance - Remote Working	Adequate	Issue 1 - Policies & Procedures	Medium	ST	In Progress
CA07-2021	Information Governance - Remote Working	Adequate	Issue 5 - Corporate VPN Software Updates	Medium	ST	In Progress
CA09-2021	Office Cleaning Arrangements	Substantial	Issue 1 - Knowledge of escalation process	Medium	ST	Implemented
CA10-2020	Improving Outcomes and Achievement of savings	Adequate	Issue 1 - Feasibility Assessment of Proposed Savings	Medium	ST	In Progress

CA10-2020	Improving Outcomes and Achievement of savings	Adequate	Issue 2 - CMT Oversight	Medium	ST	Implemented
CA10-2020	Improving Outcomes and Achievement of savings	Adequate	Issue 3 - Acceptance of Responsibility for Delivering Savings by Service Management	Medium	ST	Implemented
CS02-2021	Social Care Client Billing	Limited	Issue 1 - Mosaic Provider Portal	High	ASCH	In Progress
CS02-2021	Social Care Client Billing	Limited	Issue 2 - Reconciliation of Printed Invoices	Medium	ST	Implemented
CS02-2021	Social Care Client Billing	Limited	Issue 3 - Reconciliation between Client invoices and Oracle	Medium	ST	Implemented
CS10-2021	Urgent Payments Process	Limited	Issue 1 - Governance and Oversight	High	ST	Implemented
CS10-2021	Urgent Payments Process	Limited	Issue 2 - Policies and Procedures	High	ST	In Progress
CS10-2021	Urgent Payments Process	Limited	Issue 3 - Cantium Procedures for CHAPS Payments	Medium	ST	In Progress
CS10-2021	Urgent Payments Process	Limited	Issue 4 - Authorisation of CHAPS Payment requests	High	ST	Implemented
CS10-2021	Urgent Payments Process	Limited	Issue 5 - Identification of Duplicate Payments	Medium	ST	Implemented
CS10-2021	Urgent Payments Process	Limited	Issue 6 - Accounts Payable (Oracle) / Bankline Reconciliation	Medium	ST	Implemented
ICT02-2021	IT Access Controls/ User Accounts – for DSP Toolkit	Substantial	Issue 1 - Tracking Information Governance Risks and Issues – COVID-19 Situational Awareness Explorer (Public Health)	Medium	ST	In Progress
ICT02-2021	IT Access Controls/ User Accounts – for DSP Toolkit	Substantial	Issue 2 - Generic account - Liberi	Medium	ST	In Progress
ICT02-2021	IT Access Controls/ User Accounts – for DSP Toolkit	Substantial	Issue 3 - Monitoring of Highly Privileged Users – Liberi	Medium	ST	Management Accepts Risk
ICT03 2020	Software Licensing	Substantial	Issue 1 - Policies and Procedures	Medium	ST	Implemented

ICT03-2020	Software Licensing	Substantial	Issue 2 - Software Licencing Inventory	Medium	ST	In Progress
ICT04 2020	ICT Change – Project Benefits Realisation	Adequate	Issue 2 - Project Briefs Technical Assessment	Medium	ST	In Progress
ICT04 2020	ICT Change – Project Benefits Realisation	Adequate	Issue 3 - Lessons Learnt and Closure Reports	Medium	ST	Implemented
ICT04 2020	ICT Change – Project Benefits Realisation	Adequate	Issue 4 - Project Management Training	Medium	ST	Implemented
ICT05-2020	Members ICT	Adequate	Issue 1 - ICT Support for Members	Medium	ST	In Progress
ICT05-2020	Members ICT	Adequate	Issue 2 - ICT Acceptable Use Policy	Medium	ST	Implemented
RB01-2021	Asset Control of Laptops and Other IT Equipment	Limited	Issue 1 - Covid-19 Asset Movements	High	ST	Implemented
RB01-2021	Asset Control of Laptops and Other IT Equipment	Limited	Issue 2 - Asset Inventory Records	High	ST	In Progress
RB01-2021	Asset Control of Laptops and Other IT Equipment	Limited	Issue 3 - Covid-19 Assets	Medium	ST	In Progress
RB01-2021	Asset Control of Laptops and Other IT Equipment	Limited	Issue 4 - Policies and procedures	Medium	ST	In Progress
RB01-2021	Asset Control of Laptops and Other IT Equipment	Limited	Issue 5 - Asset Lifecycle	Medium	ST	In Progress
RB01-2021	Asset Control of Laptops and Other IT Equipment	Limited	Issue 6 - Inventory Review	Medium	ST	In Progress
RB04-2020	Agilisys Contract Management	Adequate	Issue 1 - Administering the Contract through an effective Contract Management System	Medium	ST	Implemented
RB04-2020	Agilisys Contract Management	Adequate	Issue 8 - Value for Money and Benefits Realisation Assessments	Medium	ST	In Progress
RB05-2020	Purchase to Pay (P2P)	Substantial	Issue 1 - Purchases progressed without a Purchase Order	Medium	ST	In Progress

RB05-2020	Purchase to Pay (P2P)	Substantial	Issue 3 - Receipting of Goods – iProc and Manual Invoices	Medium	ST	In Progress
RB18-2021	ASCH Covid-19 Response Plan	Adequate	Issue 1 - Procedures to promote active and structured Horizon Scanning	High	ASCH	Implemented
RB18-2021	ASCH Covid-19 Response Plan	Adequate	Issue 2 - Planning a co-ordinated Approach to an anticipated Incident	High	ASCH	Implemented
RB18-2021	ASCH Covid-19 Response Plan	Adequate	Issue 3 - Ensuring there is a Record that ASCH Staff Members have up to date Resilience Training	Medium	ASCH	Implemented
RB18-2021	ASCH Covid-19 Response Plan	Adequate	Issue 5 - Strengthening Business Continuity Plans	Medium	ASCH	In Progress
RB18-2021	ASCH Covid-19 Response Plan	Adequate	Issue 6 - Fraud Risk during a Business Continuity Incident	Medium	ASCH	Implemented
RB21-2021	Charging Arrangements	Substantial	Issue 1 - Incorrectly Charged Service users	Medium	ASCH	Implemented
RB25-2021	Children Missing Education	Substantial	Issue 1 - Policies & Procedures	Medium	CYPE	Implemented
RB25-2021	Children Missing Education	Substantial	Issue 2 - Accuracy or Synergy Reports	Medium	CYPE	Implemented
RB28-2020	Voluntary Sector Contracts	Substantial	Issue 1 - Transition of the Project Board to Contract Monitoring.	Medium	ST	Implemented
RB31-2020	SEND Follow-up	N/A	Issue 2 - Quality Assurance Framework	Medium	CYPE	Implemented
RB32-2019	Education Psychology	Substantial	Issue 1 - Lessons Learnt	Medium	CYPE	In Progress
RB32-2020	Change for Kent Children	Adequate	Issue 6 - Performance Monitoring	Medium	CYPE	In Progress
RB34 2020	Foster Care	Adequate	Issue 2 - Communication and Information Sharing	Medium	CYPE	In Progress
RB35-2020	Care Leavers	Adequate	Issue 4 - Costing of the Care Offer	Medium	CYPE	Implemented

RB37-2020	School Themed Review	Limited	Issue 1 - SEMBCP Guidance to Schools	High	CYPE	In Progress
RB37-2020	School Themed Review	Limited	Issue 2 - Recovery and Resumption	High	CYPE	Implemented
RB37-2020	School Themed Review	Limited	Issue 3 - School Emergency Management and Business Continuity Plan (SEMBCP) administration	Medium	CYPE	In Progress
RB37-2021	Blue Badge Applications Process	Substantial	Issue 1 - Timescales	Medium	ASCH	Implemented
RB37-2021	Blue Badge Applications Process	Substantial	Issue 2 - Risk Register	Medium	ASCH	Implemented
RB45-2020	Non-domestic Waste Charging	Adequate	Issue 4 - Reconciliation of iPad downloads and Worldpay Data	High	GET	In Progress
RB56-2020	Economic Development - Grant Schemes	Adequate	Issue 1 - Monitoring Outcomes of Grants	Medium	GET	Implemented
RB56-2020	Economic Development - Grant Schemes	Adequate	Issue 2 - Grant Compliance with Council's Criteria	Medium	GET	Implemented
RB56-2020	Economic Development - Grant Schemes	Adequate	Issue 3 - Evaluation of Grants	Medium	GET	In Progress

## Appendix 5 - Extract of KCC Significant Risks

### CRR0004 - Simultaneous Emergency Response, Recovery and Resilience

High  
25

#### Related Audit Work

#### Corporate Risk Team Update

Cyber Security -  
Management of Back-ups

Substantial

Cyber Security - Firewall  
Ruleset

Substantial

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

Local Command and Control structures have been combined to have oversight of these varied threats, with KCC playing a key role.

### CRR0009 - Future financial and operating environment for Local Government

High  
25

#### Related Audit Work

#### Corporate Risk Team Update

Review of Covid  
Expenditure

Substantial

Urgent CHAPS Payments

Limited

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

**CRR0015 - Managing and working with the social care market**
**High  
25**
**Related Audit Work**
**Corporate Risk Team Update**

Supplier Distress Payments

Limited

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

**CRR0050 - CBRNE incidents, communicable diseases and incidents with a public health implication**
**High  
25**
**Related Audit Work**
**Corporate Risk Team Update**

Personal Protective Equipment

Substantial

Office Cleaning Arrangements

Substantial

Covid-19 Expenditure

Substantial

ASCH Covid Response Plan

Adequate

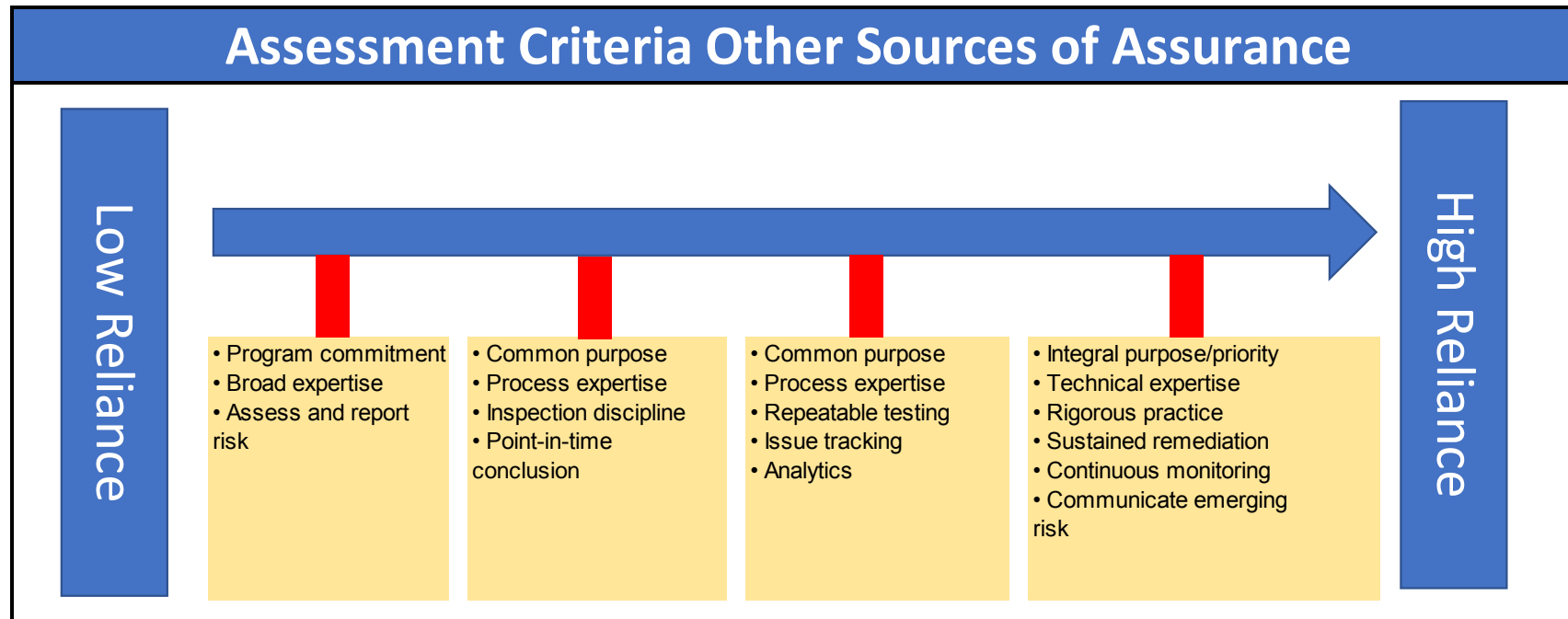
Covid-19 Fraud Risk Assessments

No Opinion

This risk was escalated to the Corporate Risk Register by the Director of Public Health and relates to his and the organisation's statutory responsibilities relating to planning, response and recovery from communicable diseases – in this instance Covid19. The continued rise in confirmed Covid infections across the county throughout the autumn and into winter, including the impact of the new variant of the virus, meant that the Kent and Medway area was placed by central Government into 'Tier 4' restrictions from 19th December, before the country entered its third national lockdown on 6th January 2021.

The Public Health team at KCC is working with partners to ensure the restrictions are effectively implemented across the county, as well as managing outbreaks in vulnerable settings with the local Public Health England team. A local Test and Trace system is in operation to support the national system and KCC and partners are working to support mass vaccination rollout. Rapid-result coronavirus (COVID-19) testing for people who don't have symptoms has been rolled out across Kent during early January, as part of a rolling programme to help reduce the rates of transmission in Kent. This follows on from the initial launch of asymptomatic testing in Swale and Thanet during December. Trading Standards will continue to help and advise local businesses on Covid regulations, taking enforcement action where necessary. Combined to have oversight of these varied threats, with KCC playing a key role.

## Appendix 6 - IIA Assessment Criteria Other Sources of Assurance





## Appendix 7 - Quality Assurance & Improvement Programme (QAIP)

The Public Sector Internal Audit Standards (PSIAS) describe the QAIP as

“A QAIP is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.”

- As acknowledged by the External Assessor, Internal Audit have a robust process for undertaking the QAIP, which includes the completion of the following reviews to confirm compliance with PSIAS:
- **Self- Assessment** - completed for each audit engagement, proactive fraud review and complex investigation.
- **Hot Reviews** - complete for each audit investigation and fraud investigation.
- **Cold Reviews** - carried out annually across all clients using a judgemental sample and least one per individual.
- **Internal Assessment** - competed annually against PSIAS.
- **External Assessment** - completed every 5 years for Audit and Counter Fraud.
- **Customer Feedback** - competed for each audit engagement and proactive counter fraud review.
- **Stakeholder Perception** - completed annually.

One of the outcomes from these reviews is the updating of an Improvement Plan for the service, which includes the following objectives for 2021-22:

Improvement Issue
To implement agreed actions from the External Quality Assessment
Implement Restructure including recruitment
Review Assurance Mapping and Reliance on Other Assurances Methodology
Implement a more effective approach to following up Cold Reviews
Develop an Audit Manual procedure note to reflect engagement planning requirements for consultancy reviews
Continue review of report formats on lean principles with aim of reducing report length
Review Data Analytics Strategy following training to monitor and enhance utilisation of Data Analytics
Commission bespoke training in Agile Auditing for managers and Principal Auditors to enhance approaches adopted in 2020-21
To refresh IACF team members with Process Mapping training
To refresh IACF team members with Root Cause Analysis training
Refresh Performance Management system

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By: Jonathan Idle – Head of Internal Audit  
To: Governance and Audit Committee – 22 July 2021  
Subject: **INTERNAL AUDIT PROGRESS REPORT**  
Classification: Unrestricted

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**Summary:**

This Progress Report details summaries of completed Audit reports between for the period April to June 2021.

**Recommendation:**

**The Governance and Audit Committee note the Internal Audit Progress Report for the period April to June 2021.**

**FOR ASSURANCE**

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**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 April to June 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 April to June 2021.

**3. Background Documents**

Internal Audit Progress Report.

**Jonathan Idle, Head of Internal Audit**

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**IACF**

Improving Outcomes  
Creating Value

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

**22 July 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 **9** summaries of completed work since the previous Committee in April 2021.

## 2. Key Messages

- **12** audits have been finalised since the previous Progress Report, in April 2021. See **Appendix C**
- **44** audits have been completed on the 2020/21 audit plan to-date
- At the time of drafting this report **4** audits had reached draft report stage, with a further **6** audits in progress
- **5** audits have been carried forward to 2021/22
- **4** grants / certifications have been certified since the last progress report, with a further **4** grants currently in progress.
- The restructure of the Internal Audit team has now concluded and recruitment to fill vacant posts has commenced.

## 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

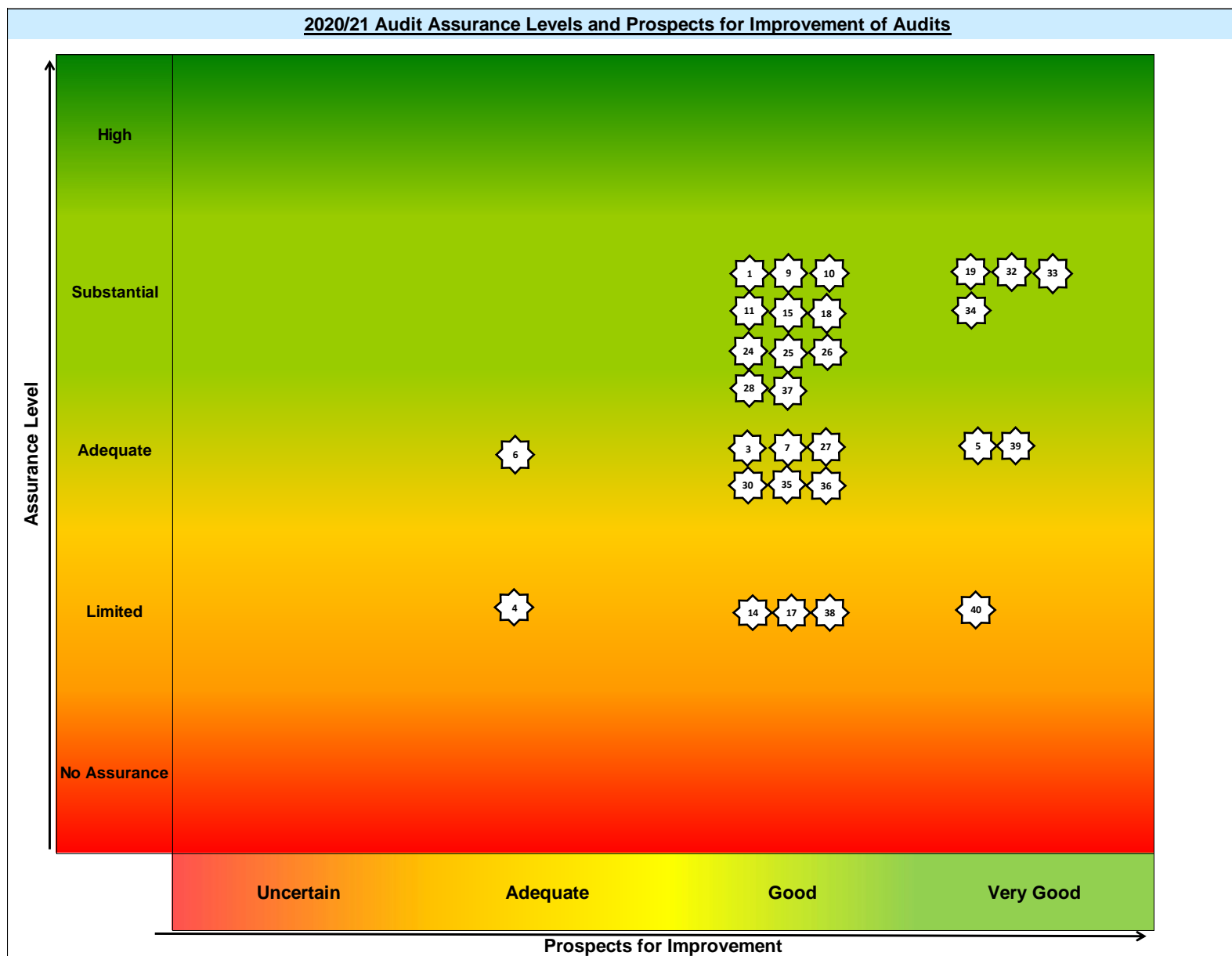
- Public Health Grant
- ASCH Day Care Centre Review

A full update on progress against the 2020/21 Audit Plan is provided at **Appendix A** of this report, with a summary of the completed reports shown in **Table 1** below.

### 3.2 Grant Certification Work:

In 2021-22, the team has audited and certified **4** grant claims, with a further **4** grant claims currently in progress. Details of all certifications completed since April 2020 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 the changed working arrangements has been the increasing challenges of completing such work, which requires adherence to strict timescales for the submission of grant certifications.

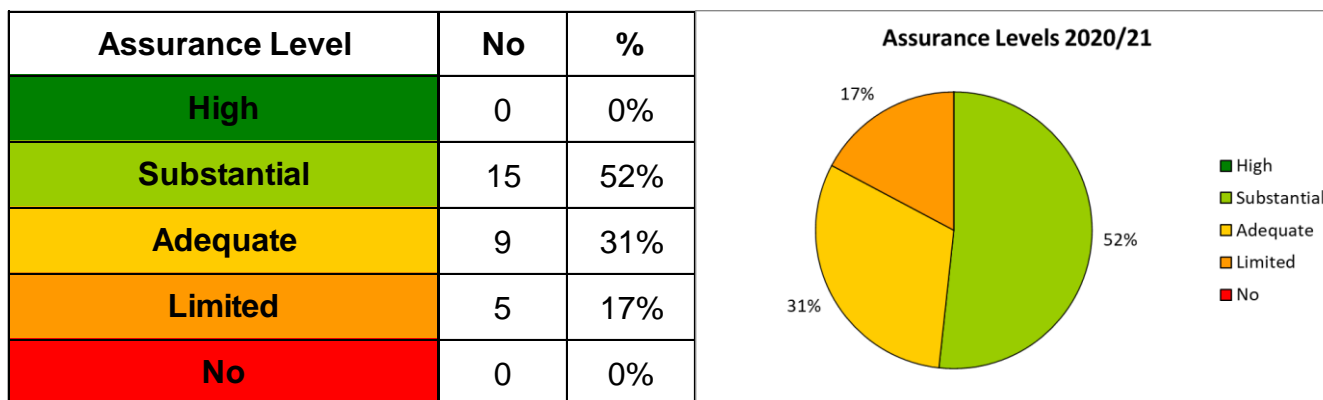
Table 1: Summary of Assurance Levels to Date





**Table 2 – Summary of Audits by Committee Meeting**

<b>Governance &amp; Audit Committee - October 2020</b>			
	<b>Audit</b>	<b>Assurance</b>	<b>Prospects for Improvement</b>
1	PPE	Substantial	Good
2	Supplier Relief Payments	N/A	N/A
3	Change for Kent Children	Adequate	Good
4	ICT Asset Control (Covid-19 IMPACT)	Limited	Adequate
5	AGS 2019/20	Adequate	Very Good
<b>Governance &amp; Audit Committee - January 2021</b>			
6	Deprivation of Liberty Safeguards (DoLS)	Adequate	Adequate
7	ASCH Covid-19 Response Plan	Adequate	Good
8	Succession Planning	N/A	N/A
9	Review of Covid-19 Expenditure	Substantial	Good
10	Purchase to Pay (P2P)	Substantial	Good
11	Charging Arrangements	Substantial	Good
12	CYPE Assurance Map – Safeguarding	N/A	N/A
13	Provider Data Protection Themed Report	N/A	N/A
14	Urgent CHAPS Payments	Limited	Good
15	Blue Badge 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 (Management Pressures)	N/A	N/A
21	Operation Fennell (EU Transition)	N/A	N/A
22	ASCH Assurance Map – Safeguarding	N/A	N/A
23	Highways (HTSCP)	N/A	N/A
<b>Governance &amp; Audit Committee - April 2021</b>			
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	N/A	N/A
<b>Governance &amp; Audit Committee - July 2021</b>			
30	Provision of Laptops to Service Users	Adequate	Good
31	Gypsy & Traveller Pitch Allocation and Charging	N/A	N/A
32	Adoption	Substantial	Very Good
33	Health and Wellbeing Strategy	Substantial	Very Good
34	Risk Management	Substantial	Very Good
35	AGS Return for 2020/21	Adequate	Good
36	Covid-19 Risk – Procurement and Contracts	Adequate	Good
37	Workforce – Recruitment and Retention of Approved Mental Health Professionals	Substantial	Good
38	Covid-19 Supplier Distress Payments (Part 2)	Limited	Good
39	SFS – School Compliance Regime	Adequate	Very Good
40	Accommodation for Young People and Care Leavers	Limited	Very Good
41	Enterprise Business Capabilities (Oracle)	N/A	N/A



### 3.3 Implementation of Agreed Actions

A full summary / analysis on the Implementation of Agreed Actions has been included within the Internal Audit Annual Report and Opinion for 2020/21.

### 3.4 External Quality Assessment

The outcome from the recent External Quality Assessment is reported to Committee as a separate agenda item.

### 3.5 2021/22 Audit Plan

The 2021/22 Audit Plan is reported to Committee as a separate agenda item.

### 3.6 Internal Audit Resources:

In accordance with the Public Sector Internal Audit Standards, members of the Committee need to be apprised of relevant matters relating to the resourcing of the Internal Audit function.

The Internal Audit team remains under resourced, and this shortfall is currently being supplemented through the use of contract auditors. However, the team restructure process, for which a Business Case was supported and approved by the Corporate Director of Finance (s.151 Officer) and the Corporate Management Team, is now complete and recruitment to fill all vacant posts is now under-way. It is anticipated that the recruitment process will be concluded by October 2021.

## 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		(B) Adult Social Care and Health	
CA01-2022	Annual Governance Statement Returns (2020/21)	RB16-2021 Workforce – Recruitment and Retention of Approved Mental Health Professional (AMHP)	
RB03-2021	Enterprise Business Capabilities (Oracle)		
RB04-2021	Health and Wellbeing Strategy		
(C) Children, Young People and Education		(D) Strategic and Corporate Services	
RB27-2021	Adoption	CA04-2021	Risk Management
RB30-2021	Provision of Laptops to Service Users	RB10-2021	Covid-19 Risk – Procurement and Contracts
CS05-2021	SFS – School Compliance Regime	CS11-2021	Covid-19 Supplier Distress Payments (Part 2)
RB23-2021	Accommodation for Young People / Care Leavers		
E. Growth, Environment and Transport			
RB33-2021	Gypsy and Traveller Service – Pitch Allocation and Charging		

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

Ref	Audit	Status as at 14/7/2021	Assurance
CA01	Annual Governance Statement Assurance Statement (2019-20)	Final Report	Adequate – GAC Oct 20
CA02	Corporate Governance	Complete	N/A
CA03	Records Management	Draft Report	Management response overdue
CA04	Risk Management	Complete	Substantial – GAC July 21
CA05	Information Governance - DSP Toolkit Annual Audit	Final Report	Substantial – GAC April 21
CA06	Information Governance - Advisory/ Attendance at IG Steering Group.	In Progress	
CA07	Information Governance – Remote working	Final Report	Adequate – GAC April 21
CA08	Strategic Delivery Plan	Removed	
CA09	Office Cleaning Arrangements	Final Report	Substantial – GAC April 21
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 – School Compliance Regime	Final Report	Adequate – GAC Jul 21
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	Draft Report	Management response overdue
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	Final Report	Limited – GAC July 21
CS12	Covid-19 expenditure	Final Report	Substantial - GAC Jan 21
RB01	Revised Equality Impact Assessment (EQIA) process	Removed	
RB02	Strategic Commissioning Follow-up	Draft Report	
RB03	Enterprise Business Capabilities (Oracle)	Final Report	N/A – GAC July 21
RB04	Health and Wellbeing Strategy	Final Report	Substantial – GAC July 21
RB05	Succession Planning	Final Report	N/A - Management Letter – GAC Jan 21

Ref	Audit	Status as at 14/7/2021	Assurance
RB06	Data Analytics Development – Payroll	'Payroll' Carried Forward 2021/22	
RB07	Future of Sessions HQ (Project)	Carried Forward to 2021/22	
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	Final Report	Adequate – GAC Jul 21
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	Final Report	Substantial – GAC July 21
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	Final Report	Limited – GAC July 21
RB24	Schools Themed Review (Cyber Security)	In Progress	
RB25	Children Missing Education	Final Report	Substantial – GAC April 21
RB26	Delivery of Statutory Services – Contract Management - TEP	Removed	
RB27	Adoption	Final Report	Substantial – GAC July 21
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	Final Report	Adequate – GAC July 21
RB31	Establishments Themed Review	Removed	
RB32	Resilience and Emergency Planning Service	Removed	
RB33	Gypsy and Traveller Service - Pitch Allocation and Charging	Complete	N/A Management Letter – GAC July 21
RB34	Kent Scientific Service	Removed	

Ref	Audit	Status as at 14/7/2021	Assurance
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	Carried Forward to 2021/22	
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	In Progress	
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.	Final Report	Summary to be reported at October 21 GAC
ICT04	Cyber Security - Management of Firewall rulesets / Anti-virus and Anti-Malware Software	Final Report	Substantial – GAC April 21
N/A	Strategic Reset Programme – Programme Governance	Carried Forward to 2021/22	
N/A	Strategic Reset Programme – Projects	Carried Forward to 2021/22	

#### Work Carried Forward From 2019-20:

Ref	Audit	Status as at 14/7/2021	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

#### Additions:

Ref	Audit	Status as at 14/7/2021	Assurance
	Sessions House Data Centre Incident	In Progress	
	Care Act Easement	Final Report	N/A Management Letter – GAC April 21
	Highways Capital Grants	Complete	N/A
CA02-2022	Annual Governance Statement (2020-21)	Final Report	Adequate – GAC July 21

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

No.	Grant	Description	Status as at 14/7/2021
1	EU Interreg - Aspire	A holistic approach to lowering obesity and unemployment rates in identified communities where the two issues are linked.	1 Claim completed
2	EU Interreg - BEGIN	An approach to climate resilience for cities that mimics nature's potential to deal with flooding.	
3	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.	
4	EU Interreg – Blueprint	Upskill 18 social enterprises to training 2000 disadvantaged individuals with the skills they require to secure new jobs linked to circular economy growth (increased recycling, reverse logistics and secondary markets)	
5	EU Interreg – BoostforHealth Capitalisation	Supporting Kent based life sciences companies with internationalisation and in particular market entry in mainland Europe.	
6	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
7	EU Interreg – C-CARE	To deliver a range of activities linked to Covid-19 response including: - A technology resilience voucher scheme for businesses (ED) - A green recovery voucher scheme for businesses (Environment Team) - A Covid-secure trading standards training module (Public Protection)	
8	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.	1 Claim completed
9	EU Interreg – Cool Towns	Spatial adaptation for heat resilience in small and medium sized cities to minimise the heat related effects of climate change.	
10	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.	
11	EU Interreg - Empower Care	To create resilient communities and reduce individual frailty and loneliness, addressing issues facing the care of our aging population	Claim in progress
12	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.	Claim in progress
13	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.	
14	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.	

No.	Grant	Description	Status as at 14/7/2021
15	EU Interreg - H2O	Overcoming barriers to integrated water and ecosystem management in lowland areas adapting to climate change.	
16	EU Interreg – IMPULSE2	Support innovation in order to address the economic and societal issues facing the FCE. This project aims to support 100 Life Sciences & nutrition SMEs & production sites from the FCE area to help them to become more innovative, to connect to companies and business opportunities in other countries and to overcome the barriers that they face with innovation and internationalisation. The long term benefits for SMEs will be increased knowledge, innovation capacity, international contacts and export sales potential.area (MP)	
17	EU Interreg - Inn2Power	Supporting Kent based companies in the offshore wind sector with internationalisation & market entry in mainland Europe	1 Claim completed
18	EU Interreg - PATH2	Enabling women, families and healthcare professionals to prevent, diagnose and successfully manage mild and moderate perinatal mental health issues.	
19	EU Interreg - Prowater	Contributing to climate adaptation by restoring the water storage of the landscape via ecosystem-based adaptation measures.	
20	EU Interreg - SCAPE	Developing landscape-led design solutions for water management that make coastal landscapes better adapted and more resilient to climate change.	
21	EU Interreg - SHIFT	Engaging with people over 45 years of age to develop a tailored sexual health and wellbeing model.	
22	EU Interreg - SIE	Evaluating and improving business support services for SMEs specifically related to exporting and internationalisation.	
23	EU Interreg – STAR2Cs	Overcoming the implementation gap faced by local government adapting to climate change.	
24	EU Interreg – Step by Step	Seeking to increase the impact of the internationally evidenced men's sheds programme in particular employment & health outcomes.	On the Spot in progress
25	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).	
26	EU Interreg - Triple A	Supporting homeowners to adopt different low-carbon technologies in their homes.	
27	EU Interreg - Triple C	Implementing a set of cost-effective actions to reduce flooding and erosion.	
28	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.	
29	EU Interreg - USAC		
30	Department of Health and Social Care	Public Health Test and Trace grant	In progress



## Appendix C – Summaries of Completed Audit Reviews

### A1 – CA01-2022 – AGS Returns for 2020/21

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

As part of the 2021/22 Audit Plan, Internal Audit has undertaken a review of the associated controls in place to manage the Council's AGS returns.

The aim of the audit is to provide assurance that directorate returns are timely, appropriate, accurate and complete, and issues identified are managed adequately and effectively to meet service and corporate objectives.

In forming our conclusions, the CIPFA/ SOLACE Delivering Good Governance in Local Government Framework (2016), the associated statutory guidance and any other best practice frameworks has been taken into account.

#### Key Strengths

- All required AGS returns had been submitted and there is evidence that they have been discussed at DMT prior to submission to agree its accuracy where a return has been submitted on behalf of a Directorate as a whole.
- Each Staff Officer from each Directorate was able to coordinate evidence to support progress against each issue sampled.
- There is evidence available to support that each required respondent has agreed the return provided.
- There are reasonable safeguards in place to ensure that the AGS remains current at the point of publication.
- There is an action plan in place as part of the AGS.
- Mechanism in place to receive assurance for LATCO/ Holdco governance arrangements.

#### Areas for Development

- There are a significant number of issues raised from 2017/18, 2018/19 and 2019/20 which remain unresolved. A small number of issues reviewed that were still in progress for 2019/20 had sufficient rationale for closure however, had not updated the central database. **Progress of actions can be found in appendix A.**
- New governance issues/ challenges had not been fully highlighted within returns as intended however, this was later mitigated by a workshop at CMT to reconsider any issues or challenges from within each area.
- Each Directorate should consider enhancing their DMT/ CMT logs so that discussion undertaken throughout the year with relevance to the AGS process are 'flagged' for consideration for inclusion in each return when required.
- The AGS does not state KCC's compliance with the Financial Management Code.
- CMT decision logs have been utilised to develop the AGS. The majority of those that sit on CMT are required to make a AGS return with the exception of Director – Strategy, Policy, Relationships and Corporate Assurance. It is noted they have been in attendance for specific items throughout the year however, it should be considered whether they attend more frequently.

#### Summary of Management Responses

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	0
Med Risk	2	2	0
Low Risk	0	0	0

## A2 – RB03-2021 – Enterprise Business Capabilities (Oracle)

### Background:

As part of the Council's Strategic Reset Programme (SRP), the Council is looking to review, commission and deliver 18 core business capabilities (including systems, processes and data implications) to support central services such as payroll, finance and procurement. The Council currently uses Oracle 12.1.3. This initiative is known as 'Enterprise Business Capability' (EBC). The intended outcome of this programme is to build a more stable platform; to improve and optimise operations and realise savings and efficiencies. The EBC Board is in place to oversee this project.

### Conclusion:

The EBC programme is being effectively managed with sound governance arrangements in place, as set and directed by the Strategic Reset Programme Board. The Board has completed a significant amount of work to-date, with some decisions already made. The transfer of Oracle's application support to Rimini Street has been successfully completed and the migration of Oracle's platform from on-premise to the cloud is progressing as planned. The recent appointment of a Programme Manager will be critical to the continuing success, particularly as the programme continues to progress with the Functional Assessment Reports and moves into the options appraisal stage. Some potential areas for improvement identified to further enhance the programme management / governance arrangements have been raised with the Board for consideration, including managing potential conflicts of interests with discussions and decision making.

**A3 – RB04-2021 – Health & Wellbeing Strategy**

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Very Good</b>

The Workplace Health & Wellbeing Strategy 2020-2023 is one component of the People Strategy which is aligned to deliver the outcomes of the County's strategic plan. The Strategy has been developed to outline KCC's approach to mitigating the causes of promoting and supporting health & wellbeing in the workplace, which sits alongside the General Statement on Health, Safety and Welfare at Work.

Wellbeing is a key element of the Employment offer to the existing and future workforce and forms part of the employment contract. There has been an increased focus on staff wellbeing support over the last 2 years and changes in staff working arrangements (in particular increased remote working) as a result of Covid-19 have also increased management attention on wellbeing issues.

**Key Strengths**

- The Corporate Health and Wellbeing Strategy Group provides effective strategic leadership to implement the underpinning Action Plan.
- Updates on initiatives are provided on a regular basis to the Corporate Health and Wellbeing Strategy Group which detail activities undertaken during the period and next steps, which again enable effective leadership of the Strategy.
- The Annual Plan's core initiatives meet the strategic priorities set out in the Health and Wellbeing Strategy.
- The Corporate Health and Wellbeing Strategy Group have had regular, documented discussions about the support given during the Covid-19 pandemic.
- A number of initiatives have been put in place to support staff wellbeing during the Covid-19 pandemic.

- There are metrics in place covering staff sickness and absence and plans to further develop these through a sickness dashboard within PowerBI which will enable greater understanding of themes and trends.
- The Corporate Health and Wellbeing Strategy Group meet on a quarterly basis to monitor progress against the Annual Plan, as set out in the Strategy.

**Areas for Development**

- The timings and task progress of planned initiatives have not been fully updated in the Annual Plan and Reset plan in line with current status for a small number of initiatives. It is important that these continue to reflect actual targets and progress to enable continued effective oversight.

**Prospects for Improvement**

- Very Good

**Summary of Management Responses**

	<b>No. of Issues Raised</b>	<b>Mgt Action Plan Developed</b>	<b>Risk Accepted and No Action Proposed</b>
High Risk	0	0	0
Med Risk	0	0	0
Low Risk	1	1	0

## B1 – RB16-2021 Workforce – Recruitment and Retention of Approved Mental Health Professionals (AMHPs)

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Good</b>

This audit reviewed the adequacy and effectiveness of the controls in place for managing Workforce - Recruitment and Retention of Staff, with a specific focus on the critical role of Approved Mental Health Professionals (AMHP).

### Key Strengths

- The risks relating to the recruitment and retention of AMHP staff and the potential impact on the continuity of statutory services are recognised on the corporate and operational risk register and these risks and mitigating controls are being effectively managed / monitored
- Work is currently underway to prepare a Strategic Workforce Plan. This is currently in the data analysis and action forming stage.
- Effective recruitment and retention initiatives are in place to attract and retain AMHP staff, and there is an embedded culture of reflection and learning when retention initiatives for individual leavers are not successful
- A comprehensive training offer is in place by way of a retention incentive and to ensure ongoing training and development
- There is good understanding of the dedicated AMHP workforce demographic to enable succession planning for future retirements

### Areas for Development

- There is not currently a, recruitment and retention strategy or recruitment and selection policy in place for ASCH / AMHP staff. Issue 1
- There is no mechanism in place to collect, analyse or report AMHP recruitment, retention, or leavers data to enable trends and emerging issues to be identified. Issue 2

### Prospects for Improvement

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

- A Strategic Workforce Plan is currently being developed.
- The service is working proactively to address dedicated AMHP vacancies. Subject to a business case being approved all vacancies should be filled by 31 October 2021.

### Summary of Management Responses

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	N/A
Med Risk	2	2	N/A
Low Risk	0	0	N/A

**C1 – RB27-2021 – Adoption**

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Very Good</b>

**Key Strengths**

- During the establishment of the Regional Adoption Agency (RAA), there was regular reporting of progress to KCC members.
- There was a long lead time between initial discussions and go live of the RAA, providing opportunities for the RAA to be created in a considered manner.
- Key requirements of each Council were considered, with the originally proposed Local Authority hosted model replaced by a Partnership Model.
- A clear project plan was followed to support the creation of the RAA, including workstreams for the completion of specific tasks, such as finance and HR.
- A Partnership Agreement is in place between the three Local Authorities, which includes terms, amongst others, for finance, delegated authorities, data confidentiality, and variation and termination of the arrangements.
- A Statement of Purpose for the RAA is in place, which defines the role and structure of the RAA.
- The RAA aligns to the requirements of the 2015 Department for Education (DfE) paper on Regionalising Adoption.
- Discussions and decisions made relating to the RAA are clearly evidenced through agendas, minutes and reports.
- Interviews with key staff from Medway and Bexley highlighted their support of the governance arrangements in place for the RAA.
- There is a clear structure in place for reporting and discussing key issues, via the RAA Partnership Board.
- The Partnership Board has a Terms of Reference in place to define its purpose and membership.
- Performance statistics are produced and reported to the Partnership Board.
- The adoption process is clearly defined and aligned to statutory requirements.

- The vast majority of roles within the staff structure are filled.
- A staff confidentiality agreement is in place, to assist with the security of data being viewed across the RAA.
- At the time of testing, a Quality Assurance Committee was in the process of being implemented for the RAA.
- Statistics are compiled and sent to the Adoption and Special Guardianship Leadership Board, as per their requirements.
- Budgets are regularly scrutinised by the Head of Adoption Service and the Partnership Board.
- The grant funding available from the DfE has been used to support the creation of the RAA.

**Areas for Development**

- There is not currently an RAA risk register in place.
- RAA specific training and guidance are yet to be produced.

**Prospects for Improvement**

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

- Throughout the course of this review, staff have displayed high levels of transparency and openness in relation to the areas for development and a commitment towards implementing any necessary actions to further enhance the governance arrangements of the RAA.

**Summary of Management Responses**

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	0
Med Risk	0	0	0
Low Risk	2	2	0

## C2 – RB30-2021 – Provision of Laptops to Service Users

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

The Council was required to respond urgently to [Department for Education's Technology Support Scheme](#), which was instigated in response to Covid-19 and the home-schooling arrangements. This scheme was implemented during significant service and resource pressures, with limited guidance or stipulations provided by the DfE. At the two key stages for ordering of forecast and provision of laptops, DfE provided a week to undertake tasks as shown below:

- 24 April 2020: KCC notified of the scheme and forecasts numbers to be provided within a week;
- 26 May 2020: KCC notified that orders could be placed;
- 27 May 2020: KCC notified that laptop orders were dispatched;
- 3 June 2020: Laptops received by KCC with insurance, building provision and logistics in place.

During this process, DfE consulted LA's including Kent recognising provision to councils was not the most direct route to children. Kent agreed with this feedback. Subsequent provision by the DfE went directly to schools. The Council has already reflected on the scheme's delivery and has agreed that in the event of a similar scheme arising in the future, schools will be required to order, distribute and manage devices directly to ensure more efficient and effective management of the scheme and to remove the Council's involvement in the process.

### Key Strengths

- The Director - Integrated Children's Services was appointed overall lead for the scheme, with decision making authority assigned to CYPE's DMT.
- The operational delivery of the scheme was assigned to specified CYPE officers, with support from Infrastructure and the storage and distribution of the devices was split across 4 Hubs located across Kent.
- The insurance premium for Sessions House was increased temporarily to reflect the Council's increased liability whilst the devices were in storage.

- Officers from both CYPE and Infrastructure worked promptly to respond to the scheme to ensure laptops and routers were promptly distributed to all young people and schools.

### Areas for Development

- Limited / incomplete asset inventory records were held centrally and by the Hubs which meant some devices could not be accounted for retrospectively. It was therefore not possible to confirm the devices had been allocated in accordance with the scheme's criteria. A total of 70 devices were not logged.
- Decisions made in relation to the implementation of the scheme were not recorded in a formal decision log.
- The Council has not yet formalised what will happen to those devices lent to young people once the DfE funding has been withdrawn.
- User agreements were completed by the young people but have not yet been collated centrally for retention due to current office working restrictions.

### Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the fact that the Directorate has already completed a lesson's learned exercise on the implementation and management of the scheme and have identified in the event a similar scheme is introduced again in the future, the Council will not be directly involved in the scheme and schools will be encouraged / supported to liaise directly with the DfE. The Directorate has also started to address the issues raised during the audit.

### Summary of Management Responses

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	1	0	0
Med Risk	2	0	0
Low Risk	1	0	0

### C3 – CS05-2021 – Schools Financial Services – School Compliance Regime

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Very Good</b>

Internal Audit have established that the statutory returns and closedown activities undertaken by the Returns and Compliance Team during 2020/21 have been managed effectively. Monitoring logs are used for each activity and were found to be sufficiently detailed with sample testing confirming that the logs are completed accurately and kept up to date. Documents supplied by schools are subject to a consistent review process using standard templates designed to ensure that all necessary checks for each activity have been completed. Feedback has been provided to schools in a standard consistent format.

However, it should be noted that Covid-19 restrictions prevented the planned on-site school compliance visits being undertaken. Schools Financial Services collaborated with KCC stakeholders and agreed an alternative approach to undertaking compliance review activity with schools during 2020/21. Whilst this was a reasonable step to take and provides some additional information about school controls (through review of financial policy and procedure documentation for approx. 1/3 of schools), the work undertaken cannot cover the breadth or depth of the normal on-site Compliance inspections. As a result, the Compliance and Returns team are unable to provide assurance regarding the effectiveness of, and adherence to, key controls within individual schools for 2020/21.

Internal Audit are satisfied that the totality of activities undertaken by the Returns and Compliance Team (Statutory returns and alternative compliance visit approach) are sufficient to provide the required assurance to support the section 151 officer certification of the Schools Financial Value Standard.

The normal compliance regime is planned to resume from September 2021 (18 months after it was suspended) but the delay has resulted in a number of schools exceeding the agreed 4-year compliance visit cycle. Based on the proposed visit programme it is expected to take until April 2024 before all schools are back to receiving a visit within the agreed 4-year interval.

#### Key Strengths

- Review of the activities undertaken in relation to the 3-Year Plan, 6 Month Monitoring, Half Year and 9 Month reviews, and Closedown found that:
  - Robust controls are in place to monitor that all schools have submitted required statutory returns information.
  - The tracking logs used to monitor statutory returns activities are kept up to date and provide a view of schools which have or have not submitted their information and the progress made with processing and providing feedback.
  - Returns submitted by schools are subject to a consistent review process using a standard workbook designed to ensure that all key aspects of the documents returned have been checked.
  - Feedback is provided to schools in a standard format.
- Additional sample testing was completed in relation to 3-Year Plan, 9 Month Review and Closedown activities which confirmed that the standard workbooks had been fully completed during 2020/21 and that feedback or outturn reports had been generated and sent to schools.
- The alternative approach to undertaking compliance work with schools was agreed between SFS and KCC.
- Approximately 1/3<sup>rd</sup> of schools voluntarily submitted their documents for review and received observations.
- Established processes were replicated to ensure that returns for the alternative compliance work could be monitored and tracked through to completion. A consistent review was undertaken of all documents submitted using standard workbooks.
- An action plan has been developed to ensure that on recommencement of the normal compliance visit regime, that schools with the longest period elapsed since their previous compliance visit are visited as a priority.
- Whilst normal compliance work has not been undertaken, the opportunity has been used to fully review and update the existing testing workbook template to ensure that relevant areas will be covered for testing on resumption of visits.

### Areas for Development

- The impact of not having undertaken normal compliance visits for 18 months (based on current resourcing and visit scheduling) is that it will take until April 2024 to bring all schools back within the agreed 4-year cycle for compliance visits.
- The alternative approach to compliance visits used during 2020/21 was the only realistic option available to the team and whilst seen as a beneficial exercise has not enabled the team to verify that key controls are being adhered to and are operating effectively in schools. No issue raised – due to Covid-19 pandemic and outside the control of the team.

### Prospects for Improvement

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

- A detailed plan has been developed to reinstate compliance visits from September 2021 with priority given to those schools which are already over-due a visit.
- SFS have acknowledged the risks associated with the expected timescales to bring all schools back within the agreed 4-year cycle for compliance visits.

### Summary of Management Responses

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	N/A	N/A
Med Risk	1	1	0
Low Risk	0	N/A	N/A



#### C4 – RB23-2021 Accommodation for Young People / Care Leavers

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Very Good</b>

##### Rationale

Senior management, Commissioning, and the 18+ Service have been proactive in addressing the known challenges and issues facing the provision of Accommodation for young adults who are Care Leavers. This includes the following:

- Introduction of the Shared Accommodation script which sets out the expectations for the Young Adult strengthening the Occupational Agreement in Shared Accommodation.
- The Housing Benefit process chart which covers both the Children in Care (CiC) teams and the 18+ service to maximise claims. Ongoing discussions with the providers to ensure any benefits received are reimbursed to KCC or deducted from the weekly payment made.
- Introduction of Personal Housing Plans (PHPs).
- The introduction of monthly district high-cost meetings and the improved monitoring of income and expenditure. The internal panel looks at existing caseloads and the district managers look at those rising 18+ cases.

There is a clear culture within the 18+ Service of wanting to improve the provision for young adults to ensure that they are supported to achieve the outcomes towards independence. The service recognises that cultural and structural changes are required to help address this so that the CiC Service are able to plan ahead and do not leave the step down to the point of transition. There needs to be some clear transition agreements with Adult services so there is a 'one council approach' to young adults in need of specialist accommodation. This should include agreed referral points and joint assessment and shared resources.

There needs to be joint work between Children's and Adult Commissioning to develop a clear support matrix that sets outcome focused goals for the services users and provider. A one-stop shop, where adult and children's commissioning can work together within an applied framework needs to be introduced, following clarity on responsibility from the Regulators, CQC and Ofsted, which is being actively sought.

Young people are not being consistently held accountable for the pay-over of Housing Benefit to the housing provider and there are no consequences of not doing so (e.g., risk of eviction). As a result, a significant amount of income is not being collected by KCC which is subsequently liable for the whole housing cost.

Monitoring of the quality of the accommodation and the provision of support by accommodation providers is inconsistent, based on whether there is a formal contract in place to allow formal monitoring. The Shared and Young People Supported Accommodation Floating Support contracts are contract managed with KPIs and audits. Properties are quality assured by the Provider each month with the day-to-day responsibility is with the Service. For Semi-Independent Accommodation where the services are spot purchased, providers go through a Quality Assessment process led by Commissioning with the Service completing six-weekly Purposeful Visits for those under 18. Providers are contracted to provide weekly / monthly placements reports for the Service. It is not possible to do the same for over 18's as MII do not have the ability to provide data on where 18+ care leavers are placed at any one time. The Unregulated and Crisis Placement Compliance Guidance provides relevant details on quality, roles etc whilst this is predominantly aimed at children it is applicable to those over 18. There are the Inadequate, Safeguarding and Care Concerns policies that assist in the monitoring of the quality of provision. In addition, the housing element of Universal Credit and housing costs paid to Young People directly that is then not passed onto the provider and subsequently on to KCC as KCC are unable to receive the benefit directly, leading to a significant loss to the Council.

### Prospects for Improvement

- A robust High-Cost Placement Panel process is in place which includes representatives from relevant services such as the Total Placement Service (TPS), Commissioning, key staff from the 18+ Service, the Accommodation Manager, and the Housing Benefits Adviser.
- For the period November 2020 to February 2021 the number of young adults in semi-independent placements has reduced from 100 to 45 representing a total of £204,825 high-cost panel savings (stepping down arrangements). (See Appendix A).
- Monthly tracking of in-year spend on care leaver placements is performed. Each month a report is prepared and sent to the joint heads of service for review. This review process was introduced in May 2020 with the first report produced for June 2020.
- Placements reviewed were found to be authorised, with a robust matching process in place, the agreed costs had been correctly paid to the provider and payment had been made on a timely basis. There was consistent segregation of duties between the offer of the placement and the authorisation of the placement.

### Areas for Development

- A number of areas of improvement and opportunities to share good practice were identified regarding the management of high-cost placements.
- Where additional support hours are included as part of the placement these are not being consistently monitored and reviewed. The Service is required to monitor whether the additional resource is required and inform TPS / TPS Business of any changes. All requests for additional resources requested by SI providers cannot be progressed without the Service's agreement. A new process has been developed and Service Managers are contacted by TPS Business where the additional support is coming to an end. This commenced in March with varying success, however, is being reviewed.

- KCC are not consistently receiving the housing cost element of Universal Credit - young people are not being held accountable for the payment of housing costs and this is not being consistently monitored by Personal Advisors. In addition, KCC are missing out on significant amounts of Housing Benefit income from Young People in Shared Accommodation due to the fact that the young people are not claiming housing costs, or not passing them on and to a lesser extent, Semi-independent accommodation.
- Responsibility and monitoring of individual placement costs is performed at a Head of Service and Assistant Director level. Team Managers do not receive monitoring information to enable them to have an oversight and accountability of the costs incurred for service provision across their teams. Operational managers need to be empowered and given the tools to manage care packages that they have the responsibility for and the oversight of.
- Power BI has been rolled out across the service to facilitate improved tracking of placements and provision of activity information, but placement costs are not part of Collaborative Planning reporting.

### Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	3	3	0
Medium Risk	2	2	0
Low Risk	0	N/A	N/A

## D1 – CA04-2021 – Risk Management

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Very Good</b>

As part of the 2020/21 Audit Plan, it was agreed that Internal Audit would undertake a review of risk management in the Council to provide an opinion on the adequacy and robustness of risk management at 'grass roots' level. The approach taken was to assess risk management in a number of the planned audits in the 2020/21 Audit Plan and identify themes in an overall report at the end of the year.

In forming our conclusions, we took into account the Accounts and Audit Regulations 2015 and KCC's Risk Management Policy.

The audit findings were taken from work carried out across the Directorates split as follows:

ASCH	CYPE	GET	ST
8%	17%	17%	58%

### Key Strengths

- A variety of techniques are used to identify risks such as formal Risk Assessments and regular discussion around risks at service and/or team level.
- Separate specific risk registers were in place (project or service specific) or Divisional, Directorate and Corporate risk registers were used by all areas reviewed, with one exception.
- There was a good awareness of what the key service objectives were and what could affect their achievement.
- There was appropriate awareness of when to escalate risks to Senior Officers (e.g. Corporate Directors) and of the various forums where risk is discussed, including DivMTs.
- The majority of risks are under regular review, with some services utilising Corporate Assurance to support them in undertaking this.

- The risk appetite in the areas reviewed was generally well understood and was defined by policy and/ or through communication from Senior Officers.
- Where risks are formally documented in risk registers, they each have controls/ actions and owners in place which appear reasonable to mitigate/ manage each risk reviewed.

### Areas for Development

- The Risk Management Training offer was highlighted as an area for improvement however, Internal Audit are aware that this is currently being reviewed as part of the RM Toolkit and training offer. This is an outstanding action from last year's Risk Management themed audit and therefore it has not been raised as an Issue in this report.

### Follow-Up

The agreed actions from one issue raised in last year's Risk Management Themed Report were followed up to determine whether they have been implemented.

### Issue 1 - Awareness of Risk Management Tools

Actions are in progress, including development of the Risk Management Toolkit and training offer.

### Summary of Management Responses

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	0
Med Risk	0	0	0
Low Risk	0	0	0

**D2 – RB10-2021 – Covid-19 Risk – Procurement and Contracts**

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

While the Council identified and responded to the disruption caused by the Covid-19 Pandemic quickly and decisively to support compliant procurement in this period, Internal Audit identified some key areas in which the procurement control framework could be enhanced.

The Urgent Procurement Guidance issued following Public Procurement Note 01/20 was clear and well communicated, but as much of the procurement activity in the Council is devolved to services there may be procurements undertaken without appropriate engagement and advice from Strategic Commissioning. Although no deviations from public procurement regulations were identified during the audit, Internal Audit was unable to confirm that all the procurements completed under the Public Procurement Note 01/20 were fully in compliance with the revised procurement guidance.

**Key Strengths**

- Urgent Procurement Guidance was introduced to assist officers in complying with the Cabinet Public Procurement Note. The Guidance did not necessitate any changes to the regular Scheme of Delegation.
- The Strategic Commissioners were all appraised of the Public Procurement Note 01/20 and the Urgent Procurement Guidance when Internal Audit spoke to them.
- Efforts are being made to centralise and unify the Council's Procurement Function; in the meantime, much of the procurement activity is currently devolved into the Services themselves.
- The Strategic Commissioner reports directly to the Head of Paid Service. This means there is a robust line of communication between the strategic and operational organisational structure layers.

**Areas for Development**

- It is possible that procurements are being undertaken by the Directorates without appropriate oversight and advice from the Strategic Commissioning Team.
- The Strategic Commissioners' individual records of procurements undertaken are inconsistent.
- It was not possible to verify whether all procured contracts over £25k have been published on the Kent Business Portal in line with the Public Procurement Policy.

**Prospects for Improvement**

Internal Audit considers that there are **Good** Prospects for Improvement, due to the following factors:

- Internal Audit observed a positive direction of travel in the Strategic Commissioning Team, who are actively working to improve the effectiveness of their service.
- The Public Procurement Note 01/20 is no longer in effect, so the risks previously presented by it have been significantly reduced.
- The corrective actions required to control the risks identified can feasibly be implemented within a reasonable timeframe.

**Summary of Management Responses**

	<b>No. of Issues Raised</b>	<b>Mgt Action Plan Developed</b>	<b>Risk Accepted and No Action Proposed</b>
High Risk	0	0	NA
Med Risk	2	2	NA
Low Risk	1	1	NA

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Good</b>

The Council responded rapidly to the challenges faced as result of the Covid-19 pandemic, balancing strategic decisions regarding risk appetite and controls to safeguard the public purse, with the measures required to provide stability and certainty to suppliers and continuity of services. Strategic Commissioning and Finance worked closely with service leads and budget holders, taking swift action to provide financial support to suppliers reflecting Cabinet Office guidelines. In the initial absence of clear guidance and processes for these payments, officers across the Council considered their suppliers' circumstances and interpreted the PPN in order to support key suppliers, mitigate the risks to the Council of supplier failure, and maintain service delivery.

With the Cabinet Office guidance having expired on 31<sup>st</sup> October 2020, there are no plans to provide further financial support and therefore the on-going risks to the Council are now limited.

A review of a sample of payments made has shown that the approach to making supplier distress payments varied on a case by case basis and full records to support the rationale for the decisions taken have not been retained in all cases.

Internal Audit's overall Audit Opinion of Limited is based on the following strengths and areas for development:

#### Key Strengths

- Steps were also taken to ensure that validated invoices were paid immediately on receipt wherever possible, and ensured any outstanding payments were processed promptly.
- Strategic Commissioning and Finance worked closely with service leads and budget holders, taking swift action to provide financial support to suppliers.
- Individual officers within both Finance and Strategic Commissioning took the initiative in developing guidance and processes for these payments.
- the Finance and Strategic Commissioning teams were available to provide advice to those making payments under the PPN. Detailed guidance and procedures for contract managers and budget holders was subsequently produced (after most payments had been made).
- The Counter Fraud team was engaged to provide advice on the risk of fraud and due diligence requirements for the guidance, although this was after the majority of payments had been made. This established that the risk of fraud is low because there were no 'criteria' set on what would entitle a supplier to a payment. However the risk of suppliers receiving supplier relief payments in error when they were receiving support from other government funding schemes however is high (see Areas for Development below).
- Strategic Commissioning and Finance have established a detailed central record of all supplier relief payments, following engagement with service leads and budget holders.

**Areas for Development**

- As a result of the need for swift action to prevent supplier failure and maintain service delivery, implementation of supplier distress payments reflected individual interpretations of Cabinet Office PPN guidelines. There were limited due diligence and financial checks undertaken, with no clear criteria of entitlement being established, and the audit trail maintained to support payments made is not fully complete in all cases. See Issue 1

**Prospects for Improvement**

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

- The audit findings from the initial review were received positively and action has already been taken to address the findings identified.
- There are no plans for KCC to provide further financial support to its suppliers. However, should it become necessary for the Council to provide further financial support in order to protect critical service delivery, it is proposed that a similar approach is followed to that undertaken previously.

**Summary of Management Responses**

	No. of Issues Raised	Mgt Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	1	1	NA
Med Risk	2	2	NA
Low Risk	1	1	NA

## E1 – RB33-2021 - Gypsy & Traveller Pitch Allocation and Charging – Management Letter

Audit Opinion	N/A
Prospects for Improvement	N/A

It was agreed that Internal Audit would undertake a review of the allocation of pitches at the Gypsy & Traveller sites and the arrangements for charging and collecting income for these pitches.

The aim of the audit was to provide assurance that the decision and approval processes followed for allocating the new pitches were sound and in accordance with agreed Policy and procedures to manage the Council's exposure to potential litigation claims. In addition, coverage was to include the processes surrounding the billing and collection of rents from the pitches. However, once fieldwork had commenced it became apparent that new processes are still to be fully established, with a new case management system going live on 1<sup>st</sup> June 2021. This initial Audit Memorandum does not provide a formal assurance opinion, but highlights issues identified by Internal Audit to date to aid the management team in implementing appropriate actions. Internal Audit's initial findings are set out below:

- The current GTS Policy is dated 2012. Despite a consultation taking place in 2017 to review this policy, this was deferred, and the Policy was never updated. In addition, it was identified that there is no documented procedural guidance for the processes undertaken by the Gypsy & Traveller Service.
- The current allocation process is outdated. For instance, Housing Authorities (HAs) have moved away from waiting lists and now operate banding schemes to ensure accommodation needs are assessed in a fair and transparent manner.
- Supporting evidence for historic applications is not retained and therefore it not possible to ascertain if appropriate checks had been carried out.
- The records held of current tenants, their pitches and rental fees were disorganised and not fully up to date.
- The level of pitch rental debt as of May 2021 is over £350k with approx. 70% (£210k) being over 6 months old, much of which dates back several years. This indicates the debt recovery / write-off process is ineffective.

### Recommendations

- The GTS Policy should be reviewed and updated to ensure that it is fit for purpose.
- Once the new Case Management system has been embedded, procedural guidance should be developed for staff to follow.
- All documentation such as application forms, rental agreements should be reviewed by the Counter Fraud Team.
- Support should be obtained from the Counter Fraud team to provide fraud awareness training for GTS staff, including how to identify fraudulent documentation.
- Discussions with the Housing Authorities on how they band applicants should be progressed further to ensure that the allocation process is fair and aligns with the GTS.
- Data now entered onto the new Case Management system must be accurate and kept up to date. This should include consideration of on-going data cleansing or the use of exception reports to identify data anomalies for investigation.
- Ensure that there is sufficient evidence and records held to support the decision-making process that has been carried out when assessing applications and allocating pitches.
- All tenant's accounts should be reviewed, and effective processes put into place to recover outstanding debt. Where debt is considered to be unrecoverable it should be written off, with authorisation in line with the Council's financial delegation matrix.

### Conclusion

Internal Audit recognises that significant work has been undertaken by the GTS to address known weaknesses and to develop more robust processes, including the introduction of a new Case Management system. However, it is imperative that the Case Management system holds accurate up to information, processes are developed which must ensure that there are records to support the decisions made by the GTS and that the level of outstanding debt is reduced significantly.

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**By:** Jonathan Idle – Head of Internal Audit

**To:** Governance and Audit Committee – 22 July 2021

**Subject:** **INTERNAL AUDIT PLAN 2021/22**

**Classification:** Unrestricted

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**Summary:** This report details the proposed Internal Audit Plan for 2021/22; the Internal Audit Charter, which underpins the plans and practice of the Internal Audit team and the key performance indicators to be tracked and monitored during 2021/22.

**Recommendation: FOR DECISION**

**Introduction**

1. This paper sets out the proposed 2021/22 Internal Audit Plan (Plan), including a breakdown of available resources.
2. This paper also includes the Internal Audit Charter. The Charter is a mandatory requirement of the Public Sector Internal Audit Standards, which should be reviewed and updated periodically. The Charter sets out the purpose, authority and responsibility of Internal Audit.
3. This paper also details the key performance indicators to track and monitor audit plan delivery and service performance during 2021/22.

**2021-22 Internal Audit Plan**

4. The Public Sector Internal Audit Standards stipulates the need for the development of a Plan. The Plan also provides a mechanism for planning and controlling the Internal Audit service.
5. The Plan for 2021/22 attached at **Appendix A** details all audits and projects to be completed in the year, along the resource projections.
6. The Plan includes 55 projects covering core assurance, core financial assurance, consultancy, risk based and ICT, plus other works including grants, audit management, development of audit management software (Pentana), and a budget for contingency and follow ups. The total planned days for 2021/22 is **1040**.
7. **Appendix B** sets out how the audits listed on the Plan map to KCC's Corporate Risks.
8. In addition to the projects listed on the Plan, we also have **204** days set aside for grant certification work. This gives a total KCC Plan of **1244** days.

9. The outcomes from the 2021/22 Plan will provide the following:
  - Overall opinion and assurance to support the 2021/22 Annual Governance Statement.
  - Assurance against the mitigation of key corporate risks.
  - Assurance over the critical systems of the Council.
  - On-going advice and information to management on risks and controls.
  - Opportunities to provide management with value for money support and advice.
10. The Plan has been developed through a risk-based planning process which has included the following elements:
  - A review of the corporate and divisional risk registers.
  - Discussions with Corporate Directors, Directors and Heads of Service.
  - Conducting a survey with key officers.
  - Attendance at Directorate Management Team meetings.
  - Horizon scanning to identify emerging risks and issues.
  - Undertaking an assessment to determine the required coverage needed for the Head of Internal Audit's annual opinion for 2021/22.
  - A review of the Council's Annual Governance Statement.
  - A review of previous cyclical / core audit work.
  - Identification of audit reviews in need of formal follow up.
  - A review of the audit reviews deferred / removed from the 2020/21 Plan.
  - Consideration of other sources of assurance.
11. To ensure the Plan remains relevant and of most value to the Council, it is vital that the plan remains dynamic and flexible to enable audit resources to be redeployed to respond to emerging risks and changing priorities. Progress against the Internal Audit Plan, including any revisions to the Plan will be reported to the Governance and Audit Committee on a quarterly basis.
12. Excluded from Appendix A are detailed plans for:
  - Internal audit coverage of the KCC's current LATCos, more particularly Commercial Services, Invicta Law, Cantium and The Education People
  - Income generating and shared service work with Tonbridge and Malling Borough Council, Kent and Medway Fire and Rescue Service, Parish Councils, Academies and audits of selected grants.

## Resources

13. The audit resources available for 2021/22 is approximately **1,883** days.

The available resources for 2021/22 is less than in previous years. This is due to the following factors:

- Following a recent team restructure, 2021/22 will be a transition year to enable the service to recruit / fill all vacant posts. Recruitment to fill these posts has now commenced. It is anticipated that all vacant posts will be filled by the October 2021.
- A significant amount of Audit Manager and Principal Auditor resource will be needed in 2021/22 to recruit, induct, and train new team members.
- Audit resources to be used to implement the External Quality Assessment action plan.
- An increased training and development budget has been provided for all team members.
- Audit resources have been assigned for the ongoing development of our audit management software (Pentana).
- A large contingency budget has been included within the Plan to enable the service to respond to additional client requests to respond to new and emerging risks and / or new priorities.

The number of audit days set out in the Plan presented in **Appendix A** is **1244** for KCC, plus **765** for external clients. This is a total of **2009** days. It has been agreed with the Corporate Director – Finance (S151) that the shortfall between resources and proposed Plan days will be met through the use of contract auditors and the Plan will remain under continuous review to ensure the planned days remains deliverable in line with available resources.

## Internal Audit Charter

14. It is a requirement of the Public Sector Internal Audit Standards (the Standards) that the purpose, authority and responsibility of Internal Audit is formally defined in an internal audit charter and that this be periodically reviewed and presented for approval to senior management and the Board (defined as the Audit Committee in the Local Government Application Note by Cipfa). The Charter has been reviewed and updated to ensure it remains fit for purpose to support delivery of the 2021/22 Plan and is compliant with the Standards; the revised version is attached at **Appendix C**.

## 15. Key Performance Indicators

**Appendix D** sets out the Key Performance Indicators (KPI's) to be tracked and monitored during 2021/22. There are two sets of KPI's detailed; those reportable to key stakeholders and those to be internally monitored for the purpose of tracking team performance and to drive service improvements.

## **Conclusions**

16. The Plan provides sufficient coverage of the Council's current and emerging risks and priorities, with sufficient flexibility to add further reviews onto the plan as needed. With support from contractor auditors and the planned recruitment, there will be sufficient resources to deliver the proposed Plan.

## **Recommendations**

17. Members are asked to:

- Agree the proposed Internal Audit Plan for 2021/22
- Approve the Internal Audit Charter
- Note the Key Performance Indicators for 2021/22

## **Appendices**

**Appendix A - Internal Audit Plan and Resourcing**

**Appendix B - Plan Mapped against Corporate Risk Register**

**Appendix C - Internal Audit Charter**

**Appendix D - 2021/22 Key Performance Indicators**

**Jonathan Idle**  
**Head of Internal Audit**  
**03000 417840**

# Kent County Council

## Internal Audit and Counter Fraud Plan July 2021 – May 2022

# 1. Core Assurance

To provide assurance on core aspects of internal control authority wide

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
CA01-2022	Annual Governance Statement	10	Assurance	<p>An audit to provide assurance that directorate AGS returns are timely, appropriate, accurate and complete, and issues identified are managed adequately and effectively to meet service and corporate objectives. To be carried out in two phases, one part-way through the year to assess effectiveness of monitoring governance issues within the Directorates and the second review to be completed at year-end to inform the preparation of the AGS.</p> <p>In forming our conclusions, we will take into account the CIPFA / SOLACE Delivering Good Governance in Local Government framework (2016), the associated statutory guidance and any other best practice frameworks</p>	<p>Ben Watts General Counsel / Monitoring Officer</p> <p>David Cockburn Head of Paid Service</p>
CA02-2022	Corporate Governance	40	Assurance	<p>Allowance for Governance audits in 21-22 - audits to be confirmed, but may include:</p> <ul style="list-style-type: none"> <li>- Decision making, recording and delegations</li> <li>- Codes of Conduct (officers and / or Members)</li> <li>- Constitution</li> </ul>	Ben Watts General Counsel / Monitoring Officer

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
CA03-2022	Equalities Act 2010 Duties	10	Assurance	An audit to provide assurance that the Council has appropriate processes in place to ensure it complied with its duties under the Equality Act 2010 (Public Sector Equality Duty) in the provision of services.	David Whittle Director – Strategy, Policy, Relationships & Corporate Assurance  David Cockburn Head of Paid Service
CA04-2022	Future of Sessions HQ	15	Assurance	Embedded assurance for the project to set the direct for the future of Sessions House and take this forward to implementation. This is currently at an early stage, with audit assurance to be provided at key points as it progresses.	Karen Frearson Head of Property Strategy  Rebecca Spore Director - Infrastructure
CA05-2022	Information Governance Assurance Mapping Update	5	Assurance	To review and update the Information Governance assurance map, which was originally compiled in 2019/20	Ben Watts General Counsel / Monitoring Officer  David Whittle Director – Strategy, Policy, Relationships & Corporate Assurance
CA06-2022	Records Management Follow Up	10	Assurance	A follow up audit regarding Records Management, which was a Limited Opinion audit in 2020-21. To assess and report on progress being made with the implementation of agreed actions to address the issues raised in the audit report.	Ben Watts General Counsel / Monitoring Officer

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
CA07-2022	Risk Management	15	Assurance	Audit of Corporate Risk Management arrangements in place within KCC, to include the adequacy and implementation of new risk management framework + training provided to officers.	Mark Scrivener Corporate Risk Manager  David Whittle Director – Strategy, Policy, Relationships & Corporate Assurance
CA08-2022	Strategic Commissioning	20	Assurance	To provide assurance that Strategic Commissioning has implemented adequate and effective processes and controls covering: <ul style="list-style-type: none"> <li>• The planning of major procurements / contract re-lets,</li> <li>• Contract registers,</li> <li>• Contract management standards and guidance, and</li> <li>• Communications with and support to all parts of the Council, including promoting a consistent commissioning approach.</li> </ul>	Clare Maynard Strategic Commissioner  David Cockburn Head of Paid Service
<b>Total</b>		<b>125</b>			



## 2. Core Financial Assurance

To provide assurance on core aspects of financial internal control

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
CS01-2022	CIPFA Financial Management Code	20	Assurance	Compliance review against the Code Potential scope to include: - Responsibilities of CMT - Governance and Financial Management - Medium to Long-Term Financial Management - The Annual Budget - Stakeholder Engagement - Performance Monitoring - External Financial Reporting	Zena Cooke Corporate Director – Finance (S151)
CS02-2022	General Ledger	10	Assurance	To provide assurance that key general ledger controls are operating adequately. To include Journal controls (to provide specific assurance to the external audit), bank reconciliations and other controls to be determined.	Zena Cooke Corporate Director – Finance (S151)
CS03-2022	Imprest Accounts Follow Up	10	Assurance	A follow up on the implementation of agreed actions following the 'No Assurance' Imprest Accounts audit in 2019-20.	Zena Cooke Corporate Director – Finance (S151)  Cath Head Head of Finance (Operations)

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
CS04-2022	Payroll	15	Assurance	To provide assurance that key controls within the KCC Payroll process are operating effectively and that there is effective contract monitoring of those elements undertaken by Cantium Business Solutions. Testing to include leaver payments.	Amanda Beer Corporate Director – People & Communications
CS05-2022	Pension Scheme Admin	20	Assurance	An audit of the processes and controls in place within the Kent Pension Scheme to ensure accuracy and timeliness of processing. To cover new joiners, transfers in / out, deferred members' and retirement processing.	Alison Mings Treasury and Investments Manager  Zena Cooke Corporate Director – Finance (S151)
CS06-2022	Urgent Payments Follow Up	5	Assurance	A follow up audit regarding Urgent Payments, which was a limited opinion audit in 2020-21. To assess and report on progress being made with the implementation of agreed actions to address the issues raised in the audit report.	Zena Cooke Corporate Director – Finance (S151)
<b>Total</b>		<b>80</b>			

### 3. Consultancy

Ref	Project Title	Days	Audit Details	
			Scope	Lead Officers / Directors
CR01-2022	Annual Audit Opinion	10	A review bringing together audit and other relevant outcomes / sources of assurance across KCC to form a view of corporate governance, risk management and control for the annual audit opinion.	Jon Idle Head of Internal Audit & Counter Fraud  Zena Cooke Corporate Director of Finance (S151)
CR02-2022	Annual Governance Statement	10	An audit to provide assurance that directorate AGS returns are timely, appropriate, accurate and complete, and issues identified are managed adequately and effectively to meet service and corporate objectives. To be carried out in two phases, one part-way through the year to assess effectiveness of monitoring governance issues within the Directorates and the second review to be completed at year-end to inform the preparation of the AGS. In forming our conclusions, we will take into account the CIPFA / SOLACE Delivering Good Governance in Local Government framework (2016), the associated statutory guidance and any other best practice frameworks.	Ben Watts General Counsel / Monitoring Officer  David Cockburn Head of Paid Service

	Project Title Ref	Days	Audit Details	
			Scope	Lead Officers / Directors
CR03-2022	Information Governance Steering Group	10	Watching brief undertaken through Audit attendance at operational and strategic level Information Governance groups.	Ben Watts General Counsel / Monitoring Officer
CR04-2022	Provider Invoicing	10	To review the process for receiving, reconciling and paying provider finances to determine whether there are adequate and effective controls in place to prevent duplicate payments and to ensure provider invoices are paid correctly and in a timely manner.	Mark Sage Corporate Accountant  Zena Cooke Corporate Director – Finance (S151)
<b>Total</b>		<b>40</b>		

## 4. Risk / Priority Based

To provide assurance on areas identified as being high priority or exposed to greater risk

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
4.1 Strategic and Corporate Services					
RB01-2022	Declaration of Interests (Members)	10	Assurance	To review the adequacy and effectiveness of controls over Member Declarations of Interests, in compliance with the Member Code.	Ben Watts General Counsel / Monitoring Officer
RB02-2022	Engagement of Consultants	15	Assurance	An audit of the Council's engagement of consultants to bring in additional expertise and skills on a short / medium term basis. To include controls over procurement decisions and the selection of consultants, financial commitment within authority limits, management of performance and termination of contracts.	Amanda Beer Corporate Director – People & Communications  Paul Royel Head of HR
RB03-2022	Enterprise Business Capabilities (Oracle) – Strategic Reset Programme	10	Assurance	Embedded assurance on the Council's Enterprise Business Capabilities (Oracle) project, including attendance at the EBC Project Board meetings	Elizabeth Sanderson Strategic Business Adviser (Corporate)  Vincent Godfrey EBC Senior Responsible Officer  Amanda Beer Corporate Director – People & Communications

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
RB04-2022	Information Governance – DSP Toolkit	10	Assurance	An annual audit of the council's self-assessment of compliance with the NHS Data Protection and Security Toolkit. Reaching a satisfactory level of compliance with all aspects of the Toolkit is required for continued access to NHS data for ASCH and Public Health.	David Whittle Director – Strategy, Policy, Relationships & Corporate Assurance
RB05-2022	KCC Estate Review – Strategic Reset Programme	15	Assurance	Embedded assurance in the KCC estate review - to provide on-going assurance, for example over project management, governance, decision making, risk identification and benefits realisation.	Karen Frearson Head of Property Strategy  Rebecca Spore Director - Infrastructure
RB06-2022	New Grant Funding	10	Assurance	To provide assurance that new grant monies received is identified and related decision making is appropriately made and recorded in-line with the Constitution / Delegated Authorities and that spend on these grants is monitored and reported. This review will be in addition to some other deep dives into grant spend elsewhere on the Audit Plan.	Zena Cooke Corporate Director – Finance (S151)

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
RB07-2022	People Strategy – Strategic Reset Programme	15	Assurance	Embedded assurance on the People Strategy stream of the Strategic Reset Programme. To provide consultancy / advice / challenge throughout the project and assurance at key stages of the project.	Amanda Beer Corporate Director – People & Communications
RB08-2022	Property Infrastructure – Functions and Processes Transferred from Gen2	15	Assurance	An audit of the key functions transferred from GEN2 to KCC, with particular focus on performance monitoring and reporting of service delivery to ensure there is appropriate oversight and governance arrangements.	Karen Frearson Head of Property Strategy  Rebecca Spore Director - Infrastructure
RB09-2022	Public Health – Covid-19 Ring Fenced Grants	20	Assurance	An audit of the governance arrangements in place and adequacy of controls to ensure that spend of newly received grants is appropriately controlled, in line with grant conditions and within delegated authority limits. The main grants concerned are:  - Containment Outbreak Management Fund (COMF) - Test and Trace Grant - Asymptomatic Testing Grant - Clinically Extremely Vulnerable Grant	Clare Maynard Strategic Commissioner

Ref.	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
RB10-2022	Schools Financial Services	5	Assurance	Annual audit of the system of school compliance visits to provide assurance over the adequacy of the system of schools' audit. This work will support the S151 Officer's certification of the Schools Financial Value Standard.	Zena Cooke Corporate Director – Finance (S151)
RB11-2022	Strategic Reset Programme – Programme Governance	15	Assurance	To review the governance arrangements over the Strategic Governance Programme	Elizabeth Sanderson Strategic Business Adviser (Corporate)  Amanda Beer Corporate Director – People & Communications  Ben Watts General Counsel / Monitoring Officer
<b>Total</b>		<b>140</b>			



## 4. Risk / Priority Based

To provide assurance on areas identified as being high priority or exposed to greater risk

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
4.2 Adult Social Care and Health					
RB12-2022	Contract Management (ASCH)	20	Assurance	To review the adequacy and effectiveness of controls over the contract management arrangements over the following contracts: - Kent Enablement at Home - Shared Housing (Ready Homes) - Older Peoples Nursing & Residential Care Contract - Kent Employment Services	Richard Smith Corporate Director – Adult Social Care and Health  Wayne Gough
RB13-2022	Data Protection (ASCH)	20	Assurance	Compliance with GDPR and KCC's policies & procedures: - New ways of working / remote working - Increased data sharing with external agencies To review and evaluate the process for preparing and signing off Data Protection Impact Assessments (DPIA)	Richard Smith Corporate Director – Adult Social Care and Health  Ben Watts General Counsel / Monitoring Officer
RB14-2022	Individual Contracts with Care Providers (ASCH)	10	Assurance	To review the adequacy and effectiveness of controls over individual contracts with care providers, including: - Setting up new contracts, including due diligence checks - Amendments to existing contracts - Payments to care providers - Ongoing monitoring of care providers - Termination of contracts.	Richard Smith Corporate Director – Adult Social Care and Health  Clare Maynard Strategic Commissioning

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
RB15-2022	Making a Difference Every Day (MADE) Assurance Board – Strategic Reset Programme	20	Assurance	Embedded Assurance: Attendance at MADE Assurance Board meetings To provide advice / support as needed in relation to the following: - Safeguarding - Development of the Quality Assurance Framework	Richard Smith Corporate Director – Adult Social Care and Health  Carl Griffiths ASCH Recovery Lead and Senior Responsible Officer
RB16-2022	Provider Failure (Assurance Mapping)	20	Assurance	To complete an assurance mapping exercise to identify the first, second and third lines of assurance over Provider Failure.	Richard Smith Corporate Director – Adult Social Care and Health  Julie Davidson Principal Social Worker
RB17-2022	Safeguarding Assurance Map (ASCH)	5	Assurance	To review and update the Safeguarding assurance map, which was originally compiled in 2020/21	Richard Smith Corporate Director – Adult Social Care and Health
RB18-2022	Supervision of Social Workers	20	Assurance	Compliance with Social Care England & ASCH policies including: - Maintenance of CPD records - Quality of supervision meetings and bringing CPD into practice - Reporting of supervision outcomes to CMT.	Richard Smith Corporate Director – Adult Social Care and Health  Julie Davidson Principal Social Worker
<b>Total</b>		<b>115</b>			

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
4.3 Children, Young People and Education					
RB19-2022	Accommodation for Young People / Care Leavers Follow Up	5	Assurance	Follow up to Limited audit review issued in 2020/21.	Sarah Hammond Director – Integrated Children’s Services (Social Work Lead)
RB20-2022	Business Continuity Planning (CYPE)	15	Assurance	To evaluate the adequacy and effectiveness of CYPE's business continuity planning arrangements.	Matt Dunkley Corporate Director – Children, Young People and Education
RB21-2022	Change for Kent Children – Strategic Reset Programme	10	Assurance	Embedded Assurance Review for Attendance at the Change for Kent Children Board Advice and support on the 'Front Door' project / service	Matt Dunkley Corporate Director – Children, Young People and Education  Graham Genoni Director – Change for Kent Children Programme
RB22-2022	Foster Care – Transition to Shared Lives	15	Assurance	To establish whether Foster Care (transition to shared lives) cases are processed in accordance with relevant legislation, policies and guidance.	Sarah Hammond Director – Integrated  Stuart Collins Director Integrated Services

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
RB23-2022	Information Governance (CYPE)	15	Assurance	To assess the adequacy and effectiveness of the following areas: - Information Governance / GDPR Training and Awareness - Management of personal and sensitive data - Management and reporting of data breaches.	Matt Dunkley Corporate Director – Children, Young People and Education  Katherine Atkinson Assistant Director – Management Information & Intelligence
RB24-2022	Safeguarding Assurance Map (CYPE) Update	5	Assurance	To review and update the Safeguarding CYPE assurance map, which was originally compiled in 2020/21	Matt Dunkley Corporate Director – Children, Young People and Education
RB25-2022	School Themed Review – Corporate Credit Cards	30	Assurance	To complete a themed review across a sample of 20 (maintained) schools to determine whether the use of school (corporate) credit cards is in accordance with finance policies and procedures and fraud / theft risks are adequately mitigated.	Christine McInnes Director - Education
RB26-2022	SEN Assurance Mapping	20	Assurance	To identify all internal and external assurance received over SEND Prepare an assurance map covering 1st, 2nd and 3rd lines of assurance and identify any potential gaps / risks which may benefit from future internal audit review.	Mark Walker Director – Special Educational Needs & Disabilities
<b>Total</b>		<b>115</b>			

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
4.4 Growth, Environment and Transport					
RB27-2022	Traveller Service – Site Allocation and Pitch Fee Collections	15	Assurance	To provide assurance that the newly implemented Traveller pitch management systems are operating as designed.	Simon Jones Corporate Director – Growth, Environment & Transport (Interim)  Stephanie Holt-Castle Director – Growth & Communities
RB28-2022	Highways Term Maintenance Contract	15	Assurance	Embedded assurance engagement with the Highways Term Services Commissioning Project. As well as advice and challenge to the project, this will include the production of assurance reports at key project stages.	Simon Jones Corporate Director – Growth, Environment & Transport (Interim)
RB29-2022	Inland Border Posts / Decision Making and Financial Management	15	Assurance	Review to provide assurance on the governance arrangements and key decisions on grants received, and the Financial Management of the provision of border facilities at Sevington and White Cliffs.	Simon Jones Corporate Director – Growth, Environment & Transport (Interim)  Stephanie Holt-Castle Director – Growth & Communities
RB30-2022	Kent and Medway Business Fund	15	Assurance	To provide assurance over the procedures for assessment of applications to the Kent and Medway Business fund and the payment (and repayment) of grants and loans.	David Smith Economic Development

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
RB31-2022	Kent and Medway Energy and Low Emissions Strategy	15	Assurance	To provide assurance over the implementation of Kent and Medway Energy and Low Emissions Strategy by KCC. To include consideration of whether responsibilities are clearly defined, there are clear targets and outcomes which align to strategic objectives and progress is monitored and reported.	Stephanie Holt-Castle Director – Growth & Communities
RB32-2022	New Local Infrastructure Projects Across Kent (SELEP)	20	Assurance	A corporate wide review to provide assurance on project management and governance arrangements for projects funded via SELEP. The main source of funds is the Local Growth Fund and Getting Building Fund. To include:  - SELEP SLA - SELEP project funding and expenditure audit requirement.	David Smith Economic Development
<b>Total</b>		<b>95</b>			

## 5. ICT Audit

To provide assurance that risks in relation to ICT are being managed appropriately

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
ICT01-2022	Cyber Security Assurance Map Update	5	Assurance	To review and update the Cyber Security assurance map, which was originally compiled in 2020/21	Rebecca Spore Director – Infrastructure
ICT02-2022	Information Technology Risk Management	15	Assurance	To provide assurance that IT risks are identified, and appropriate mitigating actions are developed and managed. To include risk to KCC wide network, key systems and projects.	Dave Lindsay Interim Head of Technology Commissioning & Strategy  Rebecca Spore Director – Infrastructure
ICT03-2022	IT Cloud Strategy, Security and Data Migration	25	Assurance	A review of ICT Cloud security and data migration as the council moves towards increased use of cloud-based storage and systems. To include areas such as: • Cloud strategy, business case and plans in place • Contract initiation and management for cloud storage • Data centre migration arrangements and security • Procedure for verifying security controls within hosted environments. • Encryption for data at rest and data in transit, and interface security between physical network and cloud	Dave Lindsay Interim Head of Technology Commissioning & Strategy  Rebecca Spore Director – Infrastructure

Ref	Audit Title	Days	Audit Details		
			Assurance / Consultancy	Scope	Lead Officers / Directors
ICT04-2022	IT Data Security Audit for DSP Toolkit	15	Assurance	A deep dive into one area, as 20-21 covered general controls across ASH. CYPE and Public Health	Rebecca Spore Director – Infrastructure  Dave Lindsay Interim Head of Technology Commissioning & Strategy
ICT05-2022	Prevention of ICT Data Centre Outages Follow Up	10	Assurance	A review of the progress against agreed actions arising from the Lessons Learned report for the Sessions House Data Centre outage in February 2021.	Rebecca Spore Director – Infrastructure
<b>Total</b>		<b>70</b>			



## 5. Summary

Kent County Council	Planned Days
KCC Core Assurance	125
KCC Core Financial Assurance	80
KCC Risk Based Audits	465
KCC IT Audit Plan	70
KCC Consultancy	40
KCC Follow Ups	40
KCC Liaison, advice and information / support for emerging risks and service developments	50
KCC Grant certifications	204
KCC Contingency for audit of emerging risks	150
Pentana Development	20
<b>TOTAL FOR KCC</b>	<b>1244</b>
<b>Commercial Activities and other external provision</b>	
- Kent HoldCo Ltd and LATCos (Commercial Services, Cantium Business Solutions, Invicta Law and The Education People)	350
- Tonbridge and Malling District Council – Management of Audit and Counter Fraud Service	130
- Kent and Medway Fire & Rescue Authority	95
- GDPR Compliance reviews	88
- Parishes	41
- Academies	25
- Other (Charity accounts & Grant claims other certifications for external organisations)	36
<b>TOTAL FOR EXTERNAL ORGANISATIONS</b>	<b>765</b>
<b>TOTAL DAYS</b>	<b>2009</b>

## Audit Plan Mapped Against Corporate Risk Register

Risk	Audits
CRR0001 Safeguarding – protecting vulnerable children (HIGH)	Accommodation for Young People Follow Up Foster Care – Transition to Shared Lives Safeguarding Assurance Mapping Update
CRR0002 Safeguarding – protecting vulnerable adults (HIGH)	Supervision of Social Workers & Other Staff Safeguarding Assurance Mapping Update
CRR0003 Securing resources to aid economic growth and enabling infrastructure (HIGH)	New Local Infrastructure Projects (SELEP)
CRR0004 Simultaneous Emergency Response and Resilience (HIGH)	Business Continuity Planning (CYPE)
CRR0005 Development of Integrated Care System and Integrated Care Programmes (MEDIUM)	MADE Assurance Board
CRR0006 Resourcing implications arising from increasing complex adult social care demand (HIGH)	Supervision of Social Workers & Other Staff
CRR0007 Resourcing implications arising from children's services demand (HIGH)	Change for Kent Children
CRR0009 Future financial and operating environment for local government (HIGH)	CIPFA Financial Management Code General Ledger
CRR0010 Suitable accommodation and funding for Unaccompanied Asylum-seeking children (UASC) (HIGH)	
CRR0014 Cyber-attack threats + implications (HIGH)	Information Technology Risk Management IT Cloud Strategy, Security and Data Migration IT Data Security for DSP Toolkit Prevent of ICT Data Centre Outages Cyber Security Assurance Map Update
CRR0015 Managing and working with the social care market (HIGH)	Provider Failure Provider Invoicing Individual Contracts with Care Providers Contract Management (ASCH)
CRR0016 Delivery of new school places (HIGH)	
CRR0039 Information Governance (HIGH)	Data Protection (ASCH) Information Governance (CYPE) Information Governance - DSP Toolkit Information Governance Steering Group IT Cloud Strategy, Security and Data Migration Records Management Follow Up Information Governance Assurance Mapping Update Equalities Act 2020 Duties
CRR0042 Post-transition UK / EU border systems, infrastructure, and regulatory arrangements (HIGH)	Inland Border Posts
CRR0044 High Needs Funding shortfall (HIGH)	

Risk	Audits
CRR0045 Maintaining effective governance and decision making (MEDIUM)	Declaration of Interests (Members) New Grant Funding Corporate Governance Engagement of Consultants Property Infrastructure – Functions and Processes Transferred from Gen2 Public Health – Covid-19 Grants Risk Management Strategic Commissioning Strategic Reset Programme Governance MADE Assurance Board Change for Kent Children Highways Term Maintenance Contract Annual Governance Statement Kent and Medway Energy and Low Emissions Strategy
CRR0047 Adequacy of support for children with Special Educational Needs and Disabilities (SEND) (HIGH)	SEND Assurance Mapping
CRR0048 Maintenance and modernisation of the KCC estate (HIGH)	Future of Sessions HQ KCC Estate Review – Strategic Reset
CRR0049 Fraud and Error (HIGH)	School Themed Review – Corporate Credit Cards Imprest Accounts Follow Up Payroll Urgent Payments Follow Up Schools Financial Services Fraud and Error Pension Scheme Admin Gypsy and Traveller Service
CRR0050 CBRNE incidents, communicable diseases, and incidents with a public health implication (HIGH)	
CRR0051 Maintaining or improving workforce health, wellbeing and productivity throughout Coronavirus response and recovery (HIGH)	People Strategy – Strategic Reset Programme

# KENT COUNTY COUNCIL

## Internal Audit Charter

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### INTRODUCTION

This Internal Audit Charter formally defines the purpose, authority and responsibility of the Internal Audit service within Kent County Council. It is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (and the Chartered Institute of Internal Auditors (IIA)). The Charter will be reviewed at least annually to ensure it is up-to-date and reflects the PSIAS).

### PURPOSE

The definition of Internal Audit is a mandatory part of the PSIAS and is as follows:

*'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.* Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

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

### AUTHORITY

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2015. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Corporate Director of Finance.

### STATUS OF INTERNAL AUDIT WITHIN THE ORGANISATION

The Head of Internal Audit and Counter Fraud (Head of IA&CF) reports directly to the Corporate Director of Finance and quarterly to the Governance and Audit Committee; meeting regularly with the Chair on a one-to-one basis. The Head of A&CF will also report to senior management and Members when necessary, including statutory officers, Head of Paid Service, Monitoring Officer, and the Leader of the Council.

The Governance and Audit Committee are responsible for ensuring Internal Audit are independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate. The Governance and Audit Committee approve the Charter every year within the Annual Audit and Fraud Plan (the Plan).

The Head of IA&CF has direct access to the Chair of the Governance and Audit Committee and has the opportunity to meet with the Governance and Audit Committee in private.

The Chair of the Governance and Audit Committee will be involved in the appointment and termination of the Head of IA&CF.

## **RESPONSIBILITY**

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

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

## **PROFESSIONAL STANDARDS**

The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework which include:

- the Definition of Internal Auditing;
- the Core Principles;
- the Code of Ethics; and
- the International Standards for the Professional Practice of Internal Auditing.

Compliance, by all those involved in the delivery of Internal Audit services with the Code of Ethics laid down in the PSIAS enhances the environment of trust between Internal Audit and senior management. Fundamentally, the following ethical standards are observed:

- Integrity – performing work with honesty, diligence and responsibility;
- Objectivity – making a balanced assessment of relevant circumstances not unduly influenced by personal interests or by others in forming judgements;
- Confidentiality – respecting the value and ownership of information obtained and not disclosing without appropriate authority, unless there is a legal or professional obligation to do so;
- Competence and Due Professional Care – applying the knowledge, skills and experience needed in the performance of work.

Additional requirements and interpretations for the UK public sector have been incorporated.

The Council's Internal Audit activity will also have regard to the Committee on Standards in Public Life, and to the Seven Principles of Public Life.

## **INDEPENDENCE AND OBJECTIVITY**

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. This will include ensuring that where an audit is undertaken of an area where the Head of IA&CF has operational responsibility, appropriate measures are put in place to avoid compromising independence. In the case of the Counter Fraud Service this will be achieved through a tri-authority peer review; the most recent peer review was completed in May 2021.

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

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

Internal Audit will also report to the Governance and Audit Committee, progress on the directorates' implementation of actions agreed in relation to issues raised by Internal Audit.

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

Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Head of IA&CF will disclose details of the impairment to the Corporate Director of Finance and /or the Chair of the Governance and Audit Committee depending upon the nature of the impairment.

When requested to undertake any additional roles or responsibilities outside of Internal Auditing, the Head of IA&CF must highlight to the Governance and Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Governance and Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

## **SCOPE & NATURE OF INTERNAL AUDIT**

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors / Corporate Management Team) and the Governance and Audit Committee (referred to as 'Board' in the PSIAS) as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. This effectively means that Internal Audit has independent oversight of all of the Council's operations, resources, services and processes and includes:

- Reviewing the soundness, adequacy and application of financial and other management controls to manage the risks to achieve the Council's objectives;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
  - Fraud and other offences
  - Waste, extravagance and inefficient administration, poor value for money and other causes;
- Reviewing the suitability and reliability of financial and other management data developed within the organisation;
- Reviewing awareness of risk and its control and providing advice to management on risk

mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems;

- Promoting and raising awareness of fraud and corruption;
- Investigating allegations of fraud and corruption;
- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

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

Where the Head of IA&CF considers that the scope of audit work is being restricted, the Corporate Director of Finance and the Governance and Audit Committee will be advised.

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

The Head of IA&CF will provide an annual audit opinion as to the adequacy of the Council's governance arrangements, internal controls and risk management processes. This will be used to support the Annual Governance Statement.

## **FRAUD AND IRREGULARITY**

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

## **RIGHT OF ACCESS**

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

## **INTERNAL AUDIT RESOURCES**

The Plan is developed annually and takes into account the work that is needed to enable the Head of IA&CF to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the Plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the Plan. The Head of IA&CF will use a combination of in-house, partner or third parties to deliver aspects of the Plan to the best expertise and value for money. When engaging a partner, the Head of IA&CF will ensure the partner has the appropriate knowledge and experience to deliver the engagement, applies the quality assurance standards of the section and has access to all information and explanation required to undertake the engagement (coordinated through Internal Audit managers).

## REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

In accordance with the Accounts and Audit Regulations, there is a requirement for an annual review of the effectiveness of the system of internal control. This is also part of the wider annual review of the effectiveness of the system of internal control. The Head of IA&CF will carry out an annual review of the Internal Audit function, in accordance with the Quality Assurance and Improvement Programme outlined below and will report the results to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of IA&CF will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee; this was last undertaken in March 2021. The Head of IA&CF will review the Charter annually and attach a revised document to the annual Plan.

## PROVISION OF ASSURANCE TO THIRD PARTIES

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

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

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

## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The Head of IA&CF will maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Head of IA&CF will communicate to the Corporate Director of Finance and the Governance and Audit Committee on the internal audit activity's QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.

## VERSION CONTROL

Document Owner: Jonathan Idle, Head of Internal Audit and Counter Fraud.

Version	Reviewed	Reviewer	Approver
<b>Original</b>			
2	February 2015	Head of Internal Audit	Governance and Audit Committee
3	April 2016	Head of Internal Audit	Governance and Audit Committee
4	March 2019	Strategic Audit Manager	Governance and Audit Committee
5	July 2020	Head of Internal Audit	Governance and Audit Committee
6	July 2021	Head of Internal Audit	Governance and Audit Committee



## 2021/22 Internal Audit Key Performance Indicators

Reportable	
KCC KPI	Target
% completion of audits within the Annual Internal Audit Plan to at least drafts stage, subject to agreed revision by the Governance and Audit Committee	90%
% Positive Client feedback	90%
Annual Management Perception Survey - % positive responses in respect of perceived benefits and value of Internal Audit service	80%
% of High and Medium issues agreed	90%

Management Information	
KCC KPI	Target
Draft Reports to be issued by the date specified in the Engagement Plan	90%
Elapsed time from start of audit fieldwork to issue of Draft Report within 40 working days.	80%
Elapsed time from issue of Draft Report to Final Report within 30 working days.	90%
Final Report to be issued within 5 days of agreement by auditee	90%
Client Satisfaction Questionnaires to be completed and returned within 10 working days of Final Report	-
Average cost per audit	-
Delivery of audit within budgeted days	90%
Productive time (Time associated directly with audit/ projects	80%

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