# GOVERNANCE AND AUDIT COMMITTEE

## Tuesday, 30th November, 2021

## 10.00 am

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

# AGENDA

# GOVERNANCE AND AUDIT COMMITTEE

**Tuesday, 30th November, 2021, at 10.00 am**
**Council Chamber, Sessions House, County Hall, Maidstone**

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

**Membership (12)**

| | |
|---|---|
| Conservative (7) | Mrs R Binks (Chairman), Mr R A Marsh (Vice-Chairman), Mr N J D Chard, Mr D Jeffrey, Mr H Rayner, Mr R J Thomas and Mr S Webb |
| Labour (1) | Mr A Brady |
| Liberal Democrat (1): | Mr A J Hook |
| Green and Independent (1) | Mr M A J Hood |
| Independent Member (1) | Dr D A Horne |

**Webcasting Notice**

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**UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting

2. Substitutes

3. Declarations of Interest in items on the agenda for this meeting

4. Minutes (Pages 1 - 6)

   22 September 2021
   7 October 2021

5. Draft Statement of Accounts (Pages 7 - 202)

6. Annual Governance Statement (Pages 203 - 246)

7. External Audit Audit Findings Report 2021/21- KCC (Pages 247 - 296)

8. External Audit - Draft Audit Findings Report 2020/21 - Kent Superannuation Fund (Pages 297 - 324)

9. Financial Reporting Council (FRC) Report on Local Audit (Pages 325 - 334)

10. Kent Pension Fund Auditor Risk Assessment (Pages 335 - 362)

11. KCC Annual Customer Feedback Report 2020-21 (Pages 363 - 400)

12. Covert investigative techniques surveillance, covert human intelligence source and telecommunications data requests 2020-21 (Pages 401 - 420)

13. External Auditor appointment process (Pages 421 - 422)

14. Counter Fraud Update (Pages 423 - 432)

15. Internal Audit Progress Report (Pages 433 - 456)

16. Other items which the Chairman decides are urgent

17. Motion to exclude the public

    That under section 100A of the Local Government Act 1972 the public be excluded from the meeting on the grounds it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

## EXEMPT ITEMS

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

18. Internal Audit progress report (Pages 457 - 466)

Benjamin Watts
General Counsel
03000 416814

**Monday, 22 November 2021**

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

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# KENT COUNTY COUNCIL

## GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Wednesday, 22 September 2021.

PRESENT: Mrs R Binks (Chairman), Mr R A Marsh (Vice-Chairman), Mr N J D Chard, Mr A J Hook, Dr D Horne, Mr M A J Hood, Mr D Jeffrey, Mr H Rayner, Dr L Sullivan (Substitute for Mr A Brady), Mr R J Thomas and Mr S Webb

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr B Watts (General Counsel), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr J Idle (Head of Internal Audit), Mr L Manser (Insurance Manager), Mr M Scrivener (Corporate Risk Manager) and Mr A Tait (Democratic Services Officer)

## UNRESTRICTED ITEMS

**44. Membership**
*(Item 2)*

The Committee noted the appointment of Mr A Hook.

**45. Declarations of Interest by Members in items on the agenda**
*(Item )*

(1) Mr S Webb informed the Committee that he was in receipt of a KCC Pension and would therefore not participate in any discussion that involved the Superannuation Fund.

(2) The General Counsel informed the Committee that Mr Webb would receive a dispensation so that he would only need to make this declaration if the Pension Fund or the Golf Club were specifically under discussion.

**46. Revised Terms of Reference of the Committee**
*(Item 5)*

The Committee noted its revised Terms of Reference.

**47. Minutes - 22 July 2021**
*(Item 6)*

RESOLVED that subject to the addition of an additional Minute containing the declarations of Interest made by Dr Webb, the Minutes of the meeting held on 22 July 2021 are correctly recorded and that they be signed by the Chairman.

**48. Committee Work and Member Development Programme**
*(Item 7)*

(1) The Head of Internal Audit introduced the report which provided an update on the forward Committee Work Programme following best practice guidance in relation to Audit Committees. This report also set out that the Member Training programme had been agreed at the July Committee meeting.

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

**49. Corporate Risk Register**
*(Item 8)*

(1) The Director of Strategy, Policy, Relationships and Corporate Assurance and the Corporate Risk Manager introduced the six-monthly report on the Corporate Risk Register.

(2) During discussion of this item, Members of the Committee raised the following issues in respect of the various Risks set out in the Register:-

- Whether the Risk Rating for Risk CRR0010 (Suitable accommodation and funding for Unaccompanied Asylum Seeking Children). should be 25 instead of 20.

- Consideration should be given to incorporating the risk of failure to fully disclose information within Risk CRR0039 (Information Governance).

- Consideration should be given to specifically describing the risk of flash flooding and surface water flooding events in Risk CRR0004 (Simultaneous Emergency Response and Resilience).

(3) The Director of Strategy, Policy, Relationships and Corporate Assurance agreed to include an explanation for delay in implementation of risk control measure wherever possible.

(4) Following a suggestion that the Committee should identify one risk and for a deep dive exercise outside of the Committee cycle, the Committee asked the Chairman to write to the Cabinet Committee Chairmen in respect of their Committees' ability to undertake deep dives into individual risks and to ask whether they would welcome the Governance and Audit Committee doing so.

(5) RESOLVED that subject to (3) and (4) above, the report be noted for assurance.

**50. External Audit Progress Report**
*(Item 9)*

(1) The Corporate Director of Finance introduced the progress report from the External Auditors Grant Thornton UK LLP.

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

**51. Treasury Management Update**
*(Item 10)*

(1) The Corporate Director of Finance introduced the report which provided an overview of Treasury Management activity and developments in 2021/22 up to the end of July 2021.

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

**52. KCC Insurance Overview**
*(Item 11)*

(1) The Insurance Manager provided a summary of insurance activity for the 2020/21 financial year and other points of interest.

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

**53. Code of Corporate Governance**
*(Item 12)*

(1) The General Counsel provided an update and overview of plans to amend the Code of Corporate Governance prior to that that work progressing.

(2) RESOLVED that agreement be given to:-

(a) the programme proposed in the report for changing the Code of Corporate Governance;

(b) amending the principles in the Code of Corporate Governance to the latest version from the CIPFA/SOLACE framework; and

(c) making necessary changes to reflect the CIPFA Financial Management Code.

**54. Annual Governance Statement 2021/22**
*(Item 13)*

(1) The General Counsel introduced the report, providing a draft copy of the Annual Governance Statement (AGS) together with a general update on governance within Kent County Council.

(2) During discussion of this item, Members of the Committee made the following comments:-

- It was necessary to ensure that the AGS became embedded within the organisation, rather than simply being seen as another document.

- Officer decision-making needed to be clearly recorded.

- Clarity on the availability of information on the establishment of Informal Member Groups which receive Officer support.

- A long-term programme of Committee meetings should be developed as soon as practicable.

(3) RESOLVED that the comments on the draft Annual Governance Statement be noted as set out in (2) above.

# KENT COUNTY COUNCIL

## GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 7 October 2021.

PRESENT: Mrs R Binks (Chairman), Mr T Bond (Substitute for Mr R A Marsh), Mr A J Hook, Dr D Horne, Mr M A J Hood, Mr D Jeffrey, Mr J Meade (Substitute for Mr S Webb), Mr H Rayner and Mr R J Thomas

ALSO PRESENT: Mr Paul Dossett and Mr Parris Williams from Grant Thornton UK LLP.

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr B Watts (General Counsel), Mr J Idle (Head of Internal Audit), Mrs C Head (Head of Finance Operations), Miss E Feakins (Chief Accountant), Mr J Flannery (Principal Auditor), Ms P Blackburn-Clarke (Quality Assurance Manager), and Mr A Tait (Democratic Services Officer)

### UNRESTRICTED ITEMS

**55. Motion to adjourn the meeting**
*(Item 14)*

(1) Mr H Rayner moved, seconded by Mr T Bond that the meeting be adjourned to a future date due to the absence of printed copies of the agenda papers.

*Carried unanimously.*

(2) The meeting was thereupon adjourned.

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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 – 30 November 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 It is recommended that the Accounts are finalised and signed today, on the basis that the audit is completed.

1.3 The draft Statement of Accounts attached to this report are for comment and review; and reflect known required changes.

1.4 The public inspection period concluded on 11 August 2021.

1.5 As required by the Accounts and Audit Regulations 2015 – Regulation 10 as amended by the Accounts and Audit Regulations 2021, the Council has published a ‘Delayed Opinion Notice’ on the website.

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

1.7 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.

1.8 In order to ensure sufficient time and focus on the Statement of Accounts a workshop was held with Members of the Governance and Audit Committee on 30 September 2021. The training covered the main statements and key areas; and provided the opportunity for questions and comments to be made.

## 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 (£14.4m business as usual and £55.6m covid related underspends) 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 (£0.8m business as usual and £26.7m covid related underspends).

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 International Accounting Standard (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:

| | **£m** |
|---|---|
| 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 |
| **Total of major movements in usable reserves** | **117** |

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 £222m. 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 this 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.

**Group Accounts pages 132-147**

2.28 The Group Accounts section contains:

i) Group Comprehensive Income and Expenditure Statement on pages 136 to 137
ii) Group Movement in Reserves Statement on pages 138 to 139
iii) Group Balance Sheet on page 140
iv) Group Cash Flow Statement on page 141

All of the above statements are presented in the same format as the single entity account. Each entity's financial position has been consolidated by elimination of inter-company balances and the realignment of accounting policies where required.

2.29 Notes to the Group Accounts are provided where there are material differences to the single entity accounts.

**Pension Fund Accounts pages 148-176**

2.30 Pages 148 to 176 contain a summarised extract of a more detailed statement produced for the Pension Fund.

**Glossary**

2.31 A glossary of some of the terms used within the Accounts is provided on pages 184 to 185.

## 3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2020-21.

3.2 Approve the Letters of Representation

3.2 Note the recommendations in the Audit Finding Report.

**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 Group Accounts sets out the income and expenditure for the year and the financial position at 31 March 2021 of the Council and the wholly owned subsidiaries. The Group Accounts combines the financial results of the Kent Holdco Group and Invicta Law. (See pages 132 to 147)
- 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 148 to 179)
- 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 177 to 186)
- 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 184 and 185 to make the Statement of Accounts more understandable for the reader.

## Narrative

### 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:

| **Directorates** | **Divisions** |
|---|---|
| Adult Social Care & Health (ASCH) | Strategic Management & Directorate Budgets |
| | Adult Social Care & Health Operations |
| | Business Delivery |
| Children, Young People & Education (CYPE) | Strategic Management & Directorate Budgets |
| | Special Educational Needs and Disabilities |
| | Education |
| | Integrated Children's Services (East & West) |
| | Schools' Delegated Budgets |
| Growth, Environment & Transport (GET) | Strategic Management & Directorate Budgets |
| | Economic Development |
| | Highways, Transportation & Waste |
| | Environment, Planning & Enforcement |
| | Libraries, Registration & Archives |
| Strategic & Corporate Services (SCS) | Strategic Management & Directorate Budgets |
| | People and Communication |
| | Finance |
| | Governance, Law & Democracy |
| | Infrastructure |
| | Corporate Landlord |
| | Strategic Commissioning including Public Health |
| | Strategic, Policy, Relationships & Corporate Assurance |
| Financing Items & Unallocated (FI&U) | Financing Items - General |
| | Financing Items - Unallocated |

## Narrative

**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 whist 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 |
| **Change in Net Budget** | **77.3** | **Change in Net Funding** | **77.3** |

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 |
| **Change in Net Budget** | **113.6** | **Change in Net Funding** | **113.6** |

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.

## Narrative

### 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 |
| **Council Tax** | | | |
| 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 |
| **Local Share of Business Rates** | | | |
| Business Rates | 54,319 | 55,938 | 1,619 |
| Business Rates Collection Fund surplus/(deficit) | 150 | 2,563 | 2,413 |
| **Un-ring fenced grants** | | | |
| 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 |
| **Total** | **986,374** | **1,063,654** | **77,280** |

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 |
| | **38,429** |

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 |
| | **-2,174** |
| **Total increase in funding** | **36,255** |

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)
- £14.1m financing savings (including £8.4m planned draw-down from corporate and directorate reserves)
- £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.

| | **TOTAL** | **Covid-19** | | **Business as Usual** | |
|---|---|---|---|---|---|
| | | **Recurring** | **One-off** | **Recurring** | **One-off** |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| 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 | |
| **Sub Total (Gross)** | **116.7** | **20.8** | **75.5** | **12.0** | **8.4** |
| Drawdown from Reserves | -43.6 | | -37.4 | | -6.2 |
| In-year underspends | -24.0 | | -24.0 | | |
| Additional Savings | -12.8 | | | | -12.8 |
| **Change in Net Budget** | **36.3** | **20.8** | **14.1** | **12.0** | **-10.6** |

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.

## Narrative

**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.

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.

## 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 | **ASCH** | 418,731 | 414,625 | -4,106 |
| Children, Young People & Education | **CYPE** | 261,470 | 260,046 | -1,424 |
| Growth, Environment & Transport | **GET** | 182,746 | 182,227 | -519 |
| Strategic & Corporate Services including Public Health | **S&CS** | 96,453 | 93,562 | -2,891 |
| Financing Items & Unallocated | **FI&U** | 169,465 | 111,412 | -58,053 |
| | | 1,128,865 | 1,061,872 | -66,993 |
| Schools' Delegated Budgets | **CYPE** | 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 Reser | | 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 |

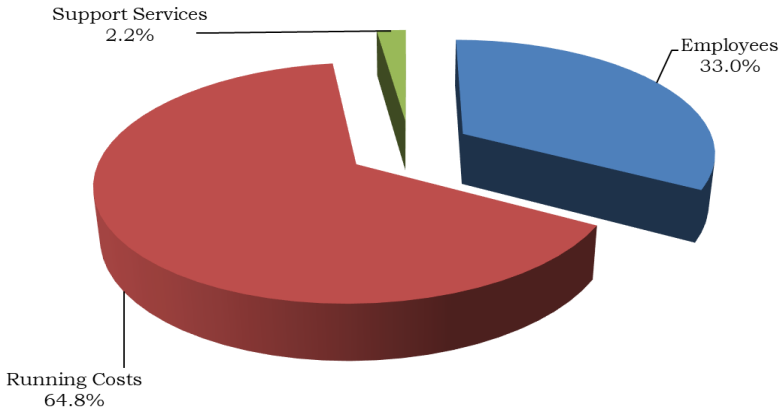
The net underspending within the directorates is £70.032m, being -£66.993m and -£3.039m funding variance (excluding £8.937m delegated schools overspend) of which £42.484m are roll forward requests and will be added to the 2021-22 budget to support the rescheduling of projects. This leaves an underlying 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

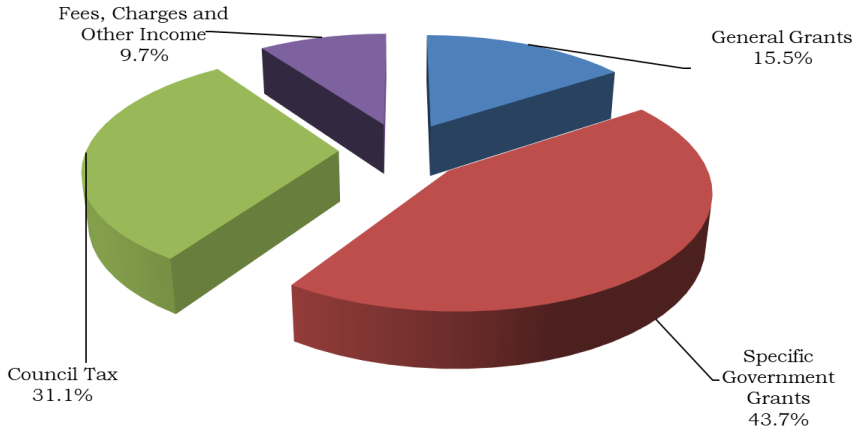
The charts below present a breakdown of the figures shown in the table above:

**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).

## Narrative

### 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** |
|---|---|
| **Covid-19 2020-21 Emergency Grant Allocation** | **-92,924** |
| **Categories** | |
| 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 |
| | **-64,063** |
| Contribution to Public Health Reserve | 1,182 |
| Contribution to Reserves | 7,298 |
| **Covid-19 Variance** | **-55,583** |
| Roll forward requests | 28,810 |
| **Revised Variance** | **-26,773** |

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.

## Narrative

**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:

| Grant Name | Amount Received | Principal/ Agent |
|---|---|---|
| | £'000 | |
| 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 |
| | **135,471** | |

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:

| PORTFOLIO | Revised Budget £'000s | Outturn £'000s | Variance £'000s |
|---|---|---|---|
| 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 2020-21was £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.

## Narrative

### 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 a 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 loses 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:

| Change in Net Spending | £m | Change in Net Funding | £m |
|---|---|---|---|
| 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 |
| **total Change in Net Spending** | **64.7** | **Total Change in Net Funding** | **64.7** |

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:

| Change in Net Spending | £m | Change in Net Funding | £m |
|---|---|---|---|
| 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 |
| **total Change in Net Spending** | **68.8** | **Total Change in Net Funding** | **68.8** |

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 supressing 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.

| | **Upside Scenario** | | **Central Case** | | **Downside Scenario** | |
|---|---|---|---|---|---|---|
| | **2022-23** | **2023-24** | **2022-23** | **2023-24** | **2022-23** | **2023-24** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Spending Growth Forecasts** | | | | | | |
| 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 |
| **Total Spending Growth** | **33.0** | **37.0** | **58.0** | **55.0** | **76.0** | **80.0** |
| **Funding Change Forecasts** | | | | | | |
| 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 | |
| **Total Funding Change** | **13.2** | **63.3** | **-6.6** | **42.0** | **-44.3** | **25.3** |
| **Gap** | **19.8** | **-26.3** | **64.6** | **13.0** | **120.3** | **54.7** |

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.

## Narrative

### 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.

## Statement of Responsibilities for the Statement of Accounts

### The Council's Responsibilities

The Council is required:

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

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on XX November 2021 on behalf of Kent County Council.

**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.

| Service | Notes | Year ended 31 March 2021 Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
|---|---|---|---|---|
| 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 |
| **Cost of Services** | | **2,672,975** | **1,475,869** | **1,197,106** |
| 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 |
| **(Surplus) or deficit on Provision of Services** | | | | **73,188** |
| (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 |
| **Other Comprehensive Income and Expenditure** | | | | **-22,389** |
| **Total Comprehensive Income and Expenditure** | | | | **50,799** |

## 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 | **ASCH** | 546,037 | 152,595 | 393,442 |
| Children, Young People & Education | **CYPE** | 1,270,897 | 936,785 | 334,112 |
| Growth, Environment & Transport | **GET** | 329,495 | 57,135 | 272,360 |
| Strategic & Corporate Services including Public Health | **S&CS** | 202,469 | 98,641 | 103,828 |
| Financing Items & Unallocated | **FI&U** | 29,280 | 3,262 | 26,018 |
| **Cost of Services** | | **2,378,178** | **1,248,418** | **1,129,760** |
| Other operating Expenditure | **13** | | | 61,452 |
| Net Surplus on trading accounts | **34** | | | -4,509 |
| Financing and Investment Income and Expenditure | **14** | | | 95,159 |
| Taxation and Non Specific Grant Income | **15** | | | -1,077,812 |
| **(Surplus) or deficit on Provision of Services** | | | | **204,050** |
| (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 |
| **Other Comprehensive Income and Expenditure** | | | | **-661,415** |
| **Total Comprehensive Income and Expenditure** | | | | **-457,365** |

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

## Movement in Reserves Statement

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

## 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** | 257,485 | | 266,329 |
| Long-term debtors | **27** | 52,862 | | 65,061 |
| **Total long-term assets** | | | 3,535,314 | 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** | 141,441 | | 84,307 |
| Cash and Cash equivalents | **29** | 144,197 | | 57,640 |
| **Total current assets** | | | 579,303 | 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 |
| **Total Current liabilities** | | | -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 |
| **Long-Term Liabilities** | | | -2,772,638 | -2,506,639 |
| **Net Assets/(Liabilities)** | | | 792,079 | 842,877 |
| **Usable Reserves** | **23** | -533,733 | | -393,027 |
| **Unusable Reserves** | **24** | -258,346 | | -449,850 |
| **Total Reserves** | | | -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 |
| **Net cash flows from operating activities** | | -164,205 | -124,923 |
| Investing Activities | **31** | 44,872 | 121,584 |
| Financing Activities | **32** | 32,776 | 26,074 |
| **Net increase (-) or decrease in cash and cash equivalents** | | -86,557 | 22,735 |
| Cash and cash equivalents at the beginning of the reporting period | | 57,640 | 80,375 |
| **Cash and cash equivalents at the end of the reporting period** | **29** | **144,197** | **57,640** |

## 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 Comprehen-sive Income and Expenditure Statement** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Adult Social Care & Health | 414,626 | -2,396 | 412,230 | 16,903 | **429,133** |
| Children, Young People & Education | 260,046 | -19,604 | 240,442 | 132,345 | **372,787** |
| Growth, Environment & Transport | 182,227 | 68 | 182,295 | 113,024 | **295,319** |
| Strategic & Corporate Services including Public Health | 93,562 | -5,908 | 87,654 | 20,938 | **108,592** |
| Financing Items & Unallocated | 111,411 | -119,832 | -8,421 | -304 | **-8,725** |
| Schools' Delegated Budgets | 8,937 | -8,937 | 0 | 0 | **0** |
| **Cost of Services** | **1,070,809** | **-156,609** | **914,200** | **282,906** | **1,197,106** |
| Other Income and Expenditure | -1,131,904 | 70,545 | -1,061,359 | -62,559 | **-1,123,918** |
| **Surplus or Deficit** | **-61,095** | **-86,064** | **-147,159** | **220,347** | **73,188** |
| **Opening General Fund Balance** | | | -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 | | |
| **Closing General Fund Balance at 31 March 2021** | | | **-453,525** | | |

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 Comprehen-sive Income and Expenditure Statement |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Adult Social Care & Health | 367,392 | 11,664 | 379,056 | 14,386 | **393,442** |
| Children, Young People & Education | 247,083 | 14,731 | 261,814 | 72,299 | **334,113** |
| Growth, Environment & Transport | 171,744 | 2,542 | 174,286 | 98,074 | **272,360** |
| Strategic & Corporate Services including Public Health | 79,287 | 6,206 | 85,493 | 18,334 | **103,827** |
| Financing Items & Unallocated | 172,134 | -170,821 | 1,313 | 24,705 | **26,018** |
| Schools' Delegated Budgets | 13,046 | -13,046 | 0 | 0 | **0** |
| **Net Cost of Services** | **1,050,686** | **-148,724** | **901,962** | **227,798** | **1,129,760** |
| Other Income and Expenditure | -1,043,867 | 107,442 | -936,425 | 10,715 | **-925,710** |
| **Surplus or Deficit** | **6,819** | **-41,282** | **-34,463** | **238,513** | **204,050** |

| | |
|---|---|
| **Opening General Fund Balance** | -250,399 |
| Less/Plus Surplus or (Deficit) on General Fund in Year | -34,463 |
| Transfers between Usable & Unusable Reserves | 0 |
| **Closing General Fund Balance at 31 March 2020** | **-284,862** |

### 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 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 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.

**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, based on applying percentage movements on revalued assets to the unvalued asset portfolio, 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, and the percentage movements on the revalued assets, we are confident that the value of assets not revalued in 2020-21 is not materially different to their current value at the balance sheet date.

**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 | 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.<br><br>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:<br><br>Primary Schools: £2m<br>Secondary Schools: £8m<br>Special Schools: £2m<br><br>Families & Social Care establishments: £2m<br>Highways & Waste Depots: £2m<br>County Offices: £2m<br>Libraries: £2m<br>Youth & Community Centres: £2m | 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.<br><br>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. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The increase in pension deficit during the year has arisen principally due to the technical decrease in the valuation of the liabilities. Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. 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. |

## 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 | 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.<br><br>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. | 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
– unitised securities – current bid price
– property – market value.

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

**Service cost comprising:**

– current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

– past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement

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

**Remeasurement comprising:**

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

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve, 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 31 March 2021 | Schools 31 March 2021 | Non-Schools 31 March 2020 | Schools 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 | | | |
| **Total** | **606** | **507** | **466** | **497** |

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 £ | Other £ | Total Remuneration excl pension Contributions £ | Employer Pension Contributions £ | Total Remuneration incl pension Contributions £ |
|---|---|---|---|---|---|---|---|---|---|
| **Corporate Director Strategic & Corporate Services** - David Cockburn | | 207,884 | | | | 9,598 | 217,482 | 45,889 | 263,371 |
| **Corporate Director Adult Social Care & Health** - Penny Southern | 1 | 41,813 | | | 6,600 | 7,659 | 56,072 | 720 | 56,792 |
| **Corporate Director Adult Social Care & Health** - Richard Smith | 2 | 7,997 | | | | | 7,997 | 1,687 | 9,684 |
| **Corporate Director Children, Young People & Education** - Matt Dunkley CBE | | 201,616 | | | | 2,672 | 204,288 | 43,105 | 247,393 |
| **Corporate Director Growth, Environment & Transport** - Barbara Cooper | | 174,956 | | | | 13,421 | 188,377 | 36,916 | 225,293 |
| **Corporate Director Finance** - Zena Cooke | | 147,152 | | 7,436 | | 680 | 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 £ | Other £ | Total Remuneration excl pension Contributions £ | Employer Pension Contributions £ | Total Remuneration incl pension Contributions £ |
|---|---|---|---|---|---|---|---|---|---|
| **Corporate Director Engagement, Organisation Design & Development -** Amanda Beer | | 147,152 | | | | 6,794 | 153,946 | 32,483 | 186,429 |
| **General Counsel -** Ben Watts | | 117,432 | | 14,475 | | 3,692 | 135,599 | 28,611 | 164,210 |
| **Director Public Health -** Andrew Scott-Clark | | 117,432 | | | | 3,692 | 121,124 | 17,418 | 138,542 |

* This includes all contractual entitlements.

## Note 6 - Officers Remuneration

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

***Notes***

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 £ | Other £ | Total Remuneration excl pension Contributions £ | Employer Pension Contributions £ | Total Remuneration incl pension Contributions £ |
|---|---|---|---|---|---|---|---|---|---|
| **Corporate Director Strategic & Corporate Services** - David Cockburn | | 204,208 | | | | 6,652 | 210,860 | 44,281 | 255,141 |
| **Corporate Director Adult Social Care & Health** - Penny Southern* | | 153,600 | | | | | 153,600 | 32,256 | 185,856 |
| **Corporate Director Children, Young People & Education** - Matt Dunkley CBE | | 194,560 | | | | | 194,560 | 40,858 | 235,418 |
| **Corporate Director Growth, Environment & Transport** - Barbara Cooper | | 164,278 | | | | | 164,278 | 34,498 | 198,776 |
| **Corporate Director Finance** - Zena Cooke | 1 | 121,039 | | 4,241 | | | 125,280 | 35,644 | 160,924 |
| **Corporate Director Engagement, Organisation Design & Development** - Amanda Beer | | 144,550 | | | | 4,709 | 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 £ | Other £ | Total Remuneration excl pension Contributions £ | Employer Pension Contributions £ | Total Remuneration incl pension Contributions £ |
|---|---|---|---|---|---|---|---|---|---|
| **Section 151 Officer -** Dave Shipton | 2 | N/A | | 16,103 | | | 16,103 | 3,382 | 19,485 |
| **General Counsel** - Ben Watts | | 115,356 | | 4,475 | | 2,278 | 122,109 | 25,643 | 147,752 |
| **Director Public Health** - Andrew Scott-Clark | | 115,356 | | | | 229 | 115,585 | 16,621 | 132,206 |

* This includes all contractual entitlements.

## Note 6 - Officers Remuneration

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

***Notes***

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 |
| Total | 14 | 30 | 28 | 10 | 42 | 40 | **641,602** | **588,240** |

## 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.

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

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) | 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 | -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 | | | | |
| **Net Cost of Services** | **-53,739** | **14,814** | **0** | **-116,464** | **-1,220** |
| **Other income and expenditure from the Expenditure and Funding Analysis** | -32,626 | -14,814 | | 116,464 | 1,521 |
| **Total** | **-86,365** | **0** | **0** | **0** | **301** |

| 2020-21 | 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 | **-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** |
| **Net Cost of Services** | **-156,609** | **166,423** | **89,337** | **27,146** | **282,906** |
| **Other income and expenditure from the Expenditure and Funding Analysis** | **70,545** | -141,085 | 34,186 | 44,340 | **-62,559** |
| **Total** | **-86,064** | **25,338** | **123,523** | **71,486** | **220,347** |

## 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 | | | | |
| **Net Cost of Services** | **-48,122** | **14,927** | **0** | **-115,189** | **-340** |
| **Other income and expenditure from the Expenditure and Funding Analysis** | 7,326 | -14,928 | | 115,189 | -145 |
| **Total** | **-40,796** | **-1** | **0** | **0** | **-485** |

| 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** |
| **Net Cost of Services** | **-148,724** | **144,928** | **82,740** | **130** | **227,798** |
| **Other income and expenditure from the Expenditure and Funding Analysis** | **107,442** | -24,197 | 25,267 | 9,645 | **10,715** |
| **Total** | **-41,282** | **120,731** | **108,007** | **9,775** | **238,513** |

## 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<br>£000's | 2019-20<br>£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 |
| **Total Income analysed on a segmental basis** | **-220,593** | **-234,074** |

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

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

| **Expenditure/Income** | 2020-21<br>£000's | 2019-20<br>£000's |
|---|---|---|
| **Expenditure** | | |
| 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 |
| **Total expenditure** | **2,888,894** | **2,640,837** |
| **Income** | | |
| 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 |
| **Total income** | **-2,815,706** | **-2,436,787** |
| **Surplus or Deficit on the Provision of Services** | **73,188** | **204,050** |

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 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 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Charges for depreciation and impairment of non-current assets | -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 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Statutory provision for the financing of capital investment | 59,096 | | | -59,096 |
| Capital expenditure charged against the General Fund | 13,578 | | | -13,578 |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | |
| 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 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 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 |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 1,186 | | | -1,186 |
| **Adjustment primarily involving the Pooled Investment Adjustment Account:** | | | | |
| Unrealised gains/losses on financial assets held at FVPL | 17,256 | | | -17,256 |
| **Adjustments primarily involving the Pensions Reserve:** | | | | |
| 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 |
| **Adjustments primarily involving the DSG Adjustment Account:** | | | | |
| Amount by which Schools Deficit has moved in year. | -29,544 | | | 29,544 |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | |
| Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | -45,133 | | | 45,133 |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 2,005 | | | -2,005 |
| **Total Adjustments** | **-220,347** | **503** | **27,454** | **192,390** |

## 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 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Charges for depreciation and impairment of non current assets | -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 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Statutory provision for the financing of capital investment | 59,314 | | | -59,314 |
| Capital expenditure charged against the General Fund | 8,871 | | | -8,871 |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | |
| 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 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 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 |
| **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | -22 | | | 22 |
| **Adjustment primarily involving the Pooled Investment Adjustment Account:** | | | | |
| Unrealised gains/(losses) on financial assets held at FVPL | -22,306 | | | 22,306 |
| **Adjustments primarily involving the Pensions Reserve:** | | | | |
| 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 |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | |
| Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | -10,793 | | | 10,793 |
| **Adjustment primarily involving the Accumulated Absences Account:** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 1,040 | | | -1,040 |
| **Total Adjustments** | **-238,513** | **8,351** | **57,087** | **173,075** |

### Note 13. Other Operating Expenditure

| | 2020-21 £000's | 2019-20 £000's |
|---|---|---|
| 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 |
| | 45,242 | 61,452 |

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

| | 2020-21 £000's | 2019-20 £000's |
|---|---|---|
| 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 |
| | 62,408 | 95,159 |

### 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 |
| | -1,228,575 | -1,077,812 |

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 |
|---|---|---|
| **Credited to Taxation and Non-Specific Grant Income** | | |
| 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 |
| **Total** | -1,228,575 | -1,077,812 |

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 |
|---|---|---|
| **Credited to Services** | | |
| 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 |
| Department for Transport | -93,890 | -6,242 |
| Asylum | -24,095 | -21,462 |
| Other | -82,984 | -79,774 |
| **Total** | -1,209,889 | -985,938 |

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 |
|---|---|---|
| **Capital Grants Receipts in Advance** | | |
| Department for Education | -197 | -197 |
| Other Grants | -76,755 | -20,421 |
| Other Contributions | -68,167 | -54,280 |
| **Total** | -145,119 | -74,898 |

### 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 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** 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 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| 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 | |
| **At 31 March 2021** | **2,299,494** | **108,789** | **1,979,585** | **10,505** | **89,340** | **117,147** | **4,604,860** | **410,820** |

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

**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 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** 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 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| 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 | |
| **At 31 March 2020** | **2,229,038** | **103,644** | **1,875,251** | **10,477** | **89,687** | **65,418** | **4,373,515** | **400,965** |

* 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 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| Derecognition - Disposals | 1,600 | 427 | | | | 73 | 2,100 | |
| Derecognition - Other | | | | | | | 0 | |
| Other movements in Depreciation and Impairment | -138 | | | | -56 | -5 | -199 | |
| **At 31 March 2020** | **-25,633** | **-85,251** | **-1,251,395** | **0** | **0** | **-401** | **-1,362,680** | **-7,640** |
| **Net Book Value At 31 March 2020** | **2,203,405** | **18,393** | **623,856** | **10,477** | **89,687** | **65,017** | **3,010,835** | **393,325** |
| **At 31 March 2019** | **1,692,373** | **20,474** | **642,592** | **10,070** | **62,789** | **63,797** | **2,492,095** | **353,769** |

## 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 NBV £'000 | Surplus Assets NBV £'000 | Total NBV £'000 |
|---|---|---|---|
| 31/03/2018 | 62 | | **62** |
| 31/03/2019 | 18,143 | | **18,143** |
| 31/03/2020 | 224,223 | | **224,223** |
| 31/03/2021 | 2,047,935 | 117,072 | **2,165,007** |
| **TOTAL** | **2,290,363** | **117,072** | **2,407,435** |

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.

| *Recurring fair value measurements using:* | **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/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* |
| | **4,569** | **109,642** | **114,211** | | |

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:

| *Recurring fair value measurements using:* | **Level 2 inputs** | **Level 3 inputs** | **Fair value as at 31 March 2020** | **Level 2 Valuation Technique** | **Level 3 Valuation Technique** |
|---|---|---|---|---|---|
| | **£000's** | **£000's** | **£000's** | | |
| 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* |
| | **17,955** | **47,063** | **65,018** | | |

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:

| | 2020-21 £000's | 2019-20 £000's |
|---|---|---|
| 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<br>2) Estimated fees, costs and values | 1) £2,800,000 - £4,750,000 per hectare reduced by 15% - 50%<br>2) £250,000 per unit less construction costs and fees<br>£178,000 | Significant changes in unobservable inputs could result in a significantly lower or higher fair value |
| Car Park | 57 | 1) Estimated rent<br>2) Estimated yield | 1) £100 per permit<br>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<br>2) Lifelong tenancy valued to perpetuity<br>3) Sales price and location discount | 1) £1,400 - £9,000 per annum<br>2) YP in Perp 4%<br>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<br>2) Estimated yield | 1) £1,800 - £6,200 per annum and £90 per square metre<br>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<br>2) Passing rent<br>3) Estimated yield | 1) £45 per square metre<br>2) £150 per annum<br>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 |
| Educational land/agricultural land | 776 | 1) Estimated rent<br>2) Estimated yield<br>3) Estimated land value | 1) £750 - £4,500 per annum<br>2) 5% - 9%<br>3) £150,000 per hectare | 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 |
| 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<br>2) Estimated yield | 1) £90 - £129 per square metre<br>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:

| | 2020-21<br>£000's | 2019-20<br>£000's |
|---|---|---|
| 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 | 2019-20 |
|---|---|---|
| | £000's | £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 | **52,295** | **61,971** |

### 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:

| *Recurring fair value measurements using:* | 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* |
| | **19,911** | **32,384** | **52,295** | | |

## 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:

| *Recurring fair value measurements using:* | **Level 2 inputs £000's** | **Level 3 inputs £000's** | **Fair value as at 31 March 2020 £000's** | **Level 2 Valuation Technique** | **Level 3 Valuation Technique** |
|---|---|---|---|---|---|
| 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* |
| | **15,875** | **21,824** | **37,699** | | |

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:

| | **2020-21 £000's** | **2019-20 £000's** |
|---|---|---|
| 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 | 32,384 | 21,824 |

£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<br>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<br>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<br>2) Estimated yield<br>3) Void period | 1) £134 - £258 per square metre<br>2) 7.5% - 9%<br>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<br>2) Discount for uncertainty | 1) £1,100,000 - £1,300,000 per hectare<br>2) 15% | Significant changes in unobservable inputs could result in a significantly lower or higher fair value |
| Non-residential institutions | 316 | 1) Estimated rent<br>2) Estimated yield | 1) £91 per square metre<br>2) 8% - 11% | Significant changes in unobservable inputs could result in a significantly lower or higher fair value |
| Car Park | 422 | 1) Estimated rent<br>2) Estimated yield | 1) £250 - £1,000 per space<br>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<br>2) Estimated yield<br>3) Void period | 1) £39,000 per annum<br>2) 6% - 7%<br>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<br>2) Estimated yield<br>3) Management and associated costs | 1) £3,120 per annum per unit<br>2) 6.5%<br>3) 25% of gross income | Significant changes in unobservable inputs could result in a significantly lower or higher fair value |
| **Total** | **32,384** | | | |

## Note 18 - Investment Property and Note 19 - Capital Expenditure and Financing

### 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 |
| **Opening Capital financing requirement** | 1,284,954 | 1,284,512 |
| **Capital investment** | | |
| 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 |
| **Sources of finance** | | |
| 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 |
| **Closing Capital Financing Requirement** | 1,269,156 | 1,284,954 |
| **Movement** | **-15,798** | **442** |

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

## 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 |
| **As at 31 March 2020** | 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 |
| **As at 31 March 2021** | 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 |
| **As at 31 March 2020** | 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 |
| **As at 31 March 2021** | 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 |
| **Total** | 209,784 | 166,503 | 156,311 | 70,685 | 603,283 |

**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 (now Galliford Try Ltd) 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** |
|---|---|---|---|---|---|---|
| Cost or Valuation | | | | | | |
| **At 1 April 2019** | **1,213** | **2,321** | **2,734** | **188** | **18** | **6,474** |
| Additions | 85 | | | | | **85** |
| 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 | | | | | | |
| **At 31 March 2020** | **1,298** | **2,368** | **2,778** | **188** | **18** | **6,650** |
| Cost or Valuation | | | | | | |
| **At 1 April 2020** | **1,298** | **2,368** | **2,778** | **188** | **18** | **6,650** |
| Additions | 129 | | | | | **129** |
| Donations | | | | | | |
| Disposals | | | | | | |
| Revaluations Increases / (Decreases) recognised in the Revaluation Reserve | | 21 | 20 | | 1 | **42** |
| Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services | | | | | | |
| **At 31 March 2021** | **1,427** | **2,389** | **2,798** | **188** | **19** | **6,821** |

## 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 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:

| | 31 Mar 2021 £'000 | 31 Mar 2020 £'000 |
|---|---|---|
| Not later than one year | 8,900 | 5,329 |
| Later than one year and not later than five years | 15,292 | 12,734 |
| Later than five years | 15,810 | 17,007 |
| | 40,002 | 35,070 |

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:

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

## 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 |
| **Total** | **-414,532** | **-119,201** | **-533,733** | |

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.

The Schools Reserve balance as at 1 April 2020 reflects the transfer of the £21.5m deficit to the DSG Adjustment Account within Unusable Reserves. Please see Note 24 Unusable Reserves on page 91 which shows the DSG Adjustment Account.

## 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 in 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 | -22,487 | -671,382 | 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 Liability in Balance Sheet |
| - DSO | 1,220 | 7 | 1,227 | |
| 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 | 21,505 | 29,544 | 51,049 | Recognition of deficits in respect of the schools budget |
| **Total** | **-428,345** | **169,999** | **-258,346** | |

The DSG Adjustment Account was set up as set out in the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. The deficit balance as at 31 March 2020 held in the Schools Reserves was transferred to the DSG Adjustment Account on the 1 April 2020.

**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 | | 2019-20 | |
|---|---|---|---|---|
| | £'000 | | £'000 | |
| **Balance as at 1st April** | | -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 |
| **Balance at 31 March** | | -1,350,379 | | -1,217,897 |

## 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 | |
| **Balance at 1 April** | | -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 |
| **Balance at 31 March** | | -671,382 | | -648,894 |

## 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 | |
| **Balance at 1 April** | | 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 |
| **Balance at 31 March** | | 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 |
| **Balance at 1 April** | 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 |
| **Balance at 31 March** | 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 |
| **Balance at 1 April** | -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 |
| **Balance at 31 March** | 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 | |
| **Balance at 1 April** | | 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 |
| **Balance at 31 March** | | 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 | |
| **Balance at 1 April** | | 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 |
| **Balance at 31 March** | | 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 | |
| **Balance at 1 April** | | 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 | | | | |
| **Balance at 31 March** | | 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 |
| **Balance at 1 April** | 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 |
| **Balance at 31 March** | 51,049 |

## Note 25 - Earmarked Reserves

### 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 drawndown 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 is 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

| Other Earmarked Reserves | Balance at 1 April 2020 | Movement | Balance at 31 Mar 2021 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| 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 | -1,815 | -814 | -2,629 |
| 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 | -24,506 | -3,929 | -28,435 |
| 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 | -620 | -164 | -784 |
| KPSN Re-procurement reserve | -815 | -165 | -980 |
| Covid-19 reserve | -37307 | -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 |
| Total | -208,031 | -126,191 | -334,222 |
| **Insurance Reserve** | | | |
| KCC | -16,119 | -661 | -16,780 |
| | **-224,150** | **-126,852** | **-351,002** |
| **Commercial Services Earmarked Reserves** | -3,233 | 0 | -3,233 |
| **EKO** | -4,981 | 0 | -4,981 |
| **Royal Mail Sorting Office** | -421 | -150 | -571 |
| Total Earmarked Reserves | **-232,785** | **-127,002** | **-359,787** |

## Note 25 - Earmarked Reserves

| Other Earmarked Reserves | Balance at 1 April 2019 | Movement | Balance at 31 Mar 2020 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| 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 |
| Total | -163,479 | -44,552 | -208,031 |
| **Insurance Reserve** | | | |
| KCC | -13,647 | -2,472 | -16,119 |
| | **-177,126** | **-47,024** | **-224,150** |
| **Commercial Services Earmarked Reserves** | -3,233 | 0 | -3,233 |
| **EKO** | -4,981 | 0 | -4,981 |
| **Royal Mail Sorting Office** | -198 | -223 | -421 |
| Total Earmarked Reserves | **-185,538** | **-47,247** | **-232,785** |

## 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.

| | Insurance | Post Employment | Accumulated Absences | Other Provisions | Total |
|---|---|---|---|---|---|
| | £'000 | | £'000 | £'000 | £'000 |
| **Short Term** | | | | | |
| **Balance at 1 April 2020** | -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 |
| **Balance at 31 March 2021** | **-3,397** | **-1,615** | **-8,844** | **-6,037** | **-19,893** |
| **Long Term** | | | | | |
| **Balance at 1 April 2020** | -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 |
| **Balance at 31 March 2021** | **-7,938** | **-1,387** | **0** | **0** | **-9,325** |
| **Total Provisions at 31 March 2021** | **-11,335** | **-3,002** | **-8,844** | **-6,037** | **-29,218** |

## Note 26 - Provisions and Note 27 - Debtors

**Insurance**

There is uncertainty over the timing of when insurance claims will be settled due to the complexity of some claims. The short-term and long-term split is calculated using a percentage based on past claims settled. 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** |
| **Total** | **287,894** | **52,862** | **340,756** |

| 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** |
| **Total** | **209,518** | **65,061** | **274,579** |

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

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

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

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:

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

## 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 |
|---|---|---|
| **The Surplus or Deficit on the Provision of Services has been adjusted for the following non-cash movements** | | |
| 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 |
| **Net cash flows from investing activities** | 44,872 | 121,584 |

### 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 |
| **Net cash flows from financing activities** | 32,776 | 26,074 |

### 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 |
| **Total liabilities from financing activities** | **-1,115,756** | **49,484** | **0** | **-10,999** | **-1,077,271** |

## 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 |
| **Total liabilities from financing activities** | **-1,145,361** | **40,871** | **0** | **-11,266** | **-1,115,756** |

## 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 | Expenditure | Surplus/ Deficit(-) 2020-21 | Surplus/ Deficit(-) 2019-20 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Kent County Supplies and Furniture** 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 |
| **Brokerage Services** Procurement and distribution of Services, including Laser energy buying group | 9,796 | 8,325 | 1,471 | 2,352 |
| **Transport Services** Provision of lease cars, minibuses and lorries, plus vehicle maintenance and repairs | 715 | 712 | 3 | 0 |
| **Total surplus** | 38,317 | 35,324 | 2,993 | 4,509 |

## 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:

| | 2020-21 £'000 | Restated 2019-20 £'000 |
|---|---|---|
| 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 |
| | 204 | 211 |

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:

| | Central Expenditure £'000 | Individual Schools Budget £'000 | Total £'000 |
|---|---|---|---|
| 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

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.

**Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of Member's allowances paid in 2020-21 is shown in Note 7 on page 46. During 2020-21 works and services to the value of £0.708m (£0.763m in 2019-20) were commissioned from a company which one Member had an interest in. Contracts were entered into in full compliance with the Council's standing orders.

**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 £65.2m and £7.3m respectively (£55.6m and £8.6m respectively in 2019-20)

| **Kent County Council also has an interest in the following companies:** | **Payments made in 2020-21** |
|---|---|
| ***Active companies with less than or equal to 50% control*** | **£** |
| 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 |
| ***Active companies with more than 50% control*** | |
| Produced in Kent (PINK) Ltd | 115,533 |

## Note 38 - Pension Costs

### 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:

| | Local Government Pension Scheme | |
|---|---|---|
| | **2020-21** | **2019-20** |
| **Comprehensive Income and Expenditure Statement** | £000's | £000's |
| ***Cost of Services:*** | | |
| • Current service cost | -165,602 | -127,324 |
| • Past service costs | -1,240 | -28,491 |
| | -166,842 | -155,815 |
| ***Financing and Investment Income and Expenditure*** | | |
| • Net interest expenses | -33,531 | -30,987 |
| • (Gain)/loss from settlements | 1,384 | 7,271 |
| • Administration expenses | -2,039 | -1,551 |
| ***Total Charged to the Surplus or Deficit on the Provision of Services*** | -201,028 | -181,082 |

| | **2020-21** | **2019-20** |
|---|---|---|
| | £000's | £000's |
| ***Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement*** | | |
| • Return on plan assets (excluding the amount included in the net interest expenses) | 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 |
| ***Total Charged to the Comprehensive Income and Expenditure*** | -148,166 | 78,590 |
| **Total charged to Comprehensive Income and Expenditure Statement** | **-349,194** | **-102,492** |
| ***Movement in Reserves statement*** | | |
| • 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 |
| ***Actual amount charged against the General Fund Balance for pensions in the year:*** | | |
| • Employers' contributions payable to scheme | -77,505 | -73,075 |
| **Total Movement in Reserves statement** | **123,523** | **108,007** |

**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:

| | Local Government Pension Scheme £'000 | |
|---|---|---|
| | **2020-21** | **2019-20** |
| 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 |
| **Net liability arising from defined benefit obligation** | **1,634,892** | **1,363,203** |

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

| | Local Government Pension Scheme £'000 | |
|---|---|---|
| | **2020-21** | **2019-20** |
| 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 |
| **Closing fair value of scheme assets** | **3,211,663** | **2,483,660** |

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):**

| | Liabilities: Local Government Pension Scheme £'000 | |
|---|---|---|
| | **2020-21** | **2019-20** |
| 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 |
| **Closing balance at 31 March** | **4,846,555** | **3,846,863** |

**Local Government Pension Scheme assets comprised:**

| | **2020-21** | | **2019-20** | |
|---|---|---|---|---|
| | **£'000** | **%** | **£'000** | **%** |
| 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% |
| **Total assets** | **3,211,663** | **100%** | 2,483,660 | 100% |

## 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 |
| **Fixed Interest Government Securities** | | | | |
| UK | | | | |
| Overseas | 0.6% | | 0.8% | |
| **Corporate Bonds** | | | | |
| UK | 3.9% | | 4.2% | |
| Overseas | 8.6% | | 8.8% | |
| **Equities** | | | | |
| UK | 14.3% | | 19.2% | |
| Overseas | 38.6% | 8.1% | 38.6% | |
| **Property** | | | | |
| All | | 10.3% | | 13.6% |
| **Others** | | | | |
| 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% |
| **Net Current Assets** | | | | |
| Debtors | | 0.5% | | 0.6% |
| Creditors | | -0.3% | | -0.3% |
| **Total assets** | **73.2%** | **26.7%** | **80.0%** | **19.8%** |

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:

| | Local Government Pension Scheme | |
|---|---|---|
| | **2020-21** | **2019-20** |
| 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.

| | Impact on the Defined Benefit Obligation in the Scheme | |
|---|---|---|
| | **Increase in Assumption £'000** | **Decrease in Assumption £'000** |
| Adjustment to discount rate (increase or decrease by 0.1%) | 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 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.

## Note 39 - Financial Instruments

**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 two 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 |
| **Investments** | | | | |
| - Fair value through profit or loss | 204,114 | 134,965 | 181,311 | 56,684 |
| - Amortised cost | 53,371 | 141,441 | 85,018 | 84,307 |
| | **257,485** | **276,406** | **266,329** | **140,991** |
| **Debtors** | | | | |
| - Amortised cost | | 72,670 | | 74,824 |
| - Non financial assets | 52,862 | 144,907 | 65,061 | 111,284 |
| | **52,862** | **217,577** | **65,061** | **186,108** |
| Cash & Cash Equivalents | | 9,232 | | 12,991 |
| **Total** | **310,347** | **503,215** | **331,390** | **340,090** |

**Financial Liabilities**

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| | Long Term | Short Term | Long Term | Short Term |
| | £000's | £000's | £000's | £000's |
| **Borrowing** | | | | |
| - Amortised cost | 735,969 | 128,759 | 813,624 | 81,465 |
| - Non financial liabilities | 204,395 | 8,149 | 212,543 | 8,124 |
| | **940,364** | **136,908** | **1,026,167** | **89,589** |
| **Creditors** | | | | |
| - Amortised cost | | 2,372 | | 1,665 |
| - Non financial assets | 11,536 | 306,627 | 40 | 265,870 |
| | **11,536** | **308,999** | **40** | **267,535** |
| Cash & Cash Equivalents | | | | |
| **Total** | **951,900** | **445,907** | **1,026,207** | **357,124** |

**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 | Other Comprehen-sive Income and Expenditure | Surplus or Deficit on the Provision of Services | Other Comprehen-sive Income and Expenditure |
| | £'000 | £'000 | £'000 | £'000 |
| **Net gains/losses on:** | | | | |
| 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 |
| **Total net gain/losses** | **-21,811** | **-950** | **19,026** | **-950** |
| **Interest revenue** | | | | |
| Financial assets measured at amortised cost | 724 | - | 1,966 | - |
| Financial Assets measured at fair value through profit or loss | 7,699 | | 8,462 | |
| **Total interest revenue** | **8,423** | **0** | **10,428** | **0** |
| **Interest expenses** | **-40,145** | **-** | **-40,980** | **-** |
| **Fee income** | | | | |
| Financial assets or financial liabilities that are not at fair value through profit or loss | | - | | - |
| Trust and other fiduciary activities | | - | | - |
| **Total fee income** | **0** | **0** | **0** | **0** |
| **Fee expense** | | | | |
| Financial assets or financial liabilities that are not at fair value through profit or loss | -20,113 | - | -20,166 | - |
| Trust and other fiduciary activities | | - | | - |
| **Total fee expense** | **-20,113** | **0** | **-20,166** | **0** |

## 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 |
|---|---|---|---|---|
| **Fair value through Profit and Loss** | | | | |
| 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 | 17,662 | 12,566 |
| | | | **339,079** | **237,496** |

**Sensitivity of Fair Value Measurement using Significant Unobservable Inputes - Level 3**

Significant changes in unobservable inputs could result in a significantly lower or higher fair value

**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:

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| **Financial Liabilities** | **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 |
| **Total** | **1,077,272** | **1,508,703** | **1,115,756** | **1,546,149** |

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.

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| **Financial Assets** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Financial assets held at amortised cost | | | | |
| - long-term investments | 53,371 | 53,894 | 85,018 | 84,541 |
| - short-term investments | 141,441 | 141,633 | 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 |
| **Total** | **256,906** | **253,884** | **246,877** | **244,657** |

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 | | | |
|---|---|---|---|---|
| *Recurring fair value measurements using:* | 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 |
| **Financial Liabilities** | | | | |
| Financial liabilities held at amortised cost: | | | | |
| • Long-term PWLB loans | | 588,753 | | **588,753** |
| • Long-term LOBO and Market Loans | | 654,687 | | **654,687** |
| PFI and finance lease liabilities | | | 265,263 | **265,263** |
| **Total** | **0** | **1,243,440** | **265,263** | **1,508,703** |
| **Financial Assets** | | | | |
| Financial assets held at amortised cost: | | | | |
| • Soft loans to third parties | | | 19,366 | **19,366** |
| **Total** | **0** | **0** | **19,366** | **19,366** |

| | 31 March 2020 | | | |
|---|---|---|---|---|
| *Recurring fair value measurements using:* | 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 |
| **Financial Liabilities** | | | | |
| Financial liabilities held at amortised cost: | | | | |
| • Long-term PWLB loans | | 617,408 | | **617,408** |
| • Long-term LOBO and Market Loans | | 651,588 | | **651,588** |
| PFI and finance lease liabilities | | | 277,153 | **277,153** |
| **Total** | **0** | **1,268,996** | **277,153** | **1,546,149** |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| • Soft loans to third parties | | | 22,890 | **22,890** |
| **Total** | **0** | **0** | **22,890** | **22,890** |

## 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 |
| **Total Investments** | **524,148** | **406,030** |

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.

| Time to maturity | 31 Mar 2021 | 31 Mar 2020 |
|---|---|---|
| Years | £000's | £000's |
| 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 |
| **Total** | **853,730** | **883,783** |

* 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 |
| **Impact on Provision of Services (surplus)** | **680** |
| Decrease in fair value of fixed rate investment assets | -230 |
| **Impact on Other Comprehensive Income and Expenditure** | **-230** |
| Decrease in fair value of loans and investments at amortised cost* | **-186,999** |

*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 investments in pooled funds are subject to the value of the underlying investments. The following table shows the impact on the value of the Council's investments of falls in property and equity prices however these would have no impact on the General Fund until the investments are sold.

| | £000's |
|---|---|
| 5% fall in commercial property prices | -3,065 |
| 5% fall in equity prices | -3,415 |

**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.

## Note 41 - Contingent Liabilities and Note 42 - Subsidiary Note

**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 final, audited 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 and Note 44 - Other Notes

### 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 148 to 176

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Please note that Note numbers with no 'G' refer to Kent County Council single entity accounts where notes are not materially different.

## Group Accounts Introduction

**Group Accounts Introduction**

The Code of Practice requires local authorities with interests in subsidiaries, associates and/or joint ventures to prepare group accounts in addition to their own single entity financial statements, unless their interest is not considered material.

The Council has interests in a number of companies that are classified as a subsidiary, associate or joint venture, all of which have been considered for consolidation.

The Group Accounts contain the core statements similar in presentation to the Council's single entity accounts but consolidating the figures of the Council with Kent Holdco Ltd and Invicta Law Ltd. All other companies except from Invicta Law Ltd form part of the Kent Holdco Group.

The following pages include:

- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Movement in Reserves Statement
- Group Cash Flow Statement
- Notes to the Group Accounts

**Basis of Identification of the Group Boundary**

Group accounts are prepared by aggregating the transactions and balances of the Council and all its material subsidiaries, associates and joint ventures.

In its preparation of these Group Accounts, the Council has considered its relationship with entities that fall into the following categories:

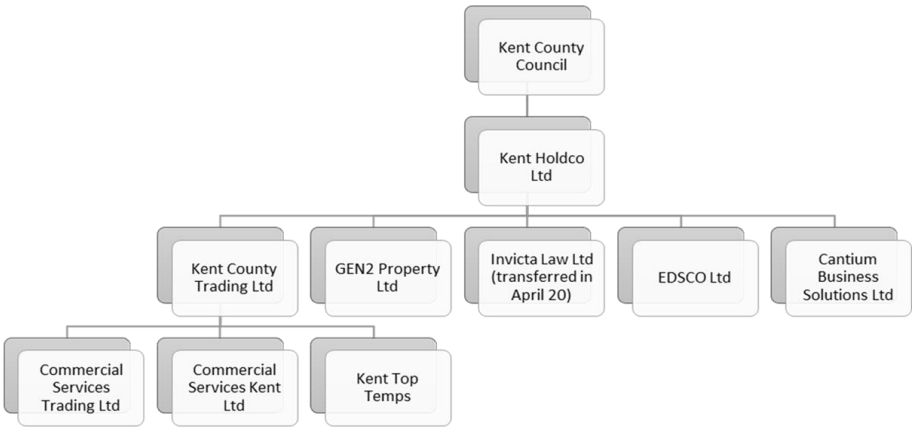
- Subsidiaries – where the Council exercises control and gains benefits or has exposures to risks arising from this control. These entities are included in the group.

- Jointly Controlled Entities – where the Council exercises joint control with one or more organisations. Where these are material they are included in the group and have been accounted for on an equity basis.

- No group relationship – where the body is not an entity in its own right or the Council has an insufficient interest in the entity to justify inclusion in the group financial statements. These entities are not included in the group.

In accordance with this requirement, the Council has determined its Group relationships as follows:

| | | |
|---|---|---|
| Kent Holdco Ltd | 100% Subsidiary | Consolidated |
| Kent County Trading Ltd (Holding) | 100% Subsidiary | Consolidated |
| Includes: | 100% Subsidiary | Consolidated |
| Commercial Services Kent Ltd | 100% Subsidiary | Consolidated |
| Commercial Services Trading Ltd | 100% Subsidiary | Consolidated |
| Kent Top Temps Ltd | 100% Subsidiary | Consolidated |
| CES Holdings Ltd | 100% Subsidiary | Consolidated |
| Hampshire & Kent Commercial Services LLP | Joint Venture | Consolidated |
| Luton & Kent Commercial Services LLP | Joint Venture | Consolidated |
| Cantium Business Solutions Ltd | 100% Subsidiary | Consolidated |
| EDSECO Ltd (trading as The Education People) | 100% Subsidiary | Consolidated |
| Invicta Law Ltd | 100% Subsidiary | Consolidated |
| Gen2 Property Ltd | 100% Subsidiary | Consolidated |




**Subsidiaries**

**Kent Holdco Ltd (11735631)**

Kent Holdco Ltd (Holdco) is a company limited by shares and wholly owned by KCC. It was incorporated on 19 December 2018 and on 1 October 2019 the shareholding for Kent County Trading Ltd, Gen2 Property Ltd, Cantium Business Solutions Ltd and the guarantor for EDSECO Ltd have been transferred from KCC to Holdco.

Holdco's principal activity is that of a holding company. It was established as part of a move to a group structure giving KCC a single point of contact with a streamlined management and executive function. The intention is for Holdco to help generate efficiencies and consistency between the companies.

**Kent County Trading Limited (5242899)**

Kent County Trading Ltd was incorporated in 2004 and is the holding company for Commercial Services Kent Limited (5858177), Commercial Services Trading Limited (5858178) and Kent Top Temps Ltd (5242900). Commercial Services Kent Limited has a 50% stake in Hampshire & Kent Commercial Services LLP (OC424699) and Luton & Kent Commercial Services LLP (OC431629). On 6 January 2020, Commercial Services Trading limited acquired the entire share capital of CES Holdings Limited (01702231). All companies are limited by shares and Kent County Trading Ltd is now part of the group of companies which sit under Kent Holdco Ltd.

Kent County Trading Limited and subsidiaries provide a broad range of services covering different industry sectors. This includes energy switching services (Lumina), international educational supplies (CES Holdings), temporary and permanent staff recruitment (Connect2Kent, Connect2Staff, Connect2Hampshire and Connect2Luton), managed services in relation to procurement solutions and frameworks (energy and education supplies), landscape services, fleet services, vehicle maintenance services, pallet storage and waste management.

The clients served are both private and public sector including KCC.

**GEN$^2$ Property Ltd (9834851)**

Gen2 was incorporated on 21 October 2015, it is a company limited by shares. Its principal activity is property services and property management consultancy. It was established to provide services to Kent County Council and the wider public sector in London and the South East.

**Invicta Law Ltd (10079679)**

Invicta Law was incorporated on 23 March 2016, it is a company limited by shares and regulated by the Solicitors Regulation Authority. It was established to provide legal advice to Kent County Council and other public sector clients. Legal services offered by the company cover areas such as public procurement, child protection, asylum, adult services and community care, dispute resolution and employment, commercial property transactions, commercial contracts and planning and highways law.

**Cantium Business Solutions Ltd (11242115)**

Cantium Business Solutions is a company limited by shares; it was incorporated on 8 March 2018 and began trading on 2 July 2018 having operated as an inhouse trading unit prior to this. This is the first full year of trading by the company. Cantium offers back office support services, covering IT, HR and Finance.

The services offered include integrated HR and payroll services, pensions, coaching and mentoring. The company also offers IT solutions as a "one stop shop" from the provision of hardware to support. It also provides professional management IT services such as project and programme management, General Data Protection Regulation (GDPR) management and IT service management consultancy. The finance element of the business includes accounts payable, social care payments, essential living allowance payments, cash handling and debt collection (and debt management).

**EDSECO Ltd (10970974)**

EDSECO Ltd was incorporated on 19 September 2017 and began trading on 3 September 2018, like Cantium this is the company's first full year of trading. The company operates under the trading name of "The Education People" or "TEP". It is a company limited by guarantee.

The principal trading activities are the provision of resources and services to educational establishments from early years to young adults. The main clients are schools within Kent.

TEP services cover early years and childcare, outdoor learning, safeguarding, school governor services, professional development, performance and school improvement, financial management services and secondary school improvement

**Basis of the Preparation of Group Financial Statements**

The Group Accounts have been prepared using the group accounts requirements of the Code. Companies or other reporting entities that are under the ultimate control of the Council have been included in the Council's group accounts to the extent that they are material to users of the financial statements in relation to their ability to see the complete economic activities of the Council and its exposure to risk through interests in other entities and participation in their activities.

Subsidiaries have been consolidated by:

- adding like items of assets, liabilities, reserves, income and expenses together on a line by line basis to those of other group members in the financial statements; and
- eliminating intra-group balances and transactions in full.

Joint Ventures have been consolidated using the equity method by:

- adjusting the investment originally recognised at cost for the company's post-acquisition change in its share of the net assets of the investee;
- including the company's share of profits and losses in its Comprehensive Income and Expenditure Statement.

**Group Accounting Policies**

The accounting policies used in the preparation of the Group Accounts are the same as for the single entity accounts of Kent County Council as set out in the notes relating to specific financial statement lines and the general accounting policies can be found at Note 2 to the Core Accounts.

## Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing the Group's services in accordance with generally accepted accounting practices.

| Service | Notes | Year ended 31 March 2021 Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
|---|---|---|---|---|
| Adult Social Care & Health | **ASCH** | 631,137 | 211,602 | 419,535 |
| Children, Young People & Education | **CYPE** | 1,332,768 | 966,665 | 366,103 |
| Growth, Environment & Transport | **GET** | 447,349 | 159,669 | 287,680 |
| Strategic & Corporate Services including Public Health | **S&CS** | 208,014 | 111,667 | 96,347 |
| Financing Items & Unallocated | **FI&U** | 5,201 | 13,926 | -8,725 |
| Groups - Holdco Ltd | | 86,900 | 40,951 | 45,949 |
| **Group Cost of Services** | | **2,711,369** | **1,504,480** | **1,206,889** |
| Other operating Income and Expenditure | **13** | | | 45,242 |
| Net Surplus on trading accounts | **G2** | | | -16,588 |
| Financing and Investment Income and Expenditure | **14** | | | 69,140 |
| Taxation and Non Specific Grant Income | **15** | | | -1,195,949 |
| - S31 75% Tax Income Guarantee and Business Rate Relief compensation grants | | | | -32,626 |
| **(Surplus) or deficit on Provision of Services** | | | | **76,108** |
| Share of (surplus)/Deficit of associate or subsidiary | | | | -177 |
| Taxation of Group Entities | G3 | | | 793 |
| **Group (Surplus)/Deficit** | **G2** | | | **76,724** |
| (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 |
| **Other Comprehensive Income and Expenditure** | | | | **-22,389** |
| **Total Comprehensive Income and Expenditure** | | | | **54,335** |

## Group 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 | **ASCH** | 541,500 | 152,591 | 388,909 |
| Children, Young People & Education | **CYPE** | 1,249,034 | 940,801 | 308,233 |
| Growth, Environment & Transport | **GET** | 321,342 | 57,025 | 264,317 |
| Strategic & Corporate Services including Public Health | **S&CS** | 182,190 | 90,285 | 91,905 |
| Financing Items & Unallocated | **FI&U** | 29,280 | 3,262 | 26,018 |
| Groups - Holdco Ltd | | 73,931 | 22,254 | 51,677 |
| Groups - Other Services | | 9,565 | 993 | 8,572 |
| **Group Cost of Services** | | **2,406,842** | **1,267,211** | **1,139,631** |
| Other operating Income and Expenditure | **13** | | | 60,856 |
| Net Surplus on trading accounts | **G2** | | | -17,957 |
| Financing and Investment Income and Expenditure | **14** | | | 100,714 |
| Taxation and Non Specific Grant Income | **15** | | | -1,077,812 |
| **(Surplus) or deficit on Provision of Services** | | | | **205,432** |
| Share of (surplus)/Deficit of associate or subsidiary | | | | |
| Taxation of Group Entities | G3 | | | 675 |
| **Group (Surplus)/Deficit** | **G2** | | | **206,107** |
| (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 |
| **Other Comprehensive Income and Expenditure** | | | | **-661,415** |
| **Total Comprehensive Income and Expenditure** | | | | **-455,308** |

## Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Group, analysed into usable reserves and other reserves

| | Year ended 31 March 2020 | | | |
|---|---|---|---|---|
| | **General Fund and Earmarked Reserves** | **Capital Receipts Reserve** | **Capital Grants Unapplied** | **Profit and Loss Reserve** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Balance at 31 March 2019** | **-250,398** | **-39,279** | **-134,325** | **-2,627** |
| **Movement in reserves during 2019-20** | | | | |
| Total Comprehensive Expenditure & Income | 126,757 | | | 79,350 |
| Adjustments between group accounts and Kent County Council accounts | 79,965 | | | -79,965 |
| **Net increase or decrease before transfers** | **206,722** | **0** | **0** | **-615** |
| Adjustments between accounting basis & funding basis under regulations - Note 12 | -241,185 | 8,351 | 57,087 | |
| **Net increase/Decrease before Transfers to Earmarked Reserves** | **-34,463** | **8,351** | **57,087** | **-615** |
| Transfer between Usable and Unusable Reserves | | | | |
| **Increase/Decrease (movement) in Year** | **-34,463** | **8,351** | **57,087** | **-615** |
| | **Year ended 31 March 2021** | | | |
| **Balance at 31 March 2020 carried forward** | **-284,861** | **-30,928** | **-77,238** | **-3,242** |
| Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020 | -21,505 | | | |
| **Movement in reserves during 2020-21** | | | | |
| Total Comprehensive Expenditure & Income | -1,819 | | | 78,543 |
| Adjustments between group accounts and Kent County Council accounts | 79,839 | | | -79,839 |
| **Net increase or decrease before transfers** | **78,020** | **0** | **0** | **-1,296** |
| Adjustments between accounting basis & funding basis under regulations - Note 12 | -225,179 | 503 | 27,455 | |
| **Net increase/Decrease before Transfers to Earmarked Reserves** | **-147,159** | **503** | **27,455** | **-1,296** |
| Transfer between Usable and Unusable Reserves | | | | |
| **Increase/Decrease (movement) in Year** | **-147,159** | **503** | **27,455** | **-1,296** |
| **Balance at 31 March 2021 carried forward** | **-453,525** | **-30,425** | **-49,783** | **-4,538** |

## Group Movement in Reserves Statement

| | Year ended 31 March 2020 | | |
|---|---|---|---|
| | **Total Usable Reserves** | **Unusable reserves** | **Total Group Reserves** |
| | **£'000** | **£'000** | **£'000** |
| **Balance at 31 March 2019** | **-426,630** | **38,816** | **-387,814** |
| **Movement in Reserves during 2019-20** | | | |
| Total Comprehensive Expenditure and Income | **206,107** | -661,415 | **-455,308** |
| Adjustments between group accounts and Kent County Council accounts | **0** | | **0** |
| **Net increase or decrease before transfers** | **206,107** | **-661,415** | **-455,308** |
| Adjustments between accounting basis & funding basis under regulations - Note 12 | **-175,747** | 175,747 | **0** |
| **Net increase/Decrease before Transfers to Earmarked Reserves** | **30,360** | **-485,668** | **-455,308** |
| Transfers between Usable and Unusable Reserves | **0** | | **0** |
| **Increase/Decrease (movement) in Year** | **30,360** | **-485,668** | **-455,308** |
| | **Year ended 31 March 2021** | | |
| **Balance at 31 March 2020 carried forward** | **-396,270** | **-446,852** | **-843,122** |
| Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020 | -21,505 | 21,505 | **0** |
| **Movement in reserves during 2020-21** | | | |
| Total Comprehensive Expenditure & Income | **76,724** | -22,389 | **54,335** |
| Adjustments between group accounts and authority accounts | **0** | | **0** |
| **Net increase or decrease before transfers** | **76,724** | **-22,389** | **54,335** |
| Adjustments between accounting basis & funding basis under regulations - Note 12 | -197,221 | 197,221 | **0** |
| **Net increase/Decrease before Transfers to Earmarked Reserves** | **-120,497** | **174,832** | **54,335** |
| Transfer between Usable and Unusable Reserves | 0 | 0 | **0** |
| **Increase/Decrease (movement) in Year** | **-120,497** | **174,832** | **54,335** |
| **Balance at 31 March 2021 carried forward** | **-538,272** | **-250,515** | **-788,787** |

## Group Balance Sheet

The Balance sheet shows the value of the assets and liabilities recognised by the group at 31 March 2021. The net assets of the Group are matched by Group reserves.

| | | 31 March 2021 | | 31 March 2020 |
|---|---|---|---|---|
| | **Notes** | **£'000** | **£'000** | **£'000** |
| Property Plant & Equipment | **17** | 3,165,237 | | 3,015,262 |
| Heritage Assets | **21** | 6,821 | | 6,650 |
| Investment Property | **18** | 52,295 | | 61,971 |
| Intangible assets | | 9,341 | | 11,293 |
| Long-term investments | **G8** | 241,943 | | 255,442 |
| Long-term debtors | **G4** | 51,212 | | 59,166 |
| Deferred tax asset | **G4** | 24 | | 45 |
| **Total Long-Term Assets** | | | 3,526,873 | 3,409,829 |
| Inventories | | 4,988 | | 4,961 |
| Assets held for sale (<1yr) | | 1,546 | | 1,491 |
| Short-term debtors | **G4** | 299,022 | | 207,794 |
| Short-term investments | **G8** | 137,941 | | 80,607 |
| Cash and Cash equivalents | **G6** | 163,176 | | 81,446 |
| Current tax asset | **G4** | 119 | | 0 |
| **Total Current Assets** | | | 606,792 | 376,299 |
| Temporary borrowing | **G8** | -128,759 | | -81,465 |
| Short-term Lease Liability | **39** | -8,164 | | -8,139 |
| Short-term provisions | **26** | -19,893 | | -18,786 |
| Creditors | **G5** | -414,033 | | -325,737 |
| Current tax liability | **G5** | -582 | | -1,375 |
| **Total Current liabilities** | | | -571,431 | -435,502 |
| Creditors due after one year | **G5** | -11,536 | | -40 |
| Provisions | **26** | -9,524 | | -9,730 |
| Long-term borrowing | **G8** | -735,969 | | -813,624 |
| Other Long-Term Liabilities | **G8/38** | -1,870,703 | | -1,608,657 |
| Deferred tax liability | | -594 | | -555 |
| Capital Grants Receipts in Advance | **16** | -145,120 | | -74,898 |
| **Total Long-Term Liabilities** | | | -2,773,446 | -2,507,504 |
| **Net Assets/(Liabilities)** | | | 788,788 | 843,122 |
| **Usable Reserves** | **G7/23** | -538,271 | | -396,269 |
| **Unusable Reserves** | **24** | -250,517 | | -446,853 |
| **Total Reserves** | | | -788,788 | -843,122 |

## Group Cash Flow Statement

The cash flow statement shows the changes to cash and cash equivalents of the Group during the reporting period

| | Notes | 2020-21 £'000 | 2019-2020 £'000 |
|---|---|---|---|
| Net (Surplus) or deficit on the provision of services | | 76,108 | 205,432 |
| Adjustments to net surplus or deficit on the provision of services for non cash movements | G9 | -506,848 | -462,017 |
| Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | G9 | 262,398 | 118,441 |
| Taxation | | 1,131 | 264 |
| **Net cash flows from operating activities** | | -167,211 | -137,880 |
| Investing Activities | G10 | 46,377 | 123,095 |
| Financing Activities | G11 | 39,104 | 26,314 |
| **Net increase (-) or decrease in cash and cash equivalents** | | -81,730 | 11,529 |
| Cash and cash equivalents at the beginning of the reporting period | | 81,446 | 92,975 |
| **Cash and cash equivalents at the end of the reporting period** | G6 | **163,176** | **81,446** |

The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

## Note G1 - Critical Judgements

**Use of unaudited accounts for Group Accounts consolidation**

The company accounts used for the Group Accounts consolidation is based on their unaudited draft accounts. This is due to the statutory timetable for completing local authority accounts means that company audited accounts would not be available and it is not unusual practice for unaudited accounts to be used. Consideration has been given whether the audited accounts would be materially different and the conclusion is that the risk is low.

**Consideration of IFRS 15 - Revenue from Contracts with Customers**

The subsidiary companies compile their accounts based on FRS102 which is similar to International Financial Reporting Standards (IFRS) but not all of the latest IFRS standards have been adopted into FRS102. to understand the differences in the accounting policies between KCC and the individual companies a questionnaire was issued.

No issues were identified in relation to IFRS 15. The companies recognise revenue from contracts in accordance with the underlying contract and this will be either be overtime or at a point in time which is not dissimilar to IFRS 15 requirements.

**Supporting the Comprehensive Income and Expenditure Statement**

## Note G2 - Reconciliation of Group CIES

The income and expenses of the Council's subsidiary companies are consolidated in the Statement on a line by line basis.

| | 2020-21 £'000 | 2019-20 £'000s |
|---|---|---|
| (Surplus) or deficit per single entity Comprehensive Income and Expenditure Statement | 73,188 | 204,050 |
| Adjustment removing fair value gain/loss included in the single entity accounts as part of Group Accounts consolidation. | 4,832 | 2,672 |
| (Surplus) or deficit attributable to subsidiaries | -1,296 | -615 |
| **Total Group (Surplus) or Deficit** | **76,724** | **206,107** |

The consolidation adjustment to the 'Net Surplus on trading accounts' is due the following:

| | 2020-21 £'000 | 2019-20 £'000s |
|---|---|---|
| Net Surplus on Trading accounts per single entity Comprehensive Income and Expenditure Statement | -2,993 | -4,509 |
| KCS and Laser expenditure with Subsidiaries | -14,603 | -14,524 |
| KCS and Laser income generated through sales to Subsidiaries | 1,008 | 1,076 |
| | **-16,588** | **-17,957** |

## Note G3 - Tax Expenses of Group Entities, Note G4 - Debtors and Note G5 - Creditors

### Note G3 - Tax Expenses of Group Entities

The taxation figure included in the Group Comprehensive Income and Expenditure Statement represents:

| | 2020-21 £'000 | 2019-20 £'000s |
|---|---|---|
| Tax in respect of the current year | 845 | 875 |
| Adjustment in respect of prior years | -112 | -250 |
| Deferred tax in respect of the current year | -39 | -61 |
| Deferred tax on actuarial loss/(gain) for the year | 99 | 52 |
| Impact of the change in tax rates recognised in the Comprehensive Income and Expenditure Statement | 0 | 59 |
| **Total Taxation Expenses** | **793** | **675** |

**Supporting the Balance Sheet**

### Note G4 - Debtors

The table provides details of amounts owed to the Group at the end of the year. Debtors included within the Group Accounts exclude any amounts owed within the Group.

| | Short-Term Debtors | | Long-Term Debtors | | Total Debtors | |
|---|---|---|---|---|---|---|
| | 31 March 2021 £'000s | 31 March 2020 £'000s | 31 March 2021 £'000s | 31 March 2020 £'000s | 31 March 2021 £'000s | 31 March 2020 £'000s |
| Medway Council | | | 31,402 | 32,710 | 31,402 | 32,710 |
| Recoverable VAT | 36,817 | 7,469 | - | - | 36,817 | 7,469 |
| Trade Receivables | 83,723 | 84,347 | - | - | 83,723 | 84,347 |
| Payments in Advance | 40,103 | 25,745 | - | - | 40,103 | 25,745 |
| General Debtors | 138,379 | 90,233 | 19,810 | 26,501 | 158,189 | 116,734 |
| | **299,022** | **207,793** | **51,212** | **59,211** | **350,234** | **267,004** |

### Note G5 - Creditors

The table provides details of amounts owed by the Group to creditors at the end of the year. Creditors included within the Group Accounts exclude any amounts owed within the Group.

| | Short-Term Creditors | | Long-Term Creditors | | Total Creditors | |
|---|---|---|---|---|---|---|
| | 31 March 2021 £'000s | 31 March 2020 £'000s | 31 March 2021 £'000s | 31 March 2020 £'000s | 31 March 2021 £'000s | 31 March 2020 £'000s |
| Receipts in Advance | 83,834 | 48,811 | - | - | 83,834 | 48,811 |
| VAT Payable | 7,026 | 3,481 | - | - | 7,026 | 3,481 |
| Contract Liabilities | 5,284 | 3,548 | - | - | 5,284 | 3,548 |
| Other HMRC Liabilities | 2,163 | 2,401 | - | - | 2,163 | 2,401 |
| Deferred Income | 30,661 | 12,282 | - | - | 30,661 | 12,282 |
| General Creditors | 285,647 | 256,590 | 11,536 | 40 | 297,183 | 256,630 |
| | **414,615** | **327,112** | **11,536** | **40** | **426,151** | **327,152** |

## Note 6 - Cash & Cash Equivalents and Note G7 - Reserves

### Note G6 - Cash & Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements.

| | 31 March 2021 | 31 March 2020 |
|---|---|---|
| | £'000s | £'000s |
| Single Entity Cash and Bank balances | 9,232 | 956 |
| Subsidiary cash and bank balances | 18,979 | 23,806 |
| Short term deposits with the Money Market | 134,965 | 56,684 |
| **Total Group Cash and Cash Equivalents** | **163,176** | **81,446** |

### Note G7 - Reserves

Movements on the Group reserves are detailed in the Group Movement in Reserve Statement on pages 135 to 136. The reserves of the subsidiaries include:

| | 2019-20 | | 2020-21 |
|---|---|---|---|
| | Usable Reserves<br>Retained Earnings | | Usable Reserves<br>Retained Earnings |
| | £'000s | | £'000s |
| **Balance at 1 April 2019** | **2,626** | **Balance at 1 April 2020** | **3,242** |
| Profit/(Loss) for the year | 4,572 | | 2,662 |
| Share of Other Comprehensive Income & Expenditure of associates and joint | | | 177 |
| Dividends paid/declared | -3,956 | | -1,543 |
| **Balance at 31 March 2020** | **3,242** | **Balance at 31 March 2021** | **4,538** |

## Note G8 - Financial Instruments

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Group Balance Sheet:

**Financial Assets**

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| | Long Term £000's | Short Term £000's | Long Term £000's | Short Term £000's |
| **Investments** | | | | |
| - Fair value through profit or loss | 188,395 | 134,965 | 170,424 | 56,684 |
| - Amortised cost | 53,371 | 137,942 | 85,018 | 80,607 |
| | **241,766** | **272,907** | **255,442** | **137,291** |
| **Debtors** | | | | |
| - Amortised cost | | 83,723 | | 84,347 |
| - Non financial assets | 51,212 | 140,326 | 59,166 | 96,605 |
| | **51,212** | **224,049** | **59,166** | **180,952** |
| Cash & Cash Equivalents | | 28,211 | | 24,762 |
| **Total** | **292,978** | **525,167** | **314,608** | **343,005** |

**Financial Liabilities**

| | 31 March 2021 | | 31 March 2020 | |
|---|---|---|---|---|
| | Long Term £000's | Short Term £000's | Long Term £000's | Short Term £000's |
| **Borrowing** | | | | |
| - Amortised cost | 735,969 | 128,759 | 813,624 | 81,465 |
| - Non financial liabilities | 204,395 | 8,149 | 212,543 | 8,139 |
| | **940,364** | **136,908** | **1,026,167** | **89,604** |
| **Creditors** | | | | |
| - Amortised cost | | 5,284 | | 3,548 |
| - Non financial assets | 11,536 | 285,647 | 40 | 256,589 |
| | **11,536** | **290,931** | **40** | **260,137** |
| Cash & Cash Equivalents | | | | |
| **Total** | **951,900** | **427,839** | **1,026,207** | **349,741** |

**Supporting the Cash Flow**

## Note G9. Cash Flow - Group Operating Activities

The cash flows for operating activities include the following items:

| | 2020-21 | 2019-20 |
|---|---|---|
| | £'000 | £'000 |
| Interest received | -13,750 | -15,317 |
| Interest paid | 61,782 | 62,693 |

| | 2020-21 £'000 | 2019-20 £'000 |
|---|---|---|
| **The Surplus or Deficit on the Provision of Services has been adjusted for the following non-cash movements** | | |
| Movement in pension liability | -124,719 | -108,007 |
| Carrying amount of non-current assets sold | -45,849 | -71,992 |
| Carrying amount of Financial Assets held at FVPL | 20,861 | -22,788 |
| Amortisation of fixed assets | -2,134 | -3,206 |
| Depreciation of fixed assets | -147,574 | -162,901 |
| Impairment and downward valuations | 11,869 | 24,913 |
| Income from shares in group undertakings | | 1,996 |
| Increase/(decrease) debtors | 89,494 | -4,565 |
| (Increase)/decrease creditors | -59,173 | -25,624 |
| Increase/(decrease) stock | 27 | -411 |
| Change in provisions | 79 | -9 |
| 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 | -51,136 | -13,814 |
| Taxation | | -268 |
| | -506,848 | -461,749 |
| **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 | 3,359 | 13,100 |
| Other adjustments for items included in the net Surplus or Deficit on the provision of service that are investing or financing activities | -357 | |
| Capital grants applied | 259,396 | 105,341 |
| | 262,398 | 118,441 |

## Note G10 and G11 - Cash Flow - Investing and Financing Activities

### Note G10 - Group Cash Flow Statement - Investing Activities

| | 2020-21 | 2019-20 |
|---|---|---|
| | £'000 | £'000 |
| Purchase of property, plant and equipment, investment property, and intangible assets | 363,380 | 261,760 |
| Purchase of short-term and long-term investments | 1,641,439 | 455,731 |
| Other payments for investing activities | 136 | 0 |
| Proceeds from sale of property, plant and equipment, investment property, and intangible assets | -3,342 | -12,962 |
| Proceeds from short-term and long-term investments | -1,614,461 | -469,890 |
| Other receipts from investing activities | -340,775 | -111,544 |
| **Net cash flows from investing activities** | **46,377** | **123,095** |

### Note G11 - Group Cash Flow Statement - Financing Activities

| | 2020-21 | 2019-20 |
|---|---|---|
| | £'000 | £'000 |
| Cash receipts of short- and long-term borrowing | -145 | -1,982 |
| Relating to finance leases and on-balance sheet PFI contracts | 2,697 | 3,698 |
| Repayments of short- and long-term borrowing | 34,484 | 22,702 |
| Other payments from financing activities | 2,068 | 1,896 |
| **Net cash flows from financing activities** | **39,104** | **26,314** |

## 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.

### Fund Account for the year ended 31 March

| | Notes | 2020-21 £000's | 2019-20 £000's |
|---|---|---|---|
| **Dealings with members, employers and others directly involved in the Fund** | | | |
| 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 |
| **Net additions from dealings with Members** | | **15,467** | **3,051** |
| Management Expenses | 11 | -27,277 | -25,606 |
| **Net additions/withdrawals including fund management expenses** | | **-11,810** | **-22,555** |
| **Returns on Investments** | | | |
| 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 | 1,697,318 | -613,700 |
| **Net Return on Investments** | | **1,808,564** | **-478,736** |
| **Net increase / (decrease) in the Net Assets available for benefits during the year** | | **1,796,754** | **-501,291** |

### Net Assets Statement as at 31 March

| | Notes | 2021 £000's | 2020 £000's |
|---|---|---|---|
| Investment Assets | | 7,511,024 | 5,720,555 |
| Investment Liabilities | | -6,848 | -17,405 |
| **Net Investment Assets** | 15 | **7,504,176** | **5,703,150** |
| Current Assets | 21 | 34,422 | 34,625 |
| Current Liabilities | 22 | -24,966 | -20,897 |
| **Net Assets available to fund benefits at the period end** | | **7,513,632** | **5,716,878** |

## Pension Fund Accounts

### 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.

**Benefits**

Pension benefits under the LGPS are based on the following:

| | Service pre April 2008 | Membership from 1 April 2008 to 31 March 2014 | Membership from 1 April 2014 |
|---|---|---|---|
| **Pension** | 1/80 x final pensionable salary | 1/60 x final pensionable salary | 1/49 (or 1/98 if opted for 50/50 section) x career average revalued salary |
| **Lump sum** | Automatic lump sum of 3/80 x final pensionable salary.<br><br>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.<br><br>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.<br><br>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

## 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 assesesed 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<br><br>(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<br><br>(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 £282m. 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. |

| Item | Uncertainties | Effect if actual results differ from assumption |
|---|---|---|
| Freehold and Leasehold Property and Pooled Property Funds<br><br>(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. | 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 or do not require any adjustment to these accounts.

## 7. Contributions Receivable

| | 2020-21<br>£000's | 2019-20<br>£000's |
|---|---|---|
| **By Category** | | |
| 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 |
| **Total contributions receivable** | **267,955** | **250,263** |
| | | |
| **By type of employer** | | |
| Kent County Council | 98,024 | 94,300 |
| Scheduled Bodies | 151,255 | 141,689 |
| Admission Bodies | 18,676 | 14,274 |
| | **267,955** | **250,263** |

## 8. Transfers in from other pension funds

| | 2020-21<br>£000's | 2019-20<br>£000's |
|---|---|---|
| Individual | 5,017 | 9,328 |
| Group | | 0 |
| | **5,017** | **9,328** |

## 9. Benefits Payable

| | 2020-21<br>£000's | 2019-20<br>£000's |
|---|---|---|
| **By Category** | | |
| Pensions | 210,886 | 203,810 |
| Retirement Commutation and lump sum benefits | 30,202 | 34,195 |
| Death benefits | 6,360 | 5,827 |
| | **247,448** | **243,832** |
| **By type of employer** | | |
| Kent County Council | 112,653 | 109,643 |
| Scheduled Bodies | 119,813 | 119,218 |
| Admission Bodies | 14,982 | 14,971 |
| | **247,448** | **243,832** |

## 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 |
| | **10,057** | **12,708** |

## 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 |
| | | **27,277** | **25,606** |

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 |
| **Total** | **22,973** | **21,163** |

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 | 2020-21 % | 2019-20 £000's | 2019-20 % |
|---|---|---|---|---|---|
| Bonds | | 15,279 | 13.8 | 17,132 | 12.7 |
| Equities | | 4,277 | 3.9 | 5,421 | 4.0 |
| Pooled Investments | | 68,023 | 61.1 | 85,335 | 63.1 |
| Private Equity / Infrastructure | | 9,879 | 8.9 | 4,644 | 3.4 |
| Property | 14 | 8,228 | 7.4 | 15,488 | 11.4 |
| Pooled Property Investments | | 5,465 | 4.9 | 6,010 | 4.4 |
| Cash and cash equivalents | | 155 | 0.0 | 1,273 | 0.9 |
| Stock Lending | | 33 | 0.0 | 42 | 0.0 |
| **Total** | | **111,339** | **100.0** | **135,344** | **100.0** |

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.

## 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 |
| **Net operating income from Property** | **8,228** | **15,488** |

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 |
|---|---|---|
| **Investment Assets** | | |
| Bonds | 401,001 | 339,055 |
| Equities | 348,033 | 236,536 |
| Pooled Investments | 5,343,724 | 4,028,527 |
| Private Equity/Infrastructure Funds | 274,023 | 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 |
| **Total Investment Assets** | **7,511,024** | **5,720,555** |
| **Investment Liabilities** | | |
| 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 |
| **Total Investment Liabilities** | **-6,848** | **-17,405** |
| **Net Investment Assets** | **7,504,176** | **5,703,150** |

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.

### 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 | 41,349 | 274,023 |
| 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 | 1,666,342 | 7,141,813 |
| Derivative contracts | | | | | |
| - Forward Currency contracts | -17,082 | 3,512,898 | -3,526,105 | 31,251 | 962 |
| | **5,542,013** | **5,024,749** | **-5,121,580** | **1,697,593** | **7,142,775** |
| 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 |
| **Net Investment Assets** | **5,703,150** | | | **1,697,318** | **7,504,176** |

| | 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 |
| | **6,113,450** | **4,103,034** | **-4,059,889** | **-614,582** | **5,542,013** |
| 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 | | | | | |
| **Net Investment Assets** | **6,205,098** | | | **-613,700** | **5,703,150** |

## 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 |
| **Net forward currency contracts at 31 March 2021** | | | | | | **964** |
| Prior year comparative | | | | | | |
| Open forward currency contracts at 31 March 2020 | | | | | 816 | -17,896 |
| **Net forward currency contracts at 31 March 2020** | | | | | | **-17,080** |

### 15c. Property Holdings

| | Year ending 31 March 21 £000's | Year ending 31 March 20 £000's |
|---|---|---|
| **Opening Balance** | 478,105 | 487,193 |
| Additions | 0 | 1,844 |
| Disposals | 0 | -4,710 |
| Net increase / (decrease) in market value | 15,209 | -6,222 |
| **Closing Balance** | **493,314** | **478,105** |

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

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

| | Year ending 31 March 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 |
| | **86,479** | **94,263** |

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.

### 15d. Investments analysed by Fund Manager

| | Market Value as at 31 March 2021 | | Market Value as at 31 March 2020 | |
|---|---|---|---|---|
| | £000's | % | £000's | % |
| **Investments managed in the ACCESS Pool** | | | | |
| Baillie Gifford | 1,709,000 | 22.8 | 1,122,058 | 19.7 |
| M&G | 443,546 | 5.9 | 298,971 | 5.2 |
| Ruffer | 134,026 | 1.8 | 71,377 | 1.3 |
| Schroders | 1,384,541 | 18.5 | 770,263 | 13.5 |
| | 3,671,113 | 49 | 2,262,669 | 40 |
| **Investments managed outside the ACCESS Pool** | | | | |
| 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 | 149,608 | 2.0 | 94,199 | 1.8 |
| Impax | 70,886 | 0.9 | 43,028 | 0.8 |
| Insight | 610,989 | 8.1 | 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 | 77,133 | 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 | 47,282 | 0.6 | 35,508 | 0.6 |
| Link Fund Solutions (previously Woodford) | 8,102 | 0.1 | 35,704 | 0.6 |
| | 3,833,063 | 51 | 3,440,481 | 61 |
| **Total** | **7,504,176** | **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

| Investments | 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 |

| Investments | 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 |

### 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.

| | 31 March 2021 | | |
|---|---|---|---|
| **Loan Type** | Market Value £000's | Collateral Value £000's | **Collateral type** |
| Equities | 8,099 | 8,458 | Treasury Notes and other Government debt |
| Bonds | 11,004 | 11,492 | Treasury Notes and other Government debt |
| | **19,103** | **19,950** | |

| | 31 March 2020 | | |
|---|---|---|---|
| **Loan Type** | Market Value £000's | Collateral Value £000's | **Collateral type** |
| Equities | 12,842 | 13,377 | Treasury Notes and other Government debt |
| Bonds | 7,761 | 8,084 | Treasury Notes and other Government debt |
| | **20,603** | **21,461** | |

## 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 | Assets at amortised cost | Financial liabilities at amortised cost | Designated as fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised cost |
| | £000's | £000's | £000's | £000's | £000's | £000's |
| **Financial Assets** | | | | | | |
| 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 | 274,023 | | | 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 | |
| | **6,841,198** | **210,934** | **0** | **5,204,128** | **72,948** | **0** |
| **Financial Liabilities** | | | | | | |
| Derivative contracts | | | | -17,081 | | |
| Other Investment balances | | | -6,848 | 0 | | -324 |
| Creditors | | | -24,966 | | | -20,897 |
| | **0** | **0** | **-31,814** | **-17,081** | **0** | **-21,221** |
| **Total** | **6,841,198** | **210,934** | **-31,814** | **5,187,047** | **72,948** | **-21,221** |

### 16b. Net Gains and Losses on Financial Instruments

| | 31 March 21 | 31 March 20 |
|---|---|---|
| | £000's | £000's |
| **Financial assets** | | |
| Fair value through profit and loss | 1,682,384 | -608,360 |
| Assets at amortised cost | (275) | 882 |
| **Total** | **1,682,109** | **-607,478** |

**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.

| 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 including pooled property | 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 |

**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% | 196,890 | 242,765 | 151,015 |
| Infrastructure | 19.0% | 77,133 | 91,788 | 62,478 |
| Other Level 3 investments | 23.3% | 8,101 | 9,989 | 6,213 |
| Total | | 282,124 | 344,542 | 219,706 |

| | 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 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.

The following table provides an analysis of the assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

| Values at 31 March 2021 | 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 |
|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | |
| Bonds | 401,002 | | | 401,002 |
| Equities | 348,033 | | | 348,033 |
| Pooled investments | 732,934 | 4,602,688 | 8,101 | 5,343,723 |
| Pooled property investments | | 281,717 | | 281,717 |
| Private equity and infrastructure | | | 274,023 | 274,023 |
| Derivatives | | 963 | | 963 |
| Cash Deposits | 351,228 | | | 351,228 |
| Other Investment balances | 17,021 | | | 17,021 |
| **Non- Financial assets at fair value through profit and loss** | | | | |
| Property | | 493,314 | | 493,314 |
| **Financial liabilities at fair value through profit and loss** | | | | 0 |
| Derivatives | 0 | | | |
| Other investment liabilities | (6,848) | | | (6,848) |
| **Net Investment Assets** | **1,843,370** | **5,378,682** | **282,124** | **7,504,176** |

| Values at 31 March 2020 | 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 |
|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | |
| 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 |
| **Non- Financial assets at fair value through profit and loss** | | | | |
| Property | | 478,104 | | 478,104 |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Derivatives | | (17,081) | | (17,081) |
| Other investment liabilities | | (324) | | (324) |
| **Net Investment Assets** | **2,022,640** | **3,454,941** | **225,568** | **5,703,149** |

| 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 | 32,168 |
| Realised gains/losses | 0 |
| Market Value 31 March 2021 | **282,124** |

## 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.

**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 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 351,228 | 0.00 | 351,228 | 351,228 |
| **Investment portfolio assets:** | | | | |
| 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 | 196,890 | 23.30 | 242,765 | 151,015 |
| Infrastructure Funds | 77,133 | 19.00 | 91,788 | 62,478 |
| Derivative assets | 962 | 0.00 | 962 | 962 |
| **Total** | **7,000,688** | | **7,920,169** | **6,081,207** |

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.

| Asset Type | Value as at 31 March 20 £000's | Percentage change % | Value on increase £000's | Value on decrease £000's |
|---|---|---|---|---|
| **Cash and cash equivalents** | 135,027 | 0.00 | 135,027 | 135,027 |
| **Investment portfolio assets:** | | | | |
| 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 |
| **Total** | **5,198,937** | | **5,891,469** | **4,506,405** |

**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 |
| **Total** | **1,332,376** | **918,648** |

**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:

| 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 |
| **Total change in assets available** | **1,332,376** | **-9,766** | **9,766** |

| 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 |
| **Total change in assets available** | **918,648** | **-7,836** | **7,836** |

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 | 226,885 | 154,618 |
| Non GBP Cash | 9,981 | 9,123 |
| **Total overseas assets** | **4,446,622** | **2,994,183** |

**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 | 226,885 | 242,313 | 211,457 |
| Non GBP Cash | 9,981 | 10,660 | 9,302 |
| **Total change in assets available** | **4,446,622** | **4,748,992** | **4,144,251** |

| 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 |
| **Total change in assets available** | **2,994,183** | **3,197,787** | **2,790,579** |

**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.

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

| | Rating | Balance as at 31 March 21 £000's | Balance as at 31 March 20 £000's |
|---|---|---|---|
| **Money Market Funds** | | | |
| Northern Trust Sterling Fund | **AAAm** | 8,004 | 9,002 |
| SSGA Liquidity Fund | **AAAm** | 0 | 2 |
| Blackrock ICS | **AAAm** | 7 | 65 |
| Blackrock USD Government Liquidity Fund | **AAAm** | 3,417 | 17 |
| Aberdeen Sterling Liquidity Fund | **AAAm** | 74,998 | 18,619 |
| Goldman Sachs Liquid Reserve Government Fund | **AAAm** | 2,358 | 17,523 |
| Aviva Investors Sterling Liquidity Fund | **AAAm** | 49,994 | 42,348 |
| Federated (PR) Short-term GBP Prime Fund | **AAAm** | 9,998 | 10,001 |
| Deutsche Managed Sterling Fund | **AAAm** | 1,184 | 9,294 |
| HSBC Global Liquidity Fund | **AAAm** | 2 | 5,963 |
| LGIM Liquidity Fund | **AAAm** | 41,775 | 7,161 |
| Insight Sterling Liquidity Fund | **AAAm** | 0 | 3,143 |
| | | **191,737** | **123,138** |
| **Bank Deposit Accounts** | | | |
| NatWest SIBA | **BBB+** | 4,627 | 0 |
| | | **4,627** | **0** |
| **Bank Current Accounts** | | | |
| NatWest Current Account | **BBB+** | 50 | 30 |
| NatWest Current Account - Euro | **BBB+** | 814 | 39 |
| NatWest Current Account - USD | **BBB+** | 468 | 0 |
| Northern Trust - Current Accounts | **AA-** | 6,694 | 9,767 |
| Barclays - DTZ client monies account | **A*+** | 1,433 | 2,053 |
| | | **9,459** | **11,889** |
| **Cash with fund managers** | **n/a** | **150,000** | **0** |
| **Total cash and cash equivalents** | | **355,823** | **135,027** |

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.

**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 | 7,513.6 | 5,716.9 |
| Net liability | -4,276.2 | -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 63.7% 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 |
| **Debtors** | | |
| - Contributions due - Employees | 4,067 | 4,160 |
| - Contributions due - Employers | 13,180 | 13,791 |
| | 17,247 | 17,951 |
| Sundry debtors | 12,579 | 13,606 |
| **Total Debtors** | **29,826** | **31,557** |
| **Cash** | 4,596 | 3,068 |
| **Total Current Assets** | 34,422 | 34,625 |

## 22. Current Liabilities

| | 31 March 21 | 31 March 20 |
|---|---|---|
| | £000's | £000's |
| **Creditors** | | |
| - Benefits Payable | 14,178 | 12,039 |
| - Sundry Creditors | 10,788 | 8,858 |
| **Total Current Liabilities** | **24,966** | **20,897** |

## 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 £000's | 2019-20 £000's | 2020-21 £000's | 2019-20 £000's | 2020-21 £000's | 2019-20 £000's |
| Value at 1 April | 8,636 | 8,636 | 1,736 | 2,017 | 423 | 424 |
| Value at 31 March | 8,416 | 8,416 | 2,032 | 1,736 | 404 | 423 |
| Contributions paid | 1,305 | 1,305 | 108 | 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.

Prudential has been unable to provide us with updated figures for 2020-21 therefore figures for the year remain unchanged.

## 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 £000's | 2019-20 £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 our below:

| | 31 March 21 £000's | 31 March 20 £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 £514.92m (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.

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

**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**

**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**

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

**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: Ben Watts, General Counsel

To: Governance and Audit Committee, 30 November 2021

Subject: Annual Governance Statement

Status: Unrestricted

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## 1. Introduction

a) There are many aspects to good governance within a local authority. Done properly, they are mutually reinforcing. The Code of Corporate Governance for example has its roots in financial governance but has wider implications. The Constitution as a document sets out the formal governance rules but also establishes side-constraints for the use of informal governance mechanisms. Even were the Annual Governance Statement not required by law, it would be a useful control mechanism and enable a full judgment to be made on whether the different components are working in an aligned way.

b) Since 2018, we have been changing the way that we do the Annual Governance Statement. The statutory officers, with advice from the Head of Internal Audit have been improving the way in which we collect responses and build up the Annual Governance Statement. Through this Committee, Members have had the opportunity to comment on a draft version of the Statement. This allowed the final version to reflect the experience and activities of the last few months before a final draft is prepared. This is because it is important that the Annual Governance Statement reflects the position at the point of signature, not preparation.

c) The Annual Governance Statement was brought before Members in draft to the September meeting and the comments and suggestions made have been reflected in the document appended to this paper. Some of those items will also be part of the preparation of and reflection for the Annual Governance Statement for 2021-22.

d) We are now in a position to present to you the final draft of the Annual Governance statement. This is set out as the Appendix.

## 2. Annual Governance System

a) Behind the development of how we do the Annual Governance Statement has been the belief that it is more than a once and done tick box exercise where the Council briefly considers its governance and then pays it no heed for another year. It is instead part of a live governance system, annual in so much as there is a core of undertakings which must be performed every year, however much they are impacted by the unforeseen, such as the Covid-19 pandemic.

b) We are therefore already planning our approach for the Annual Governance Statement for the current year. Though the formal evidence gathering, and analysis, will begin in earnest in the next municipal year, it is appropriate to bring to the Committee's attention now some of the areas which will be receiving a focus, and on which some preparatory work will be carried out in the current year. Some are drawn from the statement before you today, others are issues where there has not been an opportunity to consider them in particular depth but which form important elements of the governance system.

c) These areas are:

- Review of delegations.
- The governance of post-pandemic recovery decisions.
- New statutory duties in relation to public protection.
- Controls on urgent decision-making and decision-making generally including the receipt and use of professional advice.
- The role and behaviour of Members and Officers
- Impact of the repeal of virtual meetings regulations.
- Unaccompanied Asylum Seeking Children and the statutory duty challenges the Council faces.
- Financial governance and scrutiny.
- Informal governance
- A need to effectively address the High Needs Deficit

## 3. Update on Governance Activity

a) Members will note that several of the items on the above list refer to 'identified actions' set out in the Annual Governance Statement. This is an opportune time to provide an update on some of the Monitoring Officer actions set out here along with some other matters directly related to this Committee.

b) "A **review of delegations** will be undertaken by the Monitoring Officer and reported to the Governance and Audit Committee at the mid-year review (Monitoring Officer Q3 2021/22)." Scoping work for the review has been undertaken and three parts to managing delegations have been established – framework, due diligence, and ongoing monitoring. To ensure that all three parts are adequately captured, and the exercise is done as effectively as possible, reporting on this work will be delayed until Q1 2022/23. This will still enable the findings to be considered as part of next year's AGS.

c) "Proposals for the **phased review of the Council's governance** (Monitoring Officer Q3 2021/22) to be agreed by the Council and the Corporate Management Team…". A paper on the phases, taken as part of an outline five-year refresh programme of the Council's governance is due to be taken to either the December or March County Council meetings.

d) "Review of **governance training** to incorporate the impact of the Annual Governance Statement, Governance review, the Strategic Reset Programme and responses from officers to further survey activity (Monitoring Officer Q3 2021/22)." A paper has already been brought to this Committee in July on the "Training Programme for Governance and Audit Committee Members." This outlined 16 areas for the training to cover. A draft programme is nearing completion and the final programme will come to the January Committee meeting. It is based on having quarterly half-days of training bringing together related topics as much as possible and aligning the training as much as possible with the items that form part of the regular annual work programme of this Committee. Firm dates will be able to be determined once the calendar of meetings for 2022/23 has been determined.

e) **Code of Corporate Governance.** A discussion paper with an overview of plans to amend the Code of Corporate Governance was brought to this Committee in September. In line with the resolution of the Committee a draft amending the principles in the Code of Corporate Governance to the latest version from the CIPFA/SOLACE framework, and making necessary changes to reflect the CIPFA Financial Management Code, has been produced and is being reviewed by finance, governance, and internal audit before discussion with the Independent Member and being brought back to this Committee in January.

## 4. Recommendations

The Governance and Audit Committee is asked to:

a) Approve the Annual Governance Statement; and

b) Note the update on governance activity and comment on the proposed areas for consideration as part of the Annual Governance Statement for 2021/22.

## 5. Background Documents

None.

## 6. Report Author and Relevant Director

Ben Watts, General Counsel
03000 416814
benjamin.watts@kent.gov.uk

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# Kent County Council

# Annual Governance Statement 2020/21

## Purpose of Statement

The Annual Governance Statement is a key document which provides Members and officers with the opportunity to reflect on the processes, activities and behaviours which deliver decision making and activity within the Council.

It is vital that the statement itself, the process to develop it, and the political review and discussion of the statement are taken within the operating context of the organisation and the emerging opportunities, risks, and threats that the Council faces. 2020/21 was an unprecedented year in the Council's history and this statement explains the steps taken in the year gone by to address governance and those steps that will be needed in the year ahead to ensure the Council remains appropriately governed.

The Annual Governance Statement provides an opportunity to review and comment on the effectiveness of the governance arrangements in place and provides an important contemporaneous review and record.

Once again, this year, the experience of the three statutory officers during the year has been counterposed with the assessment and assurance of the accountable officers throughout the organisation and the audit activity undertaken.

Having made a number of changes to improve the process in recent years following best practice and recommendations from the Head of Internal Audit, it is intended that this coming year will see the process move effectively from a simple statement to an annual governance system that lives throughout the year, reporting at the mid-year point to the Governance and Audit Committee and Cabinet and regularly to the Corporate Management Team.

The statement and the actions proposed within and/or referred for further review in the Annual Audit plan for 2021/22 are material to the organisation's commitment and obligation to continuously improve. They are also determined to be the minimum necessary actions to avert some of the challenges faced by other authorities in recent times.

The purpose of this Annual Governance Statement (AGS) is to provide an overview of how the County Council's governance arrangements operated during the financial year 2020-21 and in the relevant period up to the signature of the statement. This statement forms part of Kent County Council's Statutory Accounts and was published in draft before its presentation to the authority's Governance and Audit Committee for comment and, subsequently, approval.

The Annual Governance Statement is built on a range of assurance activity both throughout the year and in compiling the statement. All Corporate Management Team members input to and endorse the Annual Governance Statement before the draft is published. The Head of Internal Audit is also required to provide an annual opinion to inform the AGS. Additionally, the Head of Internal Audit has undertaken a programme of reviews around governance arrangements, internal control and risk management arrangements at the Council. Overall, an opinion was provided that adequate assurance could be provided in respect of 2019-20 as detailed in the Annual Internal Audit Report

The signatories of this statement on behalf of KCC are the Leader of the Council, the Head of Paid Service, the Monitoring Officer and the Section 151 Officer.

The AGS provides an overview of the controls that are in place to manage key governance risks. In instances where key governance issues have been identified, the detail of actions taken to make improvements and work still to be undertaken are documented in action plans. Kent County Council is required to produce an Annual Governance Statement under the regulations issued by Government. These regulations also determine the timetable for approval and publication. The authority is required to publish a statement which is in accordance with proper practice in relation to internal control.

This year a governance-based online questionnaire was again created to secure responses from all directorates; this ensured a continued consistent approach to information gathering to aid analysis and a dynamic assurance model. To further enhance the Annual Governance Statement process, and to validate assurances provided, further targeted surveys will be issued in the coming months to a sample of representatives from relevant cohorts across the authority. This survey activity will seek clarification about the understanding of and compliance with, governance considerations at a service level. Where areas of learning or improvement are identified relevant governance training sessions will be put in place by the General Counsel and will be reported to the Governance and Audit Committee at their mid-year review of the AGS. It is hoped that this continuous improvement approach will

further strengthen the AGS process and proactively address any knowledge gaps within the organisation.

To further validate assurances received the General Counsel has asked the Internal Audit Team to test several themes arising from the AGS survey. Additionally, as 2021/22 progresses a series of targeted internal audits will be requested to further explore some of the findings of the Annual Governance Statement process and outputs will be presented to the members of the Governance and Audit Committee.

As in the previous year it has been necessary to focus on the significant impact of Covid-19 on governance and how the organisation has continued to positively sustain a different way of working.

It is hoped that the reader will find this statement a thorough and honest account of the operation of Kent County Council's governance arrangements which highlights both strengths and the areas requiring further improvement. It is important to acknowledge that the authority's governance journey is ongoing with a capacity and desire to further improve, and this statement recognises the Council's position at a point in time. The Governance and Audit Committee continue to play an important role in ensuring that the authority's corporate governance framework meets recommended practice, is embedded across the whole Council, and is operating throughout the year with no significant lapses.

## Scope of responsibility

Kent County Council is responsible for ensuring that our services and operations are conducted in accordance with the law and proper standards. The authority has a specific responsibility to ensure that public money is used carefully and effectively and is properly accounted for. There is also a duty to continuously review and improve the way we work whilst offering services that are efficient and provide value for money.

Kent County Council operates an executive scheme of governance with major decisions taken by Cabinet Members executing the policies and strategies of the majority political group. The County Council sets an annual budget which determines the resource available to deliver the strategies, policies and services as defined by decision or required by law.

## What is governance?

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and



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accountable manner. It comprises systems and processes, cultures, and values by which the Council is directed and controlled. The Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control.

Good governance is an essential part of local democracy and through the continued adoption of transparent processes Kent County Council will strive to ensure that strategies, policies, and operational matters are understood by Kent residents.

## The Code of Corporate Governance

Kent County Council's Code of Corporate Governance describes the principles applied by Kent County Council as the framework for good corporate governance, how we are achieving these, and the key policies and plans in place to support this. A paper will be brought to the December County Council meeting setting out the framework for an ongoing programme of governance improvements and further activity will be reported in the 2021/22 Annual Governance Statement. The Code that applied to 2020/21 is set out in KCC's Constitution and the six core underpinning principles are as follows:

- Principle 1 - Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a Vision for the local area.
- Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions
- Principle 3 - Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Principle 5 - Developing the capacity and capability of Members and Officers to be effective
- Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability

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All Members have an important role to play acting on behalf of the Council and their residents. Officers serve the Council as a corporate body rather than any political group, combination of groups or individual member.

Kent County Council has a Code of Conduct that is adopted under Section 27 (12) of the Localism Act 2011. It is the responsibility of Members to comply with the provisions of this code and these provisions are set out in the authority's Constitution.

The Council's governance environment is consistent with the Code of Corporate Governance and the 2016 CIPFA guidance "Delivering Good Governance" framework. The Code of Corporate Governance is currently under review by the Head of Internal Audit, the Monitoring Officer and the independent Member of the Governance and Audit Committee after Members provided their views on some substantive elements in September 2021 and a final version of the new Code of Corporate Governance will be presented for approval to Governance and Audit Committee in January 2022.

KCC's Officers are required to adhere to the authority's Operating Standards which set out arrangements for the effective operation of the Council. The Standards bring essential management information together in one place, so all staff can carry out core management tasks effectively and consistently. All of the accountable officers have confirmed that they have complied with the Standards for the relevant period.

All Members and employees are required to abide by the Kent Code (Code of Conduct), declare personal interests which may conflict with KCC's own interests, and play their part in helping to eliminate discrimination by treating all colleagues and customers with dignity and respect.

Members and Officers are expected to work together on a basis of mutual respect and trust as specifically provided for by the Council's Constitution. Members set the County Council's policy direction and Officers are responsible for implementing decisions taken and providing professional advice. KCC's Scheme of Delegation sets out the specific delegations allocated to Officers.

Kent Council Council's Cabinet Committees are constituted of elected Members and are established to be advisory Committees of the Executive. Cabinet Committees consider the functions of the Council that are the responsibility of one or more Cabinet Members, together with related matters affecting Kent or its residents. The Council also has a number of other Committee's whose role is to scrutinise and oversee the actions and decisions of the Executive. The remit and membership of each Committee is set out on the County Council's website.



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The County Council has appointed Statutory Officers namely the Head of Paid Service, the Monitoring Officer, the Section 151 Officer, Director of Adult Social Services, Director of Children's Services, and Director of Public Health and their functions are explained in KCC's Constitution.

## Statement

**How did we do?**

2020/21 has been one of the most challenging years faced from a local, national, and global perspective because of Covid-19. In response to the significant challenges presented by the pandemic, Kent County Council quickly transformed the way in which governance was undertaken to ensure that the authority's statutory obligations and a transparent approach continued to be delivered.

In terms of decision making and democratic activity, the Council quickly utilised the virtual meeting legislation to arrange firstly a Cabinet Meeting and then in due course a full roster of meetings. For the first quarter of 2020/21, a "pre-prod" process was introduced on decision making to provide a non-executive voice in decision making during the first lockdown and at the height of the first phase of the pandemic. By June 2020, all of the Council's committees were fully operating online.

As a consequence of Covid-19, many new elements of legislation and associated regulations were issued by Government this year and the authority has had to rapidly adapt to the additional responsibilities placed upon us. Local authorities have been granted numerous new powers by Government including, but not exclusive to, the enforcement obligations under the Health Protection (Coronavirus, Restrictions) (England) (No.3) Regulations 20 and KCC has therefore had to adopt a different way of working and new governance processes because of these. It is fair to say that these new obligations have placed pressure on our resources and whilst significant impacts have been experienced, we have continued to discharge our responsibilities. It is important to acknowledge the adaptability and efforts of KCC's staff who have ensured that the new legislation is complied with, translated on a local level, and the required operational responses discharged.

The frequency of Corporate Management Team (CMT) meetings was revisited in 2020/21 to respond to the challenges faced with discussions being held daily on the onset of the pandemic. Moving away from the traditional fortnightly pattern, meetings are now held twice weekly and focus on operational matters, priorities, and the delivery of the strategic reset agenda. To support the CMT conversations, Situation Reports based on content from services have been produced to highlight key issues



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so collective views and decisions can be taken on how these are addressed. Through a proactive communication approach, staff have been kept appraised of important messaging from, and the decisions made by, the Corporate Management Team.

During the year, a Local Outbreak Control Plan was adopted for Kent and Medway and the associated governance structure was created. Under the Health and Social Care Act 2012 a specific duty is placed on Directors of Public Health to protect the population's health and as part of Government's Covid-19 recovery strategy it was mandated that local control plans should be developed. The Kent and Medway plan sets out the health protection arrangements and the specific actions that will be taken to address Covid-19 outbreaks. The operational response was co-ordinated by the Kent Resilience Forum and an ad-hoc Member Engagement Forum convened to ensure that clear communications and mitigating actions are put in place.

KCC led the Kent Resilience Forum's recovery planning activity, and a Recovery Co-ordinating Group was convened. Working in partnership with 55 organisations impact assessments, an overarching Recovery Strategy and associated action plans were developed and launched in September 2020. This is just one example of the excellent multi-agency partnership working that has taken place across Kent during the pandemic.

In recognition of the additional demands placed on local government because of the pandemic Government issued additional grant funding to authorities. Within Kent County Council processes were put in place to ensure the proper management of these funds in line with the grant conditions received. These will be tested through an Internal Audit review on a retrospective basis in 2021/22. The Finance team continues to work closely with services to ensure that Covid related spend and pressures are captured, and monitoring information is regularly presented to Policy and Resources Cabinet Committee and returned to the Ministry of Housing, Communities and Local Government. KCC has continued to work in partnership with district and borough authorities to ensure that the grants received are properly administered and distributed to respond to need and demand across the county.

Because of Kent's unique geography, the County faced additional pressures within year including the challenges associated with the preparations for EU transition and an increase in Unaccompanied Asylum-Seeking Children (UASC) numbers. There has been a continued dialogue with Government to articulate the specific challenges experienced within Kent and notably in September 2020 a report was made to full Council under Section 5 of the Local Government and Housing Act 1989 highlighting the imminent breach of KCC's statutory duty under Section 20 of the Children Act to provide accommodation for children in need. This report was issued in response to the depleted capacity to accommodate UASC within the county because of the rising

number of individuals received. A further report was presented to full Council in December 2020 advising that the authority was no longer in breach of its statutory duties given the easing of the position. It is important that this matter was transparently communicated, and it must be recognised that dependent on arrival numbers seen and any future directives from Government, UASC and the authority's ability to meet statutory obligations is likely to continue to be an area of concern.

During the pandemic, the Government temporarily removed the legal requirement to hold public meetings in person meaning that Kent County Council was able to conduct meetings virtually. Full Council agreed the adoption of the Virtual Meeting Protocol in June 2020. Members and Officers have worked exceptionally hard and collaboratively to make this arrangement work, and the authority has continued to transmit Committee meetings via webcast so democratic and transparency obligations can be met. Other key and important meetings such as Child Protection Conferences and Fostering and Adoption Panels have also successfully been conducted virtually.

On the presumption that social distancing measures could be in place for a further period of time, it will be important to determine how the County Council will run formal meetings moving forward given public health guidance and the restrictions of the premises available. It is hoped that technology can be best utilised to conduct meetings virtually where viable and permitted by the regulations. It is positive that KCC already has a solid foundation to build upon in this area.

During 2020/21, staff and Members who were able to work remotely continued to do so in line with Government guidance. Broadly this has been an effective arrangement and from a governance perspective, staff and Members have been able to remotely access the tools required to undertake their roles and Microsoft Teams has been fully utilised to support the conducting of formal, partnership, and internal meetings.

Throughout the period of the pandemic there have been frequent requirements for key decisions to be taken under the urgency provisions because important issues such as the purchasing of PPE and supplier relief payments had to be handled at pace. In all instances the decision-making process was followed (including the use of urgency provisions) to ensure that the authority could address arising issues promptly. On an operational level many dynamic decisions were taken within teams to ensure that adequate service provision was sustained and that the changing demands of service users could be met in a Covid secure way. Lessons were frequently learnt along the way as the pandemic presented numerous challenges that had never been experienced before and the way in which the whole authority and partners so rapidly adapted and responded was admirable. The Corporate

Management Team commissioned a specific internal review led by the Corporate Assurance Team to understand the lessons that needed to be taken.

Despite the new and significant challenges presented, Kent County Council has performed well from a governance perspective this year. The pandemic has enabled the authority to reflect on traditional practices and has presented an opportunity to view governance considerations through a different lens. A significant level of adaptability has been demonstrated across the organisation to respond to pressures, the new way of working, and the associated governance considerations.

In recognition of the challenges presented by Covid-19 and the associated resource requirement the development of divisional and service business plans was paused within 2020/21. The business planning process will recommence in 2021/22.

The organisation continues to take learning and the findings of internal audits and other assurance mechanisms which are intrinsic ways of identifying where improvements are needed and where practice is strong. In terms of governance, it is acknowledged that the authority continues on a journey of continuous improvement and processes will continually be reviewed and positively challenged to ensure they are fit for purpose and responsive to the organisation's operating context and priorities.

KCC's **Internal Audit** team provide an independent assurance that an effective control, risk, and governance framework is in place. This year the team have supported the implementation of the urgent measures put in place because of Covid such as PPE supply and the management of Covid expenditure. It is intended that Internal Audit activity is focussed in the areas of the Council that are at most risk of impacting the authority's ability to achieve objectives. The Governance and Audit Committee are regularly appraised of the detail of audit findings and progress and an Annual Internal Audit Plan is in place setting out the key areas of focus. This year an External Quality Assessment (EQA) was initiated to ensure that the authority continued to remain complaint with the Public Sector Internal Audit Standards (PSIAS). This assessment was undertaken by an independent party in line with the requirement of the standards to avoid any conflict of interest and impairment to objectivity. The outcome of the assessment was the conclusion that the Internal Audit service "generally conforms" with the PSIAS, which is the highest possible evaluation.

The Internal Audit Team undertake significant grant certification work and in 2020-21 59 claims were audited and certified. Claims consisted of a mix of EU Interreg and central Government grants. Because of the circumstances experienced this year the level of certification activity was unprecedented and has impacted the capacity of the team to deliver against all elements of the 2020-21 Internal Audit Plan which has



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subsequently been extended up until June 2021. To respond to resource pressures the Head of Internal Audit has undertaken a resourcing needs assessment and a restructure proposal has been considered and approved by the Corporate Management Team.

KCC's **Counter Fraud** team continues to undertake a vast range of proactive and reactive activity and throughout the year have delivered a significant amount of proactive activity including supporting the review of the Financial Regulations and the delivery of fraud awareness training. Several policies and strategies have also been reviewed and endorsed by the Governance and Audit Committee including the Anti-Money Laundering Policy, Anti-Bribery Policy and the Anti-Fraud and Corruption Strategy.

In addition to the work undertaken by Internal Audit, KCC's **Corporate Assurance** function provides an additional layer of assurance to services especially in respect of major change projects and programmes. Working closely with directorates the team provide an independent assurance highlighting risks, issues, and opportunities. As part of this year's AGS process, Corporate Assurance have undertaken work to reconcile returns with risk registers.

Kent County Council holds a **Corporate Risk Register** which is a 'living document' detailing key organisational risks and mitigations. The register was subject to a significant refresh in the Summer of 2020 to ensure that it was reflective of the new pressures presented by the pandemic; the output of the refresh was reported to Cabinet and the Governance and Audit Committee. A further streamlined review was undertaken in Autumn 2020 and the register will continue to be regularly refreshed to ensure that it is fully reflective of the organisation's risk profile and risk levels. The Governance and Audit Committee receives the Corporate Risk Register every six months for assurance purposes. Risk registers are also held at directorate level and Directorate Management Teams are responsible for their review. The Risk Management Team regularly engage with leadership teams to review risk profile and appetite.

The Governance and Audit Committee are responsible for the annual review of the **Risk Management Policy and Strategy** to ensure that it remains relevant. In January 2021, the Committee received and approved the latest revision of the policy and strategy and several additions were highlighted including the incorporation of a more specific Statement of Commitment, further detail on monitoring and reporting arrangements, and the remodelling of the risk management principles and framework. This annual review process will continue to ensure currency.



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In September 2020, Cabinet received a report relating to the possible cumulative impacts associated with the Public Health, EU/UK transition and Winter weather risks. This report sought to consider the possible collective and individual impacts of these risks to inform planning and preparedness and determine the required mitigations. Cabinet resolved that all Member briefings should be organised on these important topics; and that the corporate risk profile be reviewed, and this report came forward in December 2020. From a governance perspective, Members have continued to be kept appraised of matters relating to transition and the pandemic on both a formal and informal briefing basis throughout the year. The Kent Leaders have also met regularly to consider topics such as the coordination of Covid-19 testing, enforcement, and the wider response to the pandemic.

**Quarterly Performance Reports (QPR)** are produced to update the Cabinet on performance progress against a series of key indicators. These reports are also provided to Cabinet Committees on a range of indicators and provide an opportunity for Members to track and challenge performance. Given the challenges presented to services throughout the pandemic it is notable that overall a positive direction of travel has been sustained across the authority. Indicators have also been revisited to ensure that they are relevant given the current circumstances. It is, however, important to note that some indicators, including those on compliance with information governance obligations, continued to be particularly challenging within year.

On 10th December 2020, the County Council agreed the creation of an **Interim Strategic Plan titled 'Setting the Course'** in response to the fundamental changes in KCC's operating environment and how this will evolve the Strategic Commissioning Authority operating model for the Council. This plan was created to reflect the immediate challenges faced by the authority because of the pandemic and the actions that will be prioritised. 'Setting the Course' replaced the previously drafted 5-Year Plan 'Kent's Future, Our Priority' in recognition of the significantly changed circumstances and a new plan for the next five years will be produced in 2021 which will be aligned with the budget and informed by engagement with Members, staff, residents, and partners.

Governance considerations for the **Strategic Reset Programme** which is addressing key operational transformation activity have been set out to full Council distinguishing the Member, Officer, and service leadership roles. The Strategic Reset activity continues to progress at pace and at a Senior Officer level an internal Programme Board has been established to oversee programme definition and delivery. Political leadership of the programme is provided by Cabinet, and Members will be engaged throughout the process with full Council being used as a mechanism for programme oversight and approval to secure a whole council approach.

Kent County Council's **Constitution** continues to be reviewed regularly by the Monitoring Officer to ensure that it is current and fit for purpose. In 2020/21 revisions included the amendment of the delegation table in response to a recommendation from the Selection and Member Services Committee and the formal recording of the position of the General Counsel as the Data Protection Officer for KCC. KCC's Financial Regulations also continue to be reviewed.

**Top Tier level realignments** in the Children, Young People & Education (CYPE) and Growth, Environment & Transport (GET) directorates were agreed within year. The review of the CYPE structure was initiated in response to changes in directorate responsibilities and the outcome of the Special Educational Needs and Disabilities Ofsted inspection to ensure sufficient management capacity to deliver statutory responsibilities, other obligations, and the improvements required. The GET structural realignment was progressed in recognition of KCC's evolving priorities and the requirement to change divisional configuration to best meet these.

This year, the **Independent Person** was appointed with whom the Monitoring Officer can engage on alleged breaches of the Kent Member Code of Conduct. This four-year appointment was made in accordance with the Localism Act 2011 and ensures that an independent perspective, from outside of KCC, can be applied to allegation investigations.

An **Independent Member Renumeration Panel** was appointed for a four-year term in line with the legal requirement and as part of the usual course of business and have now subsequently reported to County Council in November 2021.

The **future role of the Governance and Audit Committee** was considered on 21st January 2021 by Members and views were sought on how current and future challenges could best be met. The item reflected on the observations made in the 2019/20 Annual Governance Statement about the significantly changed operating environment because of Covid-19 and also learning opportunities that can be taken from other local authorities such as Croydon Council. It was agreed that the Monitoring Officer would arrange a workshop to consider the learning from Croydon's external audit report and other relevant reports. It was also resolved that all members of the Committee would be surveyed by the Monitoring Officer and Head of Internal Audit to secure views on the future role of the Committee. The Governance and Audit Committee received a further report on 23 April 2021 highlighting the Best Value Report into Liverpool City Council for discussion. The paper also recommended that as a standing agenda item an annual report on the committee's effectiveness is received in July alongside the Annual Governance Statement. For the first year, given the election in May, it is intended to bring this paper to the January 2022 Governance and Audit Committee meeting.

From a financial governance perspective, **Financial Regulations** are in place which set out the control framework for the five following key areas of activity:

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

A **Financial Delegation Matrix** explains the finance approval process and associated approval limits.

Following the initial assessment of the impact of Covid-19 pandemic Cabinet recommended that the 2020-21 budget should be amended to include the additional un-ringfenced grants from central government, anticipated additional spending as a result of the pandemic, and additional savings necessary to continue to plan a balanced budget. This required an unprecedented process to recast the entire budget mid-year. It also required a new process to identify the impact of the pandemic separately from other business as usual activity.

In March 2020, a new **Covid log** was established to record the impact, both actual and forecast on the budget, particularly in light of the extra funding received and the additional financial distress payments that were being made. The log identifies new areas of spending, income losses, delays to planned savings and spending on continuity payments to providers to sustain viability even where services are not provided. This log has been essential for the Council to complete regular monitoring returns to Ministry of Housing Communities and Local Government (MHCLG). The log feeds into the financial monitoring reports that are presented to Cabinet which include the business-as-usual position, the Covid position and a reconciliation to the MHCLG return. The information has also been provided to both the Policy and Resources and Scrutiny Committees.

A lot of effort has been put into providing more clarity about Covid-19 related impacts in financial reports. This has included regular reports to the Policy and Resources Committee throughout the year providing a financial update and in particular identifying the increasingly complex funding streams in response to the pandemic. In all cases these have been well received and allow decision makers to have a clearer more transparent picture of the key strategic issues.

The Finance Team have already embarked on a review of the 2021-22 budget process to ensure lessons learned are embedded in future timetables and processes. This will include a scenario approach to future medium-term plans.

Finance have enhanced partnership working during the pandemic, particularly with other local authorities and health authorities. Chief Finance officers from KCC and



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Kent districts have had a regular series of catch ups throughout the year and have fully engaged in a network with other South East counties on strategic finance matters. Both of these have proved invaluable to improve collaboration.

CIPFA have been commissioned to undertake an assessment of the Council's financial management against the CIPFA FM Model which has highlighted areas for improvement. The implementation of the recommendations will be part of the Council's Strategic Reset Programme.

Work has been undertaken to review in more detail the financial management issues in both the Adult Social Care & Health and Children, Young People & Education directorates and similar reviews are planned for Growth, Environment & Transport and Strategic & Corporate Services during 2021-22. The findings of the reviews already undertaken have been agreed with the directorates and are being progressed and will form part of the work that is delivered through the Strategic Reset Programme.

Work to develop a 10-year capital programme has continued including the development of a comprehensive capital reporting solution that will combine financial and performance information at all levels using Power apps and Power BI. The reporting solution will be developed further to encompass revenue to automate and improve financial monitoring and reporting arrangements. This will also support outcomes-based budgeting and evidence-based decision making by combining both activity and finance information.

KCC's new reserves policy is designed to protect and improve the Council's financial resilience and to ensure that there is a rigorous process and assessment of the Council's reserves. The ICT and Strategic Reset Programme reserves are being established to ensure that the Council has sufficient resources to deliver its interim and longer-term strategic plans

The deliverability of the revenue budget, revenue savings, and the Capital Programme is monitored closely. The resistance of pressures, management action taken, and the identification of new efficiency options continue to progress and be monitored as the financial climate and demand for services is still increasingly challenging. Regular revenue and capital financial monitoring reports are provided to Cabinet Committees and Cabinet; the outturn position is also supplied. The annual budget for 2021/22 was presented to full County Council on 11 February 2021 for approval, this was supported by a Section 25 assurance statement opinion from the statutory Section 151 Officer. Members were asked to give high regard to the Section 25 statement when making the budget decisions including the consideration that had been given to the highly uncertain operating environment, increased financial risks faced and the authority's overall financial resilience.

Kent County Council's **Scrutiny Committee** continues to investigate issues affecting the authority and Kent residents and makes recommendations to support the improvement of KCC services. Topics considered in 2020/21 included a short and focused inquiry on the visitor economy, the decision associated with the issuing of directions under the new Health Protection Regulations 2020, the response to the Affordable Housing Selection Committee implementation plan, Covid-19 policy decisions, a short and focused inquiry on the farming economy and the Kent Rail Strategy 2021. The committee have explored a wide breath of subjects evidencing the robust scrutiny mechanism in place and discussions held, notably in relation to Covid activity, have demonstrated the continued effort to make recommendations to support the improvement of KCC services, especially in this difficult period.

This year KCC consulted on an updated **Special Educational Needs and Disability Strategy** for 2021-24 to support the work being undertaken in response to the Kent Local Area SEND Written Statement of Action. The strategy was developed in conjunction with the NHS, parents, and families and the draft and outputs of the consultation exercise were received by the relevant Cabinet Committee in March 2021. The authority's response to the Written Statement of Action continues to be a priority and the strategy responds to this key area of focus. From a financial perspective, the High Needs deficit has been identified as the Council's single biggest risk and it is therefore critical that actions that can be taken locally to address the deficit continue to be identified and implemented as a priority.

In March 2021, Cabinet agreed to delegate authority to the Corporate Director for Children, Young People and Education, in consultation with the Leader and the Cabinet Members for Integrated Children's Services and Education and Skills, to take necessary actions, including but not limited to, entering into relevant contracts or other legal agreements, as required to establish the **Reconnect Programme** and undertake relevant preparatory work within normal delegated spend thresholds. Further decision-making on this important piece of work will be brought forward between the issue of the draft Annual Governance Statement and is reflected on the forward plan for executive decisions (FED).

Alongside Kent County Council's formal governance arrangements, **informal governance arrangements** are also in place and established. The purpose of these is to bring Officers and elected Members together to consider the right activity at the right time, providing advice in advance of formal governance and decision making and assurance of delivery.

KCC continues to **engage and consult** with residents and stakeholders to inform the development of the authority's strategies, policies, and service provision. Throughout the pandemic resident engagement has never been so important especially for those vulnerable individuals and communities within the county. Through the Kent



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Together Campaign we have worked with partners to ensure that the requirements of vulnerable individuals who needed urgent support were met. From a governance perspective a significant amount of work was undertaken rapidly to ensure that the right infrastructure was in place and resources were increased to manage the demand for the support provided through the campaign. The KCC website and social media channels have also been used to promote key messaging and to signpost individuals.

KCC has an established **Customer Feedback Policy** which helps to improve the services we provide to all customers. This year a temporary policy was enacted in recognition of the unprecedented challenges faced during the pandemic. Whilst the authority remained fully committed to delivering the best customer service we can, it was acknowledged that usual timescales were unlikely to be met as resources were prioritised and redirected to respond to operational pressures. The Governance and Audit Committee continue to review customer feedback performance annually and the 2019/20 report was received in October 2020. The report summarised the compliments, complaints, and comments received by the authority and highlighted a sample of complaints referred to the Local Government and Social Care Ombudsman and examples of lessons learned.

On the 3rd March 2021 the Policy and Resources Cabinet Committee received the **Cyber Security Annual Report.** This restricted paper reflected on the change in working practice and set out the actions being taken to develop the authority's technical operating model. It is unfortunate that cyberattack activity has accelerated during the pandemic and there have been several high-profile reports of attacks nationally; to mitigate the impact of any future attack on Kent County Council we will build upon the Zero Trust and defence in-depth approaches to securing ICT infrastructure. The Strategic Technology Board will also continue to manage the activities to address the recommendations from the National Computing Centre Group's review of KCC's cyber security and resilience. Wider work is currently also underway to further strengthen ICT resilience.

The Governance and Audit Committee and Policy and Resources Cabinet Committee continue to receive updates on KCC's **company ownership** and in March 2021 it was proposed that a formal, but simple delineation, should be put in place to clarify responsibilities. The Policy and Resources Cabinet Committee will now only deal with the commissioning implications of the companies or to comply with the constitutional requirement for pre-consideration ahead of any key decision. The Governance & Audit Committee will have a collective oversight of financial performance and receive ongoing assurance and information to enable the effective scrutiny of the executive decision-making around the shareholder strategy. The authority requires the Holding Company to ensure that Annual Governance Statement returns are made and the KCC Shareholder Board continues to meet

quarterly to consider the performance of the companies and determine decisions required under reserved matters.

## Audit Review of AGS Process

The Head of Internal Audit has reviewed the amended AGS process and audited the responses, determining that the process is adequate.

## Review of effectiveness

Kent County Council has a responsibility to review the effectiveness of its governance. This review has been co-ordinated by the General Counsel and the Governance, Democracy and Law division and has involved Directors reviewing and evidencing compliance. There has also been a requirement for directorates to identify any new governance improvements required within their services and to provide updates on matters highlighted in 2019/20. Issues identified by Internal Audit were also considered for inclusion in this statement.

Set out below are a range of key findings and identified actions to manage the issues identified. Signature of the final statement is predicated on the basis that the identified actions are discharged within the coming year.

As mentioned earlier in this statement, targeted surveying and internal audits will commence to test and further validate the returns received for assurance purposes.

### Key Findings from the Accountable Officer Survey

### Section 1: Compliance with KCC's Operating Standards and the Strategy and Policy Register

- All 9 respondents confirmed that their service is compliant with KCC's Operating Standards, however, 4 services stated that their policies on the Strategy and Policy Register were not up to date.
- All responses confirmed that they have consulted on changes to policies and services where there has been a legal duty to do so.

### Section 2: Improving awareness and application of governance and delegations



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Governance

- Each respondent confirmed that all Officers within their service are aware of the appropriate governance related to their role. Respondents were also asked what steps had been taken to improve awareness and application of the Council's governance and Operating Standards and what they had done to improve governance in their service.
- In general, the responses to both questions lacked detail in terms of what practical steps had been taken and how they had successfully addressed governance issues, and this will be a specific area of follow up.

Delegations

- 7 of the 9 respondents stated they were "extremely confident" that staff understand the obligations which are delegated to them; while 1 stated they were "somewhat confident".
- 8 of the 9 responses stated that all Officers who utilise delegations within their directorate had had the relevant training and had received guidance/training before they were used.
- Respondents were asked to explain how they ensure all appropriate Officers are aware of, and comply with, the governance and delegations affecting them. Responses varied and included discussions at Divisional Management Team level, regular reviews of delegations and the undertaking of governance training.

**Section 3: Decision making, reports, and the impact of covid-19 and emergency issues on governance**

Decision Making

- Responses confirmed that all key and significant decisions had been taken, recorded, and published in accordance with the Council's constitution and/or Scheme of Delegation.
- Respondents were asked to provide details of their assurance. Overall, the answers focused more on a generic description of processes as opposed to outlining in detail what measures have been taken to ensure the processes are being followed.
- Overall, the responses did not adequately reference the identifiable actions from 2019/20 such as increased controls at the FED and decision stages as well as training for Officers. This is a specific area of follow up.
- One incidence of non-compliance with the Council's Constitution was highlighted by the Children, Young People and Education Directorate relating

to the breach in the statutory obligation to accommodate UASC. The answer detailed how this was escalated to the Head of Paid Service, Monitoring Officer and Leader of the Council.

Impact of Covid

- 4 respondents indicated that Covid-19 and emergency issues had no impact on their service's capacity to comply with the Council's governance.
- 2 responses acknowledged that while Covid has led to an increase in urgent decisions, due process has been followed and all decisions have remained compliant.
- 1 response indicated that the move to virtual working and the increased reliance on and greater use of technology had improved their processes for gathering advice and approvals.
- 2 responses recognised that the pandemic had impacted in terms of capacity on their service with increased activity, additional decisions and further work. 1 of these 2 responses further referenced the impact of additional urgent decisions as a key factor in increased complexity, Member concern and capacity strain.
- Whilst a number of responses referenced capacity and urgency, no responses indicated that the impact had been such that decision-making was outside that constitutionally permitted.
- CYPE focused on the positive effect of Covid including greater use of technology and less reliance on email as well as a 'swifter' authorisation process for decisions.
- Finance highlighted an impact in productivity due to a lack of robust ICT infrastructure which has affected timeframes and subsequently placed significant strain on staff

Reports

- 8 of the 9 respondents confirmed that all formal and informal reports written in their name set out the impact of proposed decisions and included advice on all options as well as fully covering equality, data protection, financial, legal and risk considerations.

**Section 4: Partnerships/commissioned services, contracts and procurement, data mapping and regulators**

Partnerships and commissioned services



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- Respondents were asked to provide assurance that the delivery of services through partnerships/commissioned services is consistent with the Council's governance.
- Assurance was confirmed by all 9 responses however the majority of responses did not provide sufficient details as to how this conclusion had been reached.
- No issues and/or reference to the impact of Covid-19 on this assurance was highlighted.

Contracts and Procurement

- All 9 respondents stated that all procurement and contracts are compliant with the constitution and legislation; and where contracts and procurement have been put in place in response to emergency issues, they were able to adequately assess risks and governance controls of the third party.

Data Mapping and Regulators

- 7 of the 9 returns confirmed their service continues to comply with assurances previously provided to regulators in response to complaints. The return from the Strategy, Policy, Relationships and Corporate Assurance division indicated that the division had not dealt with relevant complaints.
- Specifically relating to the 7 returns completed by Information Asset Owners, only 3 returns confirmed that full data mapping had been completed for their service.

**Section 5: Fraud and Irregularity**

- Only two returns outlined specific details of fraud/irregularity risks being communicated to Internal Audit/Counter Fraud.
- The remaining returns indicated that no high fraud/irregularity risks had been identified which needed to be referred to audit. One respondent commented that this was not applicable, but it is unclear from the information provided how this conclusion was drawn.

**Section 6: Final Assurance statement**

2019/20 issues

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- 3 services noted that they did not submit issues as part of the 2019/20 Annual Governance Statement process. Information from the divisions who did report issues has been collated.

**New issues/challenges/governance implications**

Whilst some respondents have not raised any new issues the following specific matters have been highlighted.

- It has been highlighted by the Infrastructure division that Covid-19 has placed additional pressures on the service meaning that service priorities have been adjusted.
- Finance raised issues concerning capacity and resources which have impacted on the resilience and well-being of staff
- Adult Social Care & Health have highlighted a number of issues including potential scrutiny of spend, senior management changes, statutory responsibilities in relation to Domestic Abuse Bill and Care Act, as well as developing issues around Napier Barracks.
- The "Integration and innovation: working together to improve health and social care for all" White Paper sets out the legislative proposals for a Health and Care Bill. It will primarily lead to structural changes in the NHS at the national and local level including the creation of an NHS Integrated Care System. The changes come with a refreshed NHS oversight arrangement which may strengthen the control by the centre and as result may impact on the partnership working arrangements between the NHS and the local authority. These changes will be the subject of a paper which will also include the evolving arrangements with health, the governance challenges and opportunities and will be presented to the County Council during 2021.
- Other proposals which have a direct impact on local authorities include the establishment of the NHS ICS and the Health and Care Partnership ICS. The Director of Public Health will have an official role in both the Health and Care Partnership and the ICS NHS Body. Also, the creation of the Integrated Care Partnerships may require aspects of the County Council's Scheme of Delegation to be revisited.
- A new duty for the Care Quality Commission to assess Local Authorities' delivery of their adult social care duties is planned and will be introduced under the Bill. This will be based on a new assurance framework which will be developed and published by the Government. The implementation of the new assurance framework will have implications for the Adult Social Care and some corporate functions such as Finance, Strategic Commissioning and

Corporate Assurance. The Bill will contain a power for the Secretary of State for Health and Social Care to make payments directly to providers.

- The planned measures to update approaches to hospital discharge to help facilitate smooth discharge, by putting in place a legal framework for a 'Discharge to Assess' model will also affect some operational arrangements of adult social care.
- In recent years, the County Council has undertaken a review of the structural governance of the Council with advice from the statutory officers. Governance is an active system. It provides a structure around all activity undertaken by and on behalf of Kent County Council. With good governance comes clarity as to roles and responsibilities as well as a system of checks and balances to ensure people are held accountable and power is not applied arbitrarily or in a manner inconsistent with the public good. The last four years have seen public reports into failings in Northamptonshire, Croydon, Notts City, Liverpool and elsewhere. The odds of an irrecoverable governance and financial collapse are still low but adopting an 'It can't happen here' attitude is not an option. Nothing in this should be taken to imply that KCC is currently a failing authority or that good decisions are not made and put into effect. However, a detailed plan setting out a systemic review of the County Council's governance is necessary and will be brought to the December meeting of?.
- The Making A Difference everyday programme approach is about putting the person we support at the centre and devolving responsibility and accountability within the organisation to the place that gives the person using the service the most control over their lives and their decisions – this could have some implications for governance which will be explored over the coming year in the following ways:
    - The developing practice model is intended to give frontline social workers the ability to shape support, in partnership with the people they are supporting, and to deliver innovative solutions. This will include placing more trust control responsibility and accountability within teams and team processes. This will need to be explored in line with the scheme of delegations.

    - Empowering the community is a key element in achieving the Making A Difference Every Day approach, and this will again need a different approach to delegation of authority and power to the community for them to make decisions about how resources are allocated and how communities are involved in those key decisions about how services are planned, and resources deployed.

    - Putting the person in control and transferring power will require the authority to look at how this may impact on decision making around spend, but also its risk appetite towards areas of spend that people might choose



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for themselves, and to examine the level of trust given to people, community and staff around deciding overspend.

- Digital and how we perceive digital solutions regarding governance will be key. Digital approaches have the potential to be far more inclusive than normal/ tried and tested routes and how governance through digital solutions are enabled needs to be carefully thought through. This would need to be a component of any future Kent County Council Digital Strategy

- Three years on from the implementation of the Data Protection Act and GDPR, the Data Protection Officer will be carrying out a strategic review of the Council's operational data protection and records management arrangement as required by the legislation. This will result in updates to operational practices, accountabilities and responsibilities, policies, behaviours and training to reflect changes.
- The Government has laid the Data Sharing Code of Practice before parliament and the Data Protection Officer and Senior Information Risk Owner will review arrangements within the Council to ensure compliance and maximise opportunity.
- As the Government relaxes the legislation put in place during the pandemic, the statutory officers will review and respond to the implications for Kent County Council's governance as powers and duties are either permanently retained or diminished.
- The regulations that permitted virtual meetings lapsed in May 2021 and will have an impact on the deliverability of the democratic agenda in the event of a third wave.

**Summary of the review of the Annual Governance Statement returns**

- The returns from the Annual Governance Statement indicate that services assert that they have improved awareness and application of the Council's governance and operating standards.
- The returns also confirm that officers understand their obligations relating to delegations and comply with the governance and delegations affecting their role.
- All responses confirmed that key and significant decisions were compliant with the Council's constitution and scheme of delegation; with details provided in terms of assurance through process.
- Many of the issues raised in inspection reports into other authorities had already been proactively addressed by Members at KCC with advice from the Head of Paid Service and Monitoring Officer.



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- Given the additional pressures on services, aside from an increase in urgent decisions, overall, the returns did not highlight a particular negative and/or challenging impact of Covid-19 on governance procedures.
- The responses which confirmed data mapping had been fully completed will be followed up to ensure they are consistent with the findings of the Information Governance Cross-Directorate Working Group.
- The current system around Data Protection Impact Assessments needs review and replacement in the view of the Data Protection Officer.
- Further work needs to be undertaken to ensure the returns fully address the status of previous issues raised and further follow up on assurance will be undertaken.
- The Council has been through an unprecedented year and post Covid, there is a need to ensure clear focus on the governance principles which underpin the purpose, strategy and behaviours of Members and Officers to avoid any lack of accountability.
- A number of operational and strategic policies have been identified as needing updating by Cabinet Members and Senior Officers.
- The Financial Regulations require overhaul and review to provide simpler, clear expectations, including around the budget setting process with revised accountabilities fully expressed.
- The past year has highlighted the real terms impacts and increased pressures on key areas of previous reductions to budgets in the corporate centre and organisation generally.
- The new municipal year must see a return to business-as-usual practices around key decisions. The reasons for urgency should not be required or tolerated in normal business. There were more urgent decisions in the past year than the previous decade combined and whilst that was fully understandable during key lockdowns, and because of frequent changes to government guidance, it must not become the norm.
- The Council has sufficient resources to meet statutory duties, but in many areas no more. This ability to meet these duties is contingent on processes being followed and complied with and professional advice being resourced. In particular timely engagement of Finance by services to identify and assess the financial implications of strategies, service developments, project proposals etc.
- The new municipal year must also see a return to fully developed political decision making. There needs to be more focus and specificity in key decision and delegation formulation so that Members have clearer accountability and sight of key milestones, factors, and proposed outcomes as these are developed as a project moves forward. This is better addressed through strategic policy decisions followed by implementation decisions with appropriate advice clearly set out.



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- In terms of governance, it is key that there is clear separation between political decision making and the advice that may inform it, the delivery that will follow, and the political scrutiny of both decision and delivery.
- Change is the new constant for the Council, and this will necessitate a continuing evolution in behaviours to respond to the new 'normal'.
- The Council has also received within year the Model Code of Conduct for Members from the LGA, and work is required to modernise our code of conduct and complaint process regarding Members.
- Clear commitments have been made in relation to equality, diversity and inclusion as well as environmental targets. These commitments must be built into processes as promised.

**Examples of learning taken from internal audits**

- **Care Leavers Audit** – a comprehensive action plan has been developed to combine the actions from the 2019 Care Leaver Survey and the Internal Audit Review.
- **Schools Themed Review – Business Continuity Planning**: A new version of the Schools Emergency Planning Guide is being produced in light of the learning from the Audit and from the pandemic. There will be wholly new section on the issue of a pandemic and epidemic illness, based on the experiences of the local authority and our schools.
- **ICT Asset Control and Remote Working COVID19 Audits**: Learning has been taken from these audits which reflected on practice during the height of the early stages of the pandemic. Importantly, the recommendations are proving a useful framework for reviews of working practices and policies as virtual working is embedded into regular patterns of work. The audits have helped maximise the benefits of the experience over the past 15 months through focusing on areas for improvement.
- **Costing of the Care Offer** – a completely reviewed and updated Local Offer was produced in December 2020. Processes have been streamlined as well mandatory staff training on the payment process for a young person.
- **DSP Toolkit** – Whilst very few issues were raised in this substantial audit finding, the annual review and support from audit helps in assuring the Council's process in an area vital to data sharing with the NHS.
- **Educational Psychology** – learning from this audit has resulted in positive developments and improvement in the service and this has also provided the improvements required from the Written Statement of Action. Strategically the service was refocussed to ensure the deployment of the available resource n the most effective way. The learning continues and will be tested at our reinspection, due in 2021.



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- **Adult Social Health & Health Response to Covid-19** – Due to the corporate nature of some of the matters raised, a report was delivered to the Cross-Directorate Resilience Group and following horizon scanning an item has been added to the agenda for every Directorate Resilience Group.
- **Fraud considerations** – It has been agreed by the Cross-Directorate Resilience Group that KCC Emergency Response plans and the Business Continuity Plan template will be reviewed to incorporate considerations relating to fraud during emergencies.
- **Information Governance** – Throughout the year, actions on individual audits have included reference to matters of information governance. These have influenced the identified action (8) and have been helpful at collating a whole organisation view for the benefit of the Data Protection Officer.
- **Mandatory Member Training** – Whilst the original action was not discharged by Members, findings within the audit prompted a useful conversation which was ultimately included as part of a broader set of proposals where Members of Governance and Audit ultimately agreed to their own mandatory training moving forwards.
- **Records Management** – The internal audit review has identified a range of material changes that are required to ensure that accountabilities are changed, guidance is updated and services across the Council comply with and embed the changes.

**Identified Actions**

1. **A review of delegations will be undertaken by the Monitoring Officer and reported to the Governance and Audit Committee at the mid-year review (Monitoring Officer Q3 2021/22)**
2. **Proposals for the phased review of the Council's governance (Monitoring Officer Q3 2021/22) to be agreed by the Council and the Corporate Management Team, including a timetable for delivery and provisions on:**
    a. **Agreed Governance Priorities and Principles**
    b. **Refresh of defined accountabilities and responsibilities for Members and Officers**
    c. **Expectations of officers in terms of advice and delivery**
    d. **Refreshed processes for the setting of agendas and conduct of meetings**
    e. **Refresh of Spending the Council's Money and Financial Regulations.**
    f. **The role and chairmanship of Scrutiny Committee**
    g. **Review of Informal Governance Structures and composition and support for Informal Member Groups.**



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h. **Review of Officer Decision-Making under delegation**
i. **Review of the Member Code of Conduct, culture, behaviours and meeting etiquette.**
j. **New approval processes and guidance ahead of decision-making.**
k. **Consequences for non-compliance**

3. **Amendments to the constitution to ensure that accountabilities and behaviours agreed as part of the Governance Review (at 2 above) are enshrined as decisions are taken (Monitoring Officer Q3 and 4 2021/22)**
4. **A review of decision-making processes to ensure that:**
    a. **appropriate professional advice is sought and provided before the FED stage**
    b. **meaningful assessment of equality, diversity and inclusion impacts before FED publication**
    c. **environmental impacts of decisions are captured**
    d. **reduced use of delegations for undefined purposes**
5. **Further audit activity into Governance issues to report back at the mid-year review by Governance and Audit Committee (Head of Paid Service, Monitoring Officer, Head of Internal Audit Q4 2021/22)**
6. **Decision-Making Deep Dive by the Monitoring Officer to futher test assurances provided and mentioned in section 3 (pages 17-18 above)**
7. **Further survey activity by Head of Paid Service, Monitoring Officer and Section 151 Officer to test assurances and values at all levels within services.**
8. **Review of governance training to incorporate the impact of the Annual Governance Statement, Governance review, the Strategic Reset Programme and responses from officers to further survey activity (Monitoring Officer Q3 2021/22)**
9. **Report by DPO and SIRO to address review of data mapping across the Council and review the role of current Information Asset Owners**
10. **Review by the Monitoring Officer and proposals for changes to Information Governance operational practices and procedures.**
11. **Review the process for ensuring contracts and procurement undertaken in response to emergency issues are consistent with the Council's governance.**
12. **Creation of a governance issues register which is updated by Directors throughout the year and discussed quarterly at CMT and reported as appropriate.**
13. **Reflection on the steps that can be taken within 2021/22 AGS to reflect an assessment/evaluation of the effectiveness and compliance with KCC Values.**
14. **Liaise with Internal Audit to assess the following:**
    a. **The impact of additional governance and process within individual directorates on statutory and constitutional controls**





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**b. Recording of officer decisions taken under delegation**
**c. General review of governance steps undertaken by services**

## Governance improvements we have made and headlines

The table below provides examples of some of the improvements achieved in and headlines from 2020/21 in line with the seven core CIPFA/SoLACE key principles.

| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law** | • A new set of KCC values was introduced in 2020 and these were based on feedback received during the Covid-19 emergency and adopted to support recovery and reconnection. The values promote bravery, curiosity, compassion, knowledge sharing, and responsibility and a series of associated cultural attributes have been developed to support these.<br>• In February 2021, the Standards Committee received an update on the LGA Model Code of Councillor Conduct 2020. Building on this discussion, work is progressing to consider what changes may be needed to the Kent Code of Member Conduct. If changes are necessary, the Kent Secretaries will be approached to assist the engagement process with other authorities. Further discussions took place with the Standards Committee before the election and work is continuing with the Kent Secretaries group.<br>• As part of the Standards Committee Annual Review all Members were asked to remind themselves of the requirements of the Kent Code of Conduct in response to the volume and nature of complaints highlighted over the period of the report. An Independent Person has been appointed with whom the Monitoring Officer can engage on alleged breaches of the Kent Member Code of Conduct.<br>• The key decision process throughout 2020/21 has reflected the organisation's intent to do the right things for Kent residents, staff, and |

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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | businesses during the Covid-19 pandemic. Urgent decisions have been taken on matters such as the emergency bulk purchase of Personal Protective Equipment, the agreement of contractor relief claims to support the Capital Construction Programme, the issuing of direction under the Health Protection Regulations 2020 and the agreement of a Covid-19 Rent Management Policy. The urgency procedures have been used to best effect to ensure a proactive response to challenges presented.<br>• The urgent decision process as applied to some COVID related decisions has resulted in a number of items being discussed after the decision by the Scrutiny Committee. This resulted in useful changes to forms, processes and the information provided to Members and an open and transparent debate about opportunities for improvements without blame which was particularly healthy. |
| **B. Ensuring openness and comprehensive stakeholder engagement** | • KCC has continued to secure resident, user, and stakeholder feedback to inform strategies, proposed activities, and the budget planning process. As part of the development of the 2021/22 budget a consultation exercise was launched seeking views on the future of services and how comfortable people would feel about spending reductions on a range of services. Opinions were also sought on Council Tax and whether a rise was acceptable if this helped sustain the services that are valued the most. The feedback received was also used to shaped KCC's Interim Strategic Plan and the associated priorities.<br>• Numerous channels have been utilised to engage with and to respond to the legitimate concerns and varying needs of Kent's residents. As an example, working with Medway Council a Protect Kent and Medway Toolkit has been developed to help organisations, community |



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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | groups and key leaders reach our most vulnerable groups including Black, Asian and minority ethnic communities. This material promotes the latest Covid-19 guidelines and simple effective advice to help people protect themselves, and their communities.<br>• Partnership working has been an essential part of the Covid-19 response and engagement has taken place with numerous parties including other Councils, Government departments, blue light services, the voluntary and community sector, and the Health system. The report received by full Council on 11 March 2021 emphasised the strength of partnership working that has, and continues, to take place with multi-agency partners. This has been a specific strength and the partnership approach has resulted in improvements to systems, communications, trust, and the speed of decision making.<br>• KCC led the Kent Resilience Forum's recovery planning and approximately 150 individuals across 55 organisations worked together through seven supporting cells to develop the Recovery Strategy and the associated action plans. This work has been steered by Kent's Council Leaders and KCC's Cabinet.<br>• All KCC staff have been surveyed periodically throughout the year to understand views on the new and different way of working and how people are feeling. This insight has enabled the Corporate Management Team to understand how viewpoints may have changed over the course of the year and also how staff engagement and wider planning can best be undertaken to respond to staff requirements. |
| **C. Defining outcomes in terms of sustainable** | • KCC's Interim Strategic Plan 'Setting the Course' was approved by full Council in December 2020, this proactively responded to the change in the operating context and the impacts of the |





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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| **economic, social, and environmental benefits** | pandemic. The plan is structured around five key immediate challenges – financial, economic, demand, partnership and environmental and sets out the actions that KCC will undertake to help deliver these.<br>• The Kent and Medway Economic Renewal and Resilience Plan was published in August 2020 and explains the priority to support the economic renewal and development to secure resilience in the long run. This plan seeks to deliver against the three key principles, focused on Greener Futures; Open and Productive; and Better Opportunities, Fairer Chances; through five 'channels' of activity.<br>• A Kent and Medway Employment Task Force has been established to focus on the central challenge of rising unemployment and the actions that can be taken to limit or reverse this. Terms of reference are in place for the Task Force who will exist in the context of Government's proposed interventions and how these can best be supported, and where they can be supplemented by additional local action.<br>• The delivery of the Making a Difference Every Day Programme continues to progress in seeking to transform service delivery quality within Adult Social Care, better address the needs of service users, drive innovation, and ensure that meaningful measures of success are in place.<br>• The Change for Kent Children programme has been developed to manage overall demand and deliver better outcomes for children, young people, and their families. The programme seeks to support more children remaining with their families if it is safe to do so and ensure that children in care remain in family-based homes.<br>• Cabinet have agreed the creation of the new 'Reconnect Programme' to respond to the impact of Covid-19 on all children and young people within the county. The programme will be shaped |

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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | with children and young people and will seek to reconnect them with health and happiness, learning missed, friends, family and community, sport activities and the outdoors, economic wellbeing.<br>• The Kent Rail Strategy 2021 was approved by Cabinet with the purpose of influencing the new South Eastern rail concession/contract so the county's transport and environmental requirements can be met. This matter was also considered by the Scrutiny Committee.<br>• A refresh of the Kent Environment Strategy is being undertaken to ensure that implementation plans, and projects can be delivered to improve environmental standards, support growth within the green economy and tackle climate change.<br>• On 16 July 2020 County Council received an update on the approach for achieving Net Zero by 2030. This work is being progressed under the framework of the Kent Environment Strategy and the Energy and Low Emissions Strategy and responds to a County Council approved motion. |
| **D. Determining the interventions necessary to optimise the achievement of the intended outcomes** | • The Kent Together campaign and 24-hour helpline was launched as an intervention to link vulnerable individuals to community hubs within the districts as a source of support throughout the pandemic. The partnership approach taken was extremely effective and ensured that people got the right support when it was needed. Information sharing and data confidentiality were significant considerations as part of this activity as Government shielding lists alongside collective client data were drawn upon to ensure that vulnerable individuals were proactively contacted.<br>• KCC implemented measures to support the social care provider market and the capital construction programme through temporary contracts, advanced payment and additional funding and associated key decisions were taken. Internal Audit reviewed this area, and the |



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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | initial findings were reported in a management letter that highlighted the importance of continued due diligence given the significant risks associated with the uncertainty of Government funding moving forward and the increased risk of fraud.<br>• The Corporate Management Team received and agreed the proposal to establish a new Domestic Abuse Partnership Board for Kent. This arrangement responds to the Domestic Abuse Bill's requirement that upper tier local authorities provide support to the victims of domestic abuse and their children in safe accommodation. The first substantive meeting of the Local Partnership Board is planned for May 2021 and the terms of reference will be agreed. A Senior Officer chairperson from the Adult Social Care and Health directorate has been appointed. |
| **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it** | • KCC's People Strategy explains how the organisation will make the most of staff and their talents and is built on six key principles. In recognition of the new way of working because of the pandemic and to further drive the direction of travel and momentum positively forward, an employer reset is being progressed to define the type of organisation we want to be, to build on positive experiences, to develop resilience, strengthen engagement, and move away from old thinking attitudes and processes. This activity will complement and be fundamental to the success of the Strategic Reset Programme and will be delivered in a realistic but ambitious way. In March 2021, KCC's Challenger group consisting of the authority's senior management cohort discussed the People Strategy and the associated cultural, design principle, values, and leadership considerations.<br>• The role of the Selection and Member Services Committee has been reviewed as it was felt that this forum was underutilised, due to its limited role. The General Counsel presented several |





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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | recommendations to the Committee for consideration and updated terms of reference was subsequently supported and agreed by full Council.<br>• County Council have formally agreed the establishment of a Member Development Sub Committee under the Selection and Member Services Committee. The subgroup will ensure that Member training matters, including those around standards, have a high profile and that appropriate training is put in place for all Members elected in May 2021.<br>• Throughout the year development and training opportunities have continued to be offered. In the absence of the ability to hold physical sessions the online training offer has been bolstered to reflect the requirements of staff during the pandemic. This offer has not exclusively focussed on the traditional types of learning and has instead also incorporated tools to support wellbeing, resilience, and management practice during this difficult period.<br>• KCC's senior management and management cohorts have continued to meet as the Challenger and T200 groups. Sessions have been held on an interactive basis and focussed on topics such as the People Strategy and the future of flexible working. These discussions have proved invaluable in terms of taking a collective temperature check across the organisation and shaping next steps and actions. |
| **F. Managing risks and performance through robust internal control and strong public financial management** | • The main refresh of the Corporate Risk Register was undertaken in Summer 2020 and the subsequent revisions were reported to Cabinet in June as part of the risk section of the Quarterly Performance Report. In recognition of the continuously evolving risk environment a more streamline approach was adopted involving discussions with risk and action owners across the organisation and Cabinet received a further |

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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | update on 14 December 2020. Whilst no new risks were added to the register in the latest refresh process, several risk levels and risk contexts were updated, and this detail was provided to Cabinet. Cabinet Committees continue to receive an update on relevant corporate risks annually and the Governance and Audit Committee receive the complete Corporate Risk Register every six months for assurance purposes.<br>• The risk rating attributed to the 'future financial and operating environment for local government' risk was raised to the maximum level this year in recognition of the continued uncertainty associated with local government funding and other national policy agendas. Other risks carrying high or raised risk ratings have been highlighted in the Corporate Risk Register and the associated reporting process including simultaneous emergency response and resilience; managing and working with the social care market; safeguarding – protecting vulnerable children; and cyber-attack threats and their implications. This year for the first time the Governance and Audit Committee received a headline summary of directorate risks to give oversight of the risks that are regularly being monitored and reviewed by Directorate Management Teams. It is acknowledged that the Corporate Risk Register will continue to require regular review as further events relating to the implications of the pandemic and recovery evolve.<br>• Members of the Governance and Audit Committee have participated in a risk management workshop. The feedback and input received fed into the annual review of the Risk Management Strategy, Policy and Programme which was approved by the Committee in January 2021.<br>• KCC's Risk Management Policy and Strategy |





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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | has been reviewed to respond to the evolving risk environment and to ensure that it remains fit for purpose. The document draws on best practice from several sources and feedback received from members of the Governance and Audit Committee. The Risk Management Policy and Strategy is supported by a toolkit containing detailed guidance and advice for managers.<br>• Robust systems have been introduced this year to manage and monitor the new Covid support funding streams issued by Government. The Covid financial log has been an important tool to inform returns to Government and the financial monitoring reports to Cabinet.<br>• Key performance indicators were revised this year and the indicators added and removed were reported to Cabinet with the associated reasoning. Cabinet and Cabinet Committees continue to be appraised of progress through the Quarterly Performance and the directorate specific Performance Dashboard reports. |
| **G. Implementing good practices in transparency reporting, and audit to deliver effective accountability** | • Despite the challenges presented by the pandemic, and in line with Government regulations, committee meetings have continued to be webcast using the Microsoft Teams technology ensuring that transparency obligations are met. Statutory report publication dates have also continued to be satisfied.<br>• The Governance and Audit Committee continue to receive the summaries of audits undertaken throughout the authority and the associated progress status. Alongside internal reports, the Annual Progress Report and Sector Update for the period ending 31 March 2020 was received from KCC's external auditors Grant Thornton and considered by the Governance and Audit Committee in July 2020. This report provided a summary of relevant emerging national issues and developments and posed several related questions. The external audit report for 2020/21 will be considered by the Governance and Audit |

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| CIPFA/SoLACE Principle | Improvements made/Headlines |
|---|---|
| | Committee.<br>• KCC has an established Internal Audit Plan that is periodically reported on in compliance with the Public Sector Internal Audit Standards. The results of the whole programme inform the opinion about the effectiveness of internal control within the organisation which is included in the Annual Internal Audit Report. The Audit Plan for 2020/21 has been extended as delivery is significantly below target because of resourcing and client responsiveness and requests. All audits removed from the 2020/21 plan will be risk assessed as part of the 2021/22 process. This approach demonstrates the flexibility of the plan required to reflect changing risk circumstances and requests from senior management.<br>• KCC's response to the pandemic, preparations for EU transition and the associated risk considerations have continually been communicated through committees and external communications. Members have also received internal briefings on matters relating to Covid-19 and other key subjects during this period to ensure a collective awareness of challenges and how these will be responded to. |

## Annual Governance Statement 2020/21 Conclusion

In conclusion, during an unprecedented year Kent County Council has been required to adapt governance to respond to a new way of working, urgent pressures, rapidly issued directives from Government and evolving legislation. As the pandemic situation further eases thought will now turn further to recovery and it will be necessary to ensure that the authority's new Strategic Plan and other key strategies and policies are reflective of the new operational realities.

Given the unprecedented nature of 2020/21 and the prolonged period of the pandemic it will be essential that the authority continues to take learning and is prepared to respond to a situation of this magnitude again if required. Through the



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regular review of KCC's business continuity arrangements we will ensure that services remain prepared and responsive.

As lockdown eases, KCC is likely to retain the new statutory duties in respect of public protection and it will be important to ensure that governance arrangements can quickly continue to respond to urgent actions and decisions required especially in respect of enforcement obligations.

It is important to acknowledge as part of this year's statement the adaptability, teamwork, and resilience that has been demonstrated by Officers, Members, and partner organisations. As a collective we have tackled new and significant challenges and adopted a different way of working which radically moves away from the traditional way of doing things. Whilst there will always be lessons to learn the authority has continued to deliver its statutory obligations and services in a period of significant difficulty. Good governance has been an integral part of KCC's response to Covid-19 to ensure that the right decisions are taken at the right time and in the right way to respond to the needs of Kent's residents, communities, and businesses.

This final version of the Annual Governance Statement was updated in November 2021 to reflect changes and learning since the publication of the draft. There have also been changes made contingent on comments from Members of the Governance and Audit Committee who reviewed the statement in draft form at their September 2021 meeting.

The Corporate Director for People and Communications has confirmed to the Head of Paid Service that there were sufficient staffing resources available in 2020/21 for the Authority to discharge its responsibilities. Confirmation has also been received that during 2020/21, none of the Statutory Officers reported any issues to the Corporate Director for People and Communications which prevented them fulfilling their statutory roles and responsibilities. It is imperative that there is a continued organisational commitment to building and retaining an inclusive workforce and workplace and poor behaviours and practice by Officers or Members will not, and should not, be tolerated.

The Monitoring Officer can confirm for the financial year ending March 2021, that save for the issues previously reported to Members of the Governance and Audit Committee, the County Council and through the annual complaints report, there is no known unlawfulness or maladministration. At the time of signing, it is further confirmed that all executive decisions have been taken as required by the Council's Constitution to the best of the Monitoring Officer's knowledge. However, during the period 1 April 2020 to 31 March 2021, he was required to intervene and seek



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remedial actions from Officers where decisions were at risk of not being taken lawfully, reasonably and proportionately. The Monitoring Officer has expressed concerns about the need for officers and Members to focus on compliance with constitutional and statutory obligations and to prepare papers for publication in a timely manner. Over the next 18 months, a programme of activity to increase mandating of governance requirements will be implemented and is predicated on an assumption that all Members (executive and non-executive alike) and all officers with governance responsibilities will continue to ensure that they prioritise and comply with the Council's governance.

Through his signature, he also agrees to take forward the identified actions as set out in this statement.

The Section 151 Officer provided assurance to the County Council that the budget proposed and approved for 2021-22 by the County Council in February 2021 was based on robust estimates and allowed for an adequate level of reserves to cover foreseeable eventualities and general reserve for the unforeseeable risks.

The Section 151 Officer can further assure the Council that she is satisfied that financial transactions and financial activity on behalf of the Council or where the Council manages activity on behalf of others were handled, processed and recorded in the correct manner during the period 1 April 2020 to 31 March 2021. The Section 151 Officer is content that she has the necessary structures and staffing in place to provide this assurance with confidence.

The Head of Paid Service signs this statement having received the assurances of all the accountable Corporate Directors and Directors for Strategic and Corporate Services through this AGS process and on the basis that the identified actions contained within this document will be taken forward and completed by the Monitoring Officer.

The Head of Paid Service can confirm that he has complied with his constitutional duties in relation to the Operating Standards and that he has received assurance from all relevant Corporate Directors and Directors that they and their services are compliant.

**Signatories (signed in the order set out below)**

Benjamin Watts, Monitoring Officer

Zena Cooke, Section 151 Officer



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David Cockburn, Head of Paid Service

Roger Gough, Leader of the Council

On behalf of Kent County Council – signed on dd/mm/yyyy

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By: **Benjamin Watts – General Counsel**

To: Governance and Audit Committee – 30 November 2021

Subject: **External Audit – Draft Audit Findings Report 2020/21 – Kent County Council**

Classification: Unrestricted

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

FOR DECISION

**Recommendations**

Members of the Governance and Audit Committee are recommended to agree the findings in the report:

**Benjamin Watts**
**General Counsel**

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# The Audit Findings for Kent County Council

**Year ended 31 March 2021**

November 2021



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C. Audit adjustments
D. Fees


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

**Your key Grant Thornton team members are:**


**Paul Dossett**
Key Audit Partner
T 020 7728 3180
E Paul.Dossett@uk.gt.com

**Parris Williams**
Senior Manager
T 020 7728 2542
E Parris.Williams@uk.gt.com

**Hameem Gulraiz**
Assistant Manager
T 020 7383 5100
E Hameem.Gulraiz@uk.gt.com


This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management will be discussed with the Governance and Audit Committee on the 30 November 2021.

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 30 November 2021

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

**Financial Statements**

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during July to October. Our findings are summarised on pages 6 to 26. The Council's single entity draft financial statements alongside a full suite of working papers were submitted for audit in early July in line with agreed timetables. As in previous years, the quality of the financial statements and supporting working papers continues to be high evidenced by the small number of presentation and disclosure issues identified during our audit. Your corporate finance team engages well with the audit process and responds promptly to our audit queries.

The group financial statements were submitted in early October and key working papers to support the consolidation remained outstanding until November. For 2021-22, management will need to work with key stakeholders to ensure the group financial statements are prepared at the same time as the main financial statements.

As a result of our audit there was one key issue discussed with management concerning a £4m invoice that was raised to an NHS CCG in April 2021 despite there being no evidence to support the substance of the transaction. From an accounting perspective, we are satisfied there is no material impact on the financial statements. From an internal control and governance perspective there remains a risk which does need to be addressed with a matter of urgency. More details can be found on page 11 in the 'Key issues discussed with management' section.

There are no adjusted misstatements to the financial statements which impact the General Fund.

We have identified four misstatements from our testing which management have decided not to adjust for.

1. The first arose as a result of five errors identified within our sample testing of post period end invoices. The errors relate to liabilities which should have been accrued for in the 2020/21 accounting period. The extrapolation of these five errors is £10,459k.
2. The second arose as a result of a specific test we performed against post period end invoices of a large capital supplier. Our testing identified £7,940k which should have been accrued for in the 2020/21 period.
3. The final unadjusted misstatement relates to a £4m invoice KCC raised to a local NHS CCG in April 2021. Although the CCG paid this invoice, there was insufficient evidence to determine what period the revenue related to. As a result of this uncertainty, management opted not to account for any revenue in 2020/21. Given the lack of evidence, we are reporting this uncertainty as a unadjusted misstatement. A related control finding around the raising of invoices without proper supporting evidence has also been raised.
4. As part of our revaluations testing, we identified several assets where the carrying value as at the balance sheet dated did not agree to the value per the valuation report. The reason for the difference is because accumulated depreciation had not be correctly reversed out. The impact of this is a £3.306m misstatement in both PPE and the CIES.

Management have decided not to adjust for these misstatements because they are both individually and in aggregate not material to the financial statements. These three unadjusted misstatements are set out in Appendix C. We have also identified several presentation and disclosure adjustments to the financial statements, these too are set out in Appendix C.

Recommendations for management as a result of our audit work are set out in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

*Continued overleaf...*



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# 1. Headlines - continued

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our work is nearing completion and currently there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- evidence to support 3 creditor samples selected on the 16 November
- completion of our testing on CHAPS payments
- completion of our work on financial instruments completion of our planned group auditor procedures including review of the assurances from the component auditor
- property, plant and equipment valuations – we are currently awaiting a response from our auditor's expert to a query we have raised about the residual appraisal valuation for two assets.
- completion of our work on IT general controls of the Council and the group

Our work is also subject to the following procedures which are always completed at the final stage just before issuing our opinion;

- senior management quality review
- receipt of management representation letters; and
- review of the final sets of financial statements, Annual Governance Statement and Narrative Reports.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.



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# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was addressed to the chair of the Governance and Audit committee on 22 September 2021. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness from our risk assessment performed however identified the following areas of focus:

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

Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2022.

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.



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# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on the 07 October.

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



## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for operating expenditure of Commercial Services Kent Ltd was required, which was completed by Bishop Fleming.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 30 November. The outstanding items are detailed on pages 3 and 4.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our audit plan presented to the Governance and Audit Committee in March 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as video meetings to conduct all progress meetings and to go through audit queries/evidence, verifying the completeness and accuracy of information provided remotely produced by the Council, and provision of all audit evidence through the Inflo system. Whilst challenging we were able to draw on and apply learning from last year's audit.

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# 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

In our Audit Plan communicated in April 2021, we set materiality at 1.5% of the gross revenue expenditure plus interest payable in the prior year audited accounts (£2,441m). In the 2020/21 draft accounts, gross revenue expenditure increased to £2,734m.

We reassessed materiality following receipt of the draft accounts and revised it upwards in light of the increase in gross revenue expenditure.

| Council | [redacted] | | |
|---|---|---|---|
| | **Planning (£)** | **Final (£)** | **Qualitative factors considered** |
| Materiality for the financial statements | 36,000,000 | 41,000,000 | We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective was to provide services to the local community, therefore gross expenditure was deemed the most appropriate benchmark. This benchmark was used in the prior year also. We considered 1.5% to be an appropriate rate to apply to the gross expenditure benchmark. |
| Performance materiality | 27,000,000 | 30,750,000 | The Council does not have a history of significant deficiencies or a large number of misstatements. |
| Trivial matters | 1,800,000 | 2,100,000 | The threshold above which we are required to report errors or uncertainties to those charged with governance, calculated as 5% of materiality. |
| Materiality for senior officers' remuneration and related parties | 100,000 | 100,000 | Senior officer remuneration and related parties are areas of interest to readers of financial statements. A lower level of materiality in these areas is appropriate due to the nature of these disclosure notes. |

| Group | [redacted] | | |
|---|---|---|---|
| | **Planning (£)** | **Final (£)** | **Qualitative factors considered** |
| Materiality for the financial statements | 37,000,000 | 41,500,000 | Same as above |
| Performance materiality | 27,750,000 | 31,125,000 | Same as above |
| Trivial matters | 1,850,000 | 2,075,000 | Same as above |
| Materiality for senior officers' remuneration and related parties | 100,000 | 100,000 | Same as above |



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# 2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **Management override of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | Council and group | We have:<br>• Evaluated the design effectiveness of management controls over journals.<br>• Analysed the journals listing and determine the criteria for selecting high risk unusual journals.<br>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.<br>• Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>**Conclusion:**<br>Our work has not identified any material issues in relation to this risk. |



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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| The revenue cycle includes fraudulent transactions<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>(rebutted) | Council and Group | Having considered the risk factors set out in ISA240 and the nature of the Council and the Group's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition.<br>• Opportunities to manipulate revenue recognition are very limited.<br>• The culture and ethical frameworks of local authorities, including that of Kent County Council, mean that all forms of fraud are seen as unacceptable.<br>Therefore, we do not consider this to be a significant risk for Kent County Council or the Group<br><br>NB: Although we have rebutted this risk, we have still performed substantive work on all relevant assertions of revenue where those revenue streams are material to the financial statements. |
| Valuation of land and buildings (Rolling revaluation)<br>The Council re-values its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers (£2,407m) involved and the sensitivity of this estimate to changes in key assumptions.<br>Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2021 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.<br>We identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | Council and Group | We have<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.<br>• Evaluated the competence, capabilities and objectivity of the valuation expert.<br>• Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.<br>• Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation.<br>• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.<br>• Assessed the value of a sample of assets in relation to market rates for comparable properties.<br><br>Conclusion:<br><br>Subject to the satisfactory resolution of the outstanding matters detailed on pages 3, our work has not identified any material issues in relation to this risk. |



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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| Valuation of the pension fund net liability (£1,635 million)<br><br>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,635 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br><br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br><br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br><br>The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk. | Council and Group | We have:<br>• Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.<br>• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.<br>• Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.<br>• Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.<br>• Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.<br>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.<br>• We have also conducted work to satisfy ourselves that the movement within the IAS 19 report described as 'experience' is reasonable and appropriate<br><br>Conclusion:<br><br>Our work has not identified any material issues in relation to this risk. |

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# 2. Financial Statements – Key issues discussed with management

## £4m invoice to an NHS CCG without any supporting evidence

Description of the issue:

As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description "20/21 contribution to joint investment with adult social care for vulnerable adults".

As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it. This control deficiency has been raised and it is included in the Action plan – see Appendix A.

Auditor considerations:

There are certain characteristics about this transaction which raises concerns for us, these factors are set out below:

- We are aware that as at the 31 March 2021, NHS organisations had excess cash and were under pressure to reduce their yearend surpluses. As public sector auditors we were therefore hypersensitive to any transactions which could be used to inappropriately transfer the surplus of an NHS body from 2020/21 to 2021/22.
- This transaction would appear to the auditors of the NHS organisation as a valid expenditure item in the 2020/21 accounts as it was raised by a third party (Kent County Council) with a description of it being a 2020/21 item of expense.
- Despite numerous requests, the Authority was unable to provide any documentation, contractual or otherwise, to validate the substance of the transaction



The risk identified with this transaction:

**The key risk with this transaction is whether the Authority accepted income from the NHS without any clear evidence of a service being provided to transfer £4m or the NHS body's surplus from 2020/21 to 2021/22. The benefit to the NHS body being that the £4m could then be used to finance healthcare in 2021/22 because otherwise it would ultimately transfer back to the Treasury.**

Additional work performed:

As a result of these factors, we performed the following additional procedures:

- Confirmed that the NHS organisation paid this invoice
- Confirmed KCC did not credit note this transaction
- Reviewed all invoices raised by the NHS organisation to ensure the £4m was not clawed back

Conclusion:

Based on the additional procedures performed we have found no evidence that the risk has crystalised. Nonetheless, given no expenditure has been incurred against the £4m to date, this risk still remains. Going forward, it is important for the Authority to obtain sufficient evidence from the third party as to the contractual status of this £4m transaction.

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# 2. Financial Statements – Key findings arising from the group audit

As at the date of writing this report, our audit procedures on the group account, including review of the work of the component auditor is still in progress.



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# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations (including surplus assets) – £2,407 million | Other land and buildings comprises £2,068m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£339m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end for operational assets or fair value (FV) for assets designated as surplus.<br><br>The Council has engaged Wilks Head & Eve LLP (WHE) to complete the valuation of properties as at 1 April 2020 on a five yearly cyclical basis. 90% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £181m. £169m of the gain has been taken to the revaluation reserve with the remaining £12m going through the Comprehensive Income and Expenditure Statement (CIES).<br><br>Management has considered the year end value of properties not re-valued in year (£242m). In particular, management has considered the potential valuation change in the assets based on the market review provided by the valuer as at 31 March 2021, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value.<br><br>Management has not documented consideration of alternative estimates for the valuation of its land and buildings, and the modern equivalent assets used in the DRC valuations have not changed significantly, which is to be expected given the Council's estate. | As part of our work we have:<br>• reviewed the land and buildings valuation estimate in line with the revised ISA540 requirements and have no issues to raise;<br>• reconciled the fixed asset register to the ledger and the financial statements<br>• assessed management's valuation expert and found them to be competent, capable and independent; and<br>• verified the valuer's outcome against our independent auditor's expert valuation trend report.<br>• verified that management's judgement that the carrying value of assets is not materially different to the current value is reasonable. This has been done by setting an independent expectation of the difference using indices provided by Gerald Eve.<br>• assessed the reasonableness of alternative site judgements and assumptions<br>• assessed the accuracy and completeness of underlying information used to determine the estimate; and<br>• assessed the reasonableness of key underlying assumptions i.e. Build Costs. This assurance was provided to us by our auditor's expert.<br><br>**Findings:**<br>Revised ISA540 requires enhanced disclosure of accounting estimates in the financial statements and we have agreed with the Council disclosure changes to enhance the quality of disclosures around estimation uncertainty of land and building valuations.<br><br>**Conclusion:**<br>No issues identified | Light purple |



**Assessment**

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £1,635m** | The Council's net pension liability at 31 March 2021 is £1,635m (PY £1,363m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £271.7m net actuarial loss during 2020/21. | • We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.<br>• We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 19/20 roll-forward calculation carried out by the actuary.<br>• We have used PwC as our auditor expert to assess the actuary their assumption – see table below for our comparison of actuarial assumptions: | Light purple |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.0 % | 1.95 – 2.05 % | ● |
| Pension increase rate | 2.80 % | 2.80 – 2.85 % | ● |
| Salary growth | 3.8 % | 3.80 – 3.85 % | ● |
| Life expectancy – Males currently aged 45 / 65* | Pensioners: 21.6<br>Future pensioners: 22.9 | Pensioners: 20.5 – 23.1<br>Future pensioners: 21.9 – 24.4 | ● |
| Life expectancy – Females currently aged 45 / 65* | Pensioners: 23.6<br>Future pensioners: 25.1 | Pensioners: 23.3 – 25.0<br>Future pensioners: 24.8 – 26.4 | ● |

*Actuary used a CMI 2020 model with LT improvement rate of 1.25%

- Continued overleaf



**Assessment**

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £1,635m**<br><br>**- continued** | | • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.<br>• We have confirmed there were no significant changes in 2020/21 to the valuation method.<br>• We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets.<br>• Our work confirms that the increase in the IAS 19 estimate is reasonable. | Light purple |



**Assessment**

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Minimum Revenue Provision - £59m | The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt – known as its Minimum Revenue Provision (MRP).<br><br>The Council's approach to the MRP is set out to Members as part of the Budget and council tax proposals each year. The basis for the charge is set out in Regulations and statutory guidance.<br><br>This year the MRP charge was £59m (2019/20 £59m). | **Context**<br><br>Before 2004, Whitehall issued UK Local Authorities with annual credit approvals, effectively setting a cap on each authority's borrowing. That system ended with the introduction of the prudential framework in 2004 which allowed Local Authorities to spend and borrow without approval.<br><br>In recent months, the MHCLG published a policy paper which set out that they were "currently reviewing the statutory powers for capping borrowing and considering how and when we will apply these to protect local financial sustainability". It is clear then that the government is concerned about the financial sustainability of local authorities and so we have performed work around the minimum revenue provision (MRP) set by the authority to ensure not only that it complies why the agreed policy, but that the policy itself is reasonable to ensure the authority is able to repay borrowing in the long term.<br><br>**Findings:**<br><br>We have carried out the following work:<br>• Confirmed that the Council's policy on MRP complies with statutory guidance.<br>• Assessed that there are no changes to the Council's MRP policy in comparison to 2019/20.<br>• Assessed and benchmarked the percentage of the Council's MRP charge against the opening capital financing requirement (4.6%). As this is above 2%, it falls within our 'Green' range – no concerns identified.<br>• Assessed and benchmarked the percentage of the Council's total debt against the capital financing requirement (85%). As this is below 100%, it falls within our 'Green' range – no concerns identified.<br><br>**Conclusion:**<br><br>Based on our findings, we are satisfied that the MRP charge complies with regulations and is set at a prudent level to repay borrowing over the long term. The MRP charge must remain under regular review, particularly in light of future capital spending plans. | Light purple |



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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Depreciation (£148m) | Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Equipment including vehicles are depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant.<br>For existing assets the source data is the carrying value at the start of the year. For existing buildings this was provided by the valuer. For other existing assets it is the brought forward depreciated replacement cost. For new assets it is the purchase cost during the year. For buildings this is the revaluation performed at year end.<br>The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset.<br>There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year. | As part of our work we identified that management's accounting policy to not depreciation assets in the year it was brought into use is not consistent with the LG Code (4.1.2.41) which requires assets to be depreciation at the point in which they are brought into use.<br>We have performed work that confirms this departure does not lead to a material misstatement in the accounts. We have estimated the impact as £3.3m which is significantly below our materiality level.<br>Based on the work we have performed in respect of your Depreciation estimate, we have not identified any material issues although the accounting policy not to depreciation in the year of use is optimistic. | Blue – materially correct but includes optimistic assumption |
| PFI liability (carrying value - £209m)<br>(fair value - £277m) | PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM , are accounted for as 'on-Statement of Financial Position' by the entity. The PFI liability is determined by the original financial model updated for inflation and relevant variations. The source data is derived from the financial model. Estimates are used for un-invoiced variations (or credits for insurance) based on estimates provided at the time of the variation.<br>In line with IFRS 13 requirements, in addition to the carrying value of the liability on the balance sheet, management must also disclose the fair value of the liability. Management has engaged an expert to estimate the fair value of the PFI liability (£277m).<br>There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year. | Our work in respect of the estimate of your PFI liability, including the fair value estimate has not identified any material issues. | Light purple |



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# 2. Financial Statements - Internal Control

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management, are included in the action plan at Appendix A.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
|  | **Insufficient evidence for raising revenue debtor**<br>As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description *"20/21 contribution to joint investment with adult social care for vulnerable adults"*.<br>As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it. | • Management should ensure debtor invoices are only raised when there is sufficient evidence to support the substance of the transaction. |



**Assessment**
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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# 2. Financial Statements - Internal Control

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management, are included in the action plan at Appendix A.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
|  | **CHAPS payments**<br>In December 2020, your internal auditor issued a report on urgent CHAPS payments. The opinion provided by your internal auditor was 'limited' meaning that adequate controls were not in place.<br>This report raised concerns about the lack of due process, controls, oversight and governance around these payments. As a result of these issues, your internal auditor concluded that 'the absence of robust oversight and control heightens the risk of fraudulent activity, errors, or omissions being overlooked'.<br>As part of our risk assessment we therefore identified this as a risk factor and performed specific procedures to ensure that the risks identified did not crystalize into a material error within the financial statements.<br>As at the date of writing this report, our work in relation to CHAPS payments is still ongoing. | • Management should ensure they implement the control recommendations raised by your internal auditors in relation to CHAPS payments |



**Assessment**
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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# 2. Financial Statements - Internal Control

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| | **Declaration of interest**<br>As part of our work on the related party disclosure, we requested to obtain the signed declaration of interest forms pertaining to the Corporate Management Team (CMT).<br>Initially, management provided all but one of the declaration. It took over two months for management to provide us with the declaration form for the final member of the CMT. This form had to be signed retrospectively to cover the financial period in question.<br>NB: following receipt of the final signed declaration form, we have obtained the necessary assurances to complete our work on related party transactions. | • Management should ensure all members of the CMT, and particularly those not permanently employed by the Council, have returned signed declaration forms ahead of the publication of the draft financial statements |
| | **Unsigned Cantium Contract**<br>As part of our risk assessment procedures carried out in March 2021 we requested to obtain signed copies of contracts between the Council and suppliers the Council has outsourced key finance/accounting functions to.<br>Signed contracts were obtained for all outsource providers apart from Cantium. Six months since our original request, we have still not received the signed contract with Cantium, a wholly owned subsidiary of the Council. There is some uncertainty as to whether the contract was signed at all. As a result, we consider this to be an internal control deficiency.<br>NB: We have obtained and reviewed the unsigned contract which has enabled us to obtain the relevant assurances. | • Management should ensure that all contracts are signed and maintained such that they can be accessed on request. |



**Assessment**
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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# 2. Financial Statements - Internal Control

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● | **Related party interest of Councillors**<br>On probing the nature of one Councillor's relationship with a community interest company, it was made apparent that KCC had made the assumption that the Councillor's position as a director for the company was as part of their role at KCC when, in actual fact, it is a position that they hold outside of their Councillor duties.<br>We identified on Companies House that the councillor is a 'person with significant control'. In line with the CIPFA Code Section 3.9, as the councillor has significant influence over KCC then the community interest company is a related party. Also, given the sum of transactions (£708k) in 20/21 is significantly above our own specific materiality threshold for Related Parties, we deem this to be a necessary disclosure. This also would have been the case for prior years.<br>The accounts have been updated for this disclosure omission. Nonetheless, there remains a control deficiency as management's processes and controls failed to identify and detect a related party transaction. | Management should review their processes and controls to identify related parties to ensure they capture all interests of Councillors and challenges whether those interests are part of their role as a Councillor or not. |
| ● | **Gross Internal Area (GIA) data testing for PPE revaluations**<br>As part of our PPE revaluations testing, we reconcile the GIA/Floor areas per the valuers report back to your source estates system (K2). As part of this work we identified instances where your valuer had identified additional elements or blocks which did not appear in the K2 system. An example being where the valuer had identified and valued an football astro pitch which was not included in your estates register.<br>Given the valuer had visited and measured these sites, we are comfortable that their valuation exercise is complete and accurate but it does indicate that your estates system has not fully been updated.<br>Based on our work we are satisfied that there is no residual risk of material misstatement but we are highlighting the discrepancy should management deem it worthwhile to update the K2 system. | • Management to consider whether the K2 system needs to be updated for components identified by your valuer which are not currently on the estates system. |



**Assessment**
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

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# 2. Financial Statements - other communication requirements

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

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Governance and Audit Committee papers. |



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# 2. Financial Statements - other communication requirements





| Issue | Commentary |
|---|---|
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. Positive confirmations were obtained for all relevant balances. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We are finalising our review and will communicate any findings to management. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management is being provided as prompt as possible. Information and evidence which needs to be provided outside of the main finance team does however take longer. Your finance team are doing a good job to quality assess the information provided by service before it comes to us which reduces the amount of follow up queries we need to raise.<br><br>At the start of the audit transaction listings for income and expenditure contained many contra entries which ultimately reverse out and do not form part of the year end balances. We worked with the Council to ensure that transaction listings were cleansed before we selected samples. Furthermore, listings obtained were often at a summary level and so this added an extra layer of complexity and time when selecting samples. |

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# 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

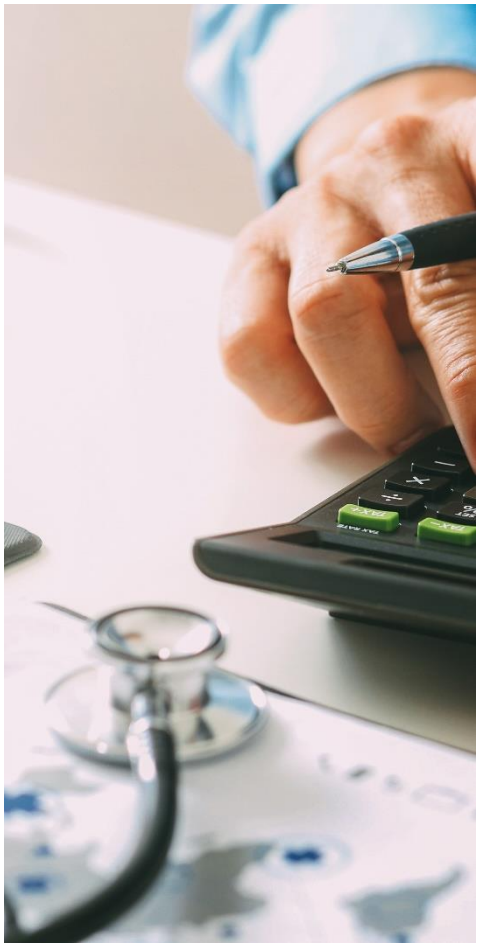
| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |



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# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No issues were identified from our work. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.<br>We have nothing to report on these matters. |





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# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>We plan for this work to be completed in line with the national deadline. |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2020/21 audit of **Kent County Council** in the audit report, due to our Value for Money and WGA work not being complete. |



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# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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

**Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.**



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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



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# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D



## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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# 4. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Kent & Medway Active Sports Partnership (2020/21 Audit) | 4,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Agreed upon Procedures relating to the Teachers' Pensions end of year certificate | 10,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Regional Growth Fund Assurance | 100,000 | Self-Interest<br><br>Self review (because GT provides audit services)<br><br>Management | Whilst the total fees from this work could in isolation be construed to be a threat, as it is over 70% of scale fee it is important to note that the fees are not recurring and this work will be undertaken on a one off basis. Furthermore, under NAO guidance, this work does not count against the 70% CAP.<br><br>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. This work is also carried out by a team separate from the audit engagement team. The work is being reviewed be a separate engagement lead to ensure an independent perspective.<br><br>Note – this work was subject to PSAA approval. In September 2021, this work was approved by PSAA. |
| Non-audit related | | | |
| CFO insights (Subscription ending September 2021 | 12,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |



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# Appendices

# A. Action plan – Audit of Financial Statements

We have identified six of recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| High | **Insufficient evidence for raising revenue debtor**<br>As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description *"20/21 contribution to joint investment with adult social care for vulnerable adults"*.<br>As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it. | Management should ensure debtor invoices are only raised when there is sufficient evidence to support the substance of the transaction.<br>**Management response**<br>This is an isolated incident and the importance and requirement of having clear evidence before raising invoices has been reiterated at the Budget Management Team and at Team meetings. |



**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **CHAPS payments**<br>In December 2020, your internal auditor issued a report on urgent CHAPS payments. The opinion provided by your internal auditor was 'limited' meaning that adequate controls were not in place.<br>This report raised concerns about the lack of due process, controls, oversight and governance around these payments. As a result of these issues, your internal auditor concluded that 'the absence of robust oversight and control heightens the risk of fraudulent activity, errors, or omissions being overlooked'.<br>As part of our risk assessment we therefore identified this as a risk factor and performed specific procedures to ensure that the risks identified did not crystalize into a material error within the financial statements.<br>As at the date of writing this report, our work on CHAPS payments is still ongoing. | • Management should ensure they implement the control recommendations raised by your internal auditors in relation to CHAPS payments<br>**Management response**<br>All recommendations and management actions following the internal audit of CHAPS payments have been implemented. A subsequent issue around year end processing and posting dates has been found and officers are in the process of identifying the cause and will implement processes and a solution prior to next year-end. |



**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Grey – best practice | **Unsigned Cantium Contract**<br>As part of our risk assessment procedures carried out in March 2021 we requested to obtain signed copies of contracts between the Council and suppliers the Council has outsourced key finance/accounting functions to.<br>Signed contracts were obtained for all outsource providers apart from Cantium. Six months since our original request, we have still not received the signed contract with Cantium, a wholly owned subsidiary of the Council. There is some uncertainty as to whether the contract was signed at all. As a result, we consider this to be an internal control deficiency.<br>NB: We have obtained and reviewed the unsigned contract which has enabled us to obtain the relevant assurances. | • Management should ensure that all contracts are signed and maintained such that they can be accessed on request.<br>**Management response**<br>To ensure that contract information can be accessed as requests arise Strategic Commissioning will develop and put in place a contracts register which will provide details of the contract status including that it is signed and sealed. |
| Grey – best practice | **Related party interest of Councillors**<br>On probing the nature of one Councillor's relationship with a community interest company, it was made apparent that KCC had made the assumption that the Councillor's position as a director for the company was as part of their role at KCC when, in actual fact, it is a position that they hold outside of their Councillor duties.<br>We identified on Companies House that the councillor is a 'person with significant control'. In line with the CIPFA Code Section 3.9, as the councillor has significant influence over KCC then the community interest company is a related party. Also, given the sum of transactions (£708k) in 20/21 is significantly above our own specific materiality threshold for Related Parties, we deem this to be a necessary disclosure. This also would have been the case for prior years.<br>The accounts have been updated for this disclosure omission. Nonetheless, there remains a control deficiency as management's processes and controls failed to identify and detect a related party transaction. | Management should review their processes and controls to identify related parties to ensure they capture all interests of Councillors and challenges whether those interests are part of their role as a Councillor or not.<br>**Management response**<br>We will check Companies House and our own register to understand the relationship and will recommend an improvement to the declaration of interest form to identify the type of representation, whether it is on behalf of KCC or a personal arrangement. |



**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Grey – best practice | **Gross Internal Area (GIA) data testing for PPE revaluations**<br>As part of our PPE revaluations testing, we reconcile the GIA/Floor areas per the valuers report back to your source estates system (K2). As part of this work we identified instances where your valuer had identified additional elements or blocks which did not appear in the K2 system. An example being where the valuer had identified and valued an football astro pitch which was not included in your estates register.<br>Given the valuer had visited and measured these sites, we are comfortable that their valuation exercise is complete and accurate but it does indicate that your estates system has not fully been updated.<br>Based on our work we are satisfied that there is no residual risk of material misstatement but we are highlighting the discrepancy should management deem it worthwhile to update the K2 system. | • Management to consider whether the K2 system needs to be updated for components identified by your valuer which are not currently on the estates system.<br><br>**Management response**<br>Finance will work with our valuer and Property colleagues to ensure that the K2 system is fully up to date to ensure there is no risk of a material misstatement. |
| Grey – best practice | **Declaration of interest**<br>As part of our work on the related party disclosure, we requested to obtain the signed declaration of interest forms pertaining to the Corporate Management Team (CMT).<br>Initially, management provided all but one of the declaration. It took over two months for management to provide us with the declaration form for the final member of the CMT. This form had to be signed retrospectively to cover the financial period in question.<br><br>NB: following receipt of the final signed declaration form, we have obtained the necessary assurances to complete our work on related party transactions. | • Management should ensure all members of the CMT, and particularly those not permanently employed by the Council, have returned signed declaration forms ahead of the publication of the draft financial statements<br><br>**Management response**<br>The delay in providing the declaration of interest form related to a software submission issue and the situation has been resolved by completing a paper form in the interim. Finance and HR will review the declaration of interest process and improve the ORACLE self service functionality to ensure it is a live document, declarations are updated on a timely and regular basis and prior to completion of the draft accounts to enable assurance on related party interest. |



**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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# B. Follow up of prior year recommendations

We identified the following issues in the audit of Kent County Council's 2019/20 financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented two of our recommendations and work is still on going in relation to one. The control issue in relation to the group accounts has not been addressed and remains a control issue going into 2021/22.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Group accounts issue:**<br>In 2019-20 the Council produced group accounts for the first time. The working papers provided to support this process were extensive and detailed and documented the process, sources of information and any judgements.<br>However, discussing the group accounts consolidation process with management, and on review of the working papers, several areas where the processes could be improved for future years were identified.<br>Without the information from counterparties which provide the appropriate level of detail, there is a risk that there will be significant unexplained differences between data. In addition, without the level of detail in the returns to enable the expected disclosures in the group accounts there is a risk the group reported will not be able to comply with the requirements of the accounting framework.<br><br>**Recommendation:**<br>The returns required from consolidating bodies and schools should be reviewed to ensure they include the detail of the intragroup transaction to enable eliminations on consolidation to be matched in full and reduce the level of judgement in the process. | The draft group accounts were submitted for audit at the start of October. A full suite of working papers were not provided until November. Management must continue to work with key stakeholders to ensure the production of the group accounts is in line with the closedown timetable.<br><br>**Management update:**<br>The previous year's issue on the intra group transactional data was primarily due to the cyber- attack on Commercial Services, which meant that we couldn't match in detail as the information wasn't available. This issue did not occur this year but the timeliness of the working papers was due to resource issues and changing roles within the team. A dedicated resource for group accounts has now been appointed which will allow improvements to be made. |

**Assessment**

✓ Action completed

X Not yet addressed



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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **Bank reconciliation issue:**<br>During our bank testing in 2019-20 we were made aware that the payments account was not reconciled in the period from September 2019 to July 2020 due to issues with the specialized software required for the process including failure of the single machine that had the software installed.<br>The reconciliation was performed for the year end date in September 2020 and provided to the audit team. The reconciliation process identified items which had not been processed between bank accounts. The adjustments totaled £2.8m however these were between payments account and the general account within the bank section so there is nil impact on the financial statements.<br><br>**Recommendation:**<br>The Council should ensure that specialized software for key processes is not restricted to one user and there is a contingency plan where the failure of such software would impact the Council's ability to perform key financial controls. | No issues were identified during our current year audit of cash. The software is now available to more than one users. |
| ✓ | **AUC classification:**<br>Our testing in 2019-20 identified amounts within Assets Under Construction as at 31 March 2020 which had become operational before the period end.<br><br>**Recommendation:**<br>The capital team should ensure that the project managers being asked to provide information regarding assets are aware of the accounting requirements for the classification of assets and when they are considered operational. The close down process should include challenge of any assets under construction that have been classified under this heading for more than one year to ensure they are being reclassified at an appropriate time. | No issues identified during our current year audit in relation to the classification of Assets Under Construction. |

**Assessment**

✓ Action completed

X Not yet addressed



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# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| In progress | **Creditors account codes:**<br>Creditor account codes are not regularly reconciled.<br>**Recommendation:**<br>The Council should review the balance sheet account codes and ensure that each has an 'owner' and a reconciliation is performed at regular intervals appropriate for the size and frequency of transactions for the code and should include a reconciliation process at year end. | Management are still in the process of implementing this control consistently across all relevant creditor codes. This has not however prevented us from obtaining sufficient appropriate assurance over the creditors balance as at 31 March. |



**Assessment**

✓ Action completed

X Not yet addressed

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# C. Audit Adjustments – adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

There have been no adjusted misstatements included in the financial statements of the Council or the Group.



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# C. Audit Adjustments – unadjusted misstatements

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| Post period end invoices received sample testing:<br><br>To obtain assurance over the completeness of liabilities/expenditure in the accounts we obtain a list of all supplier invoices received by the Council post period end (April and May 2021).<br><br>We reviewed this listing and selected a sample for testing. Our sample testing identified five instances where an invoice was received which related to 2020/21 activity but hadn't been accounting for in the 2020/21 financial statements.<br><br>We have evaluated the potential misstatement in the financial statements by extrapolating this error across the affected population. This extrapolation projected a misstatement of £10,459k. As this amount is below materiality, we are satisfied there is no risk of material misstatement. Given that it exceeds our triviality threshold, we are required by the ISAs to communicate this extrapolation in this report.<br><br>Of the five errors, three related to capital spend and two related to expenditure. In our extrapolation, we have apportioned the error between capital and expenditure by the same magnitude as the error percentage found in our sample testing. | Council and Group | Expenditure<br><br>468 | Creditors<br><br>(10,459)<br><br>PPE<br><br>9,991 | 468 | Not material - extrapolation |



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# C. Audit Adjustments – unadjusted misstatements - continued

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **Post period end invoices received specific testing:**<br><br>As part of our post period end invoice testing we isolated payments made in respect of a large capital project 'Sevington' on the basis it was large and unusual.<br><br>Our testing of this identified £7,940K payments (net of VAT) made in 2020/21 that related to capital that had been delivered by the balance sheet date. Management did not accrue for this in the 2020/21 accounts which means that liabilities is understated in the financial statements.<br><br>Although the monies spent was on capital works, because the buildings being constructed are not on land owned by KCC, it has to be recognised as Revenue Expenditure Funded Under Capital (REFCUS) in accordance with the Local Government Code of Practice.<br><br>KCC received direct funding from the Department for Transport and so the impact on the CIES would be negated by a draw down on a capital received in advance.<br><br>There is therefore no net impact on total net expenditure and the closing balance of the General Fund is unaffected. | Council and Group | REFCUS – cost of services expenditure<br><br>7,940<br><br>Specific grant – cost of service income<br><br>(7,940) | Creditors<br><br>(7,940)<br><br>Capital Grants in Advance<br><br>7,940 | Nil | Not material |



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# C. Audit Adjustments – unadjusted misstatements - continued

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **£4m debtor**<br><br>As part of our post period end testing of invoices raised by KCC, we identified an invoice raised in April 2021 for £4m to an NHS CCG. Although the invoice described the transaction as relating to 2020/21 as a result of insufficient evidence to prove that genuine revenue had been earned, management decided to defer the revenue into 2021/22.<br><br>Whilst management's judgement is understandable and prudent given the lack of information, there remains an uncertainty as to what period the revenue relates. The CCG duly paid the £4m in April 2021 and there is no evidence from the third party that they expect it back.<br><br>We are therefore communicating this issue to you as an uncertainty insofar as the £4m of revenue could pertain to the 2020/21 account year as described on the invoice itself.<br><br>NB: we have raised a related control issue to the fact that invoices should not be raised without appropriate supporting evidence pertaining to the substance of the transaction to enable proper accounting. | Council and Group | Revenue<br><br>(4,000) | Creditors<br><br>4,000 | (4,000) | Not material |



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# C. Audit Adjustments – unadjusted misstatements - continued

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| PPE accumulated depreciation not written out<br><br>Under the Local Government Code of practice, when an operational land or building is revalued, any accumulated depreciation on that asset must be written out. For the vast majority of assets our testing confirmed this accounting treatment was correctly applied, however, for a small number of assets accumulated depreciation was not fully written out. The impact of this meant that the net book value of those assets did not agree to the value per your valuers report. This means that your asset values on the balance sheet is understated and either your revaluation reserve or CIES is understated by the same amount.<br><br>The value of the understatement on PPE is £3.306m. It is not known what proportion of this should be written out to the Revaluation Reserve and how much should go through the CIES. As a worst case scenario, we have assumed that it all goes to the CIES in communicating this unadjusted misstatement to you.<br><br>Note – this misstatement has no net impact on the closing balance of the general fund as the gain through CIES would be reversed through the MIRS into the unusable reserve of the Capital Adjustment Account. | Council and Group | Gain on revaluation<br><br>(3,306) | PPE<br><br>3,306 | (3,306) | Not material |
| Total impact | Council and Group | (6,838) | 6,838 | (6,838) | Not material |



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# C. Audit Adjustments – misclassification and disclosure

## Misclassification and disclosure changes

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

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| £32m misclassification on Investments | As part of our testing of Investments, we identified that £32,383k of investments were incorrectly classified as long term in the draft financial statements. As part of our audit procedures to review the maturity dates of investments, we found that for these investments, they were all due to mature within 12 months of the balance sheet date. | Adjust the balance sheet to reclassify £32,383k of LT investments into ST investments. | ✓ |
| Critical judgements | Several improvements have been made to the critical judgements note. These include:<br>• removing disclosure on judgements which are not material<br>• expanding the narrative in the PPE disclosure to lay out the assessment management has performed to ensure that the carrying value of assets isn't materially different to the current value | To update the critical judgements note accordingly | ✓ |
| Other grants disaggregation | Note 16 includes the disclosure of the line item "other grants" - £176m. Under IAS 1, the classification of a material item as "other" is not considered to be appropriate. We have requested management to disaggregation this balance into specific items such that "other grants" is not material. | Management to revise note 16 by disaggregating "other grants" such that the amounts contained within it is not material | ✓ |



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# C. Audit Adjustments – misclassification and disclosure - continued

## Misclassification and disclosure changes

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

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| Note 40 sub note – 'Price risk' | As part of our testing of Investments, we identified that the comparative amount for the value of council's investment in CCLA local authority property fund was mistakenly understated by £10m in current year statement of accounts. | Adjust the disclosure figure as per prior year signed audited accounts. | ✓ |
| Related party transactions | Following challenges of management, as per ISA 550, we identified a related party that had not previously been disclosed for a member. The disclosure was omitted because management had incorrectly assumed that the Councillor's involvement with the other entity was as a result of their duties as a Councillor.<br>During 2020-21 works and services to the value of £0.708m (£0.763m in 2019-20) were commissioned from a company with which one member had an interest in. Note, contracts were entered into in full compliance with the Council's standing orders and there is no evidence there being an issue with conflicts of interest. | Management to update the Related Party Transactions note to include the £708k transactions between the Authority and the entity. | ✓ |
| Capital commitments | In accordance with Code of Practice, the Council must disclose contractual capital commitments as at the balance sheet date. This disclosure was omitted in the draft financial statements on the basis of materiality. Upon challenge, the value of contractual capital commitments exceeded the materiality threshold and so management have now included this disclosure in the financial statements. | Management to disclose the value of contractual capital commitments as at the balance sheet date | ✓ |



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# C. Audit Adjustments – misclassification and disclosure - continued

## Misclassification and disclosure changes

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

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| Related Party Transactions | As part of testing of Related party disclosures, we were informed that the figures for intercompany transactions are draft and will be revised by management once work on Group accounts is finalised and complete information is available from counterparties. The change is to reflect the figures based on the Group Accounts work and at the time for completing the single entity accounts the matching process had not been completed.<br><br>The significant change is the payments made to the Group and this related to the agency staff cost which were not picked up in the related party transaction listings run when completing the draft accounts.<br><br>Draft disclosure: 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)<br><br>Final disclosure: 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 £65.2m and £7.3m respectively (£55.6m and £8.6m respectively in 2019-20) | To update the accounts accordingly | ✓ |



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# D. Fees

We confirm below our final fees charged for the audit and provision of audit related and non-audit related services. We would also note that PSAA have made a distribution of £23,690 to support 2020/21 fees. MHCLG Have also agreed a further £15m to support the cost of audit fees in 20/21- albeit allocations yet to be determined.

| Audit fees | Proposed fee | Indicative Final fee |
|---|---|---|
| Council Audit | £191,432 | £191,432 |
| **Total audit fees (excluding VAT)** | **£191,432** | **£191,432** |



| Non-audit fees for other services | Proposed fee |
|---|---|
| **Audit Related Services** | |
| Teachers' pensions | 10,000 |
| Kent & Medway Active Sports Partnership* | 4,000 |
| Regional Growth Fund Assurance** | 100,000 |
| **Non-audit related** | |
| CFO insights | 12,500 |
| **Total non-audit fees (excluding VAT)** | **£126,500** |

*The Kent & Medway Active Sports Partnership is a separate entity although the fee is billed to the Council and recharged which is why it is not disclosed in the accounts as fees payable to the auditor in respect of other services.*

*** The Regional Growth Fund Assurance is subject to PSAA. In September 2021 PSAA approved the work to be carried out. The work is due to begin in October but we are reporting it here for transparency. The fee is not included in the 2020-21 accounts but if it the work does go ahead then it will be disclosed in the 2021-22 financial statements.*

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By: **Benjamin Watts – General Counsel**

To: Governance and Audit Committee – 30 November 2021

Subject: **External Audit – Draft Audit Findings Report 2020/21 – Kent Superannuation Fund**

Classification: Unrestricted

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

FOR DECISION

**Recommendations**

Members of the Governance and Audit Committee are recommended to agree the findings in the report:

**Benjamin Watts**
**General Counsel**

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# The Audit Findings Report for the Kent County Council Superannuation Fund

**Year ended 31 March 2021**

7 October 2021





# Contents

**Your key Grant Thornton team members are:**

**Paul Dossett**
Key Audit Partner
E: Paul.Dossett@uk.gt.com

**Matt Dean**
Senior Manager
E: Matt.Dean@uk.gt.com

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

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the Kent County Council Superannuation Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.



## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during June to September 2021. Our findings are summarised on pages 4 to 13. To date we have not identified any adjustments to the Pension Fund's reported financial position. We have identified some minor presentational issues which are documented in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Refer to Appendix D] or material changes to the financial statements, subject to the following outstanding matters;

- completion of our outstanding testing – refer to Page 4 for more details
- receipt of management representation letter {Refer to Appendix D}; and
- receipt and review of the Annual Report
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

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# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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



## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

No changes have been made to the approach set out in the Audit Plan issued on 23 April 2021.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in November 2021 (following the completion of the work on the main Accounts), following the Governance and Audit Committee meeting in October 2021, as detailed in Appendix C. These outstanding items include:

- completion of our outstanding testing in the following areas: Testing of the Fund's Direct Property
- completion of our internal review process
- receipt of management representation letter; and
- review of the final set of financial statements.

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# 2. Financial Statements

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality due to the Net Assets of the Fund changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for the Kent County Council Superannuation Fund.

| | Pension Fund Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 75,000,000 | Our Headline Materiality is based on the Net Assets of the Fund. Due to the considerable increase in the value from the prior year, we have revised this figure upwards ahead of the Final Accounts Audit. |
| Performance materiality | 52,500,000 | Performance Materiality is based on a percentage of the overall materiality. |
| Trivial matters | 3,750,000 | Triviality is based on a percentage of the overall materiality. |





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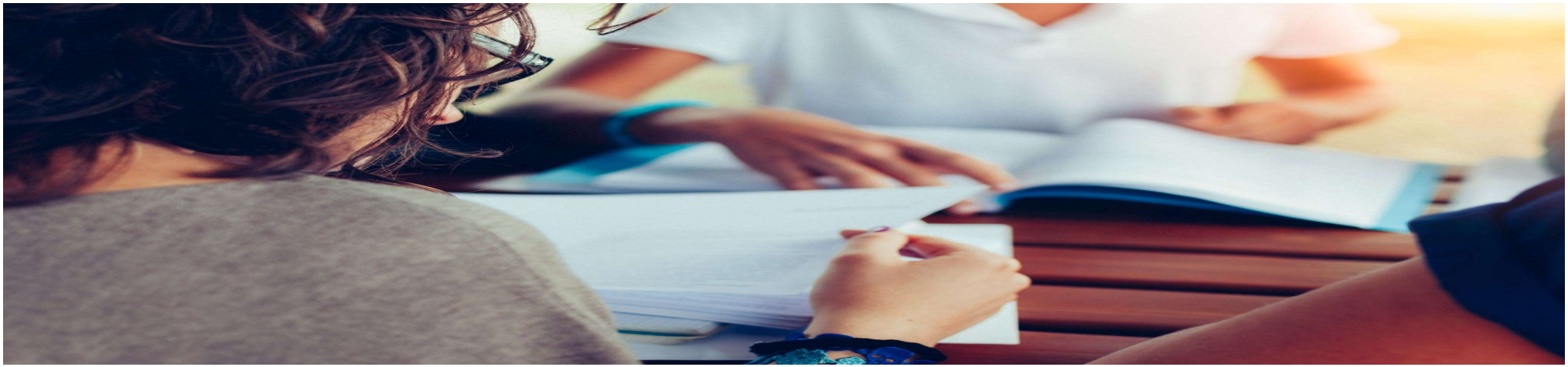
# 2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Management override of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.<br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | During the audit, we have undertaken the following work:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determine the criteria for selecting high risk unusual journals<br>• tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>No issues have been identified from the testing performed in this area. |





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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **The revenue cycle includes fraudulent transactions (rebutted)**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable<br>Therefore we do not consider this to be a significant risk for the Kent County Council Superannuation Fund. | During the audit, we have undertaken the following work:<br>• reviewed and tested the Fund's revenue recognition policies<br>• performed testing on material revenue streams<br>No issues have been identified from the testing performed in this area. |
| **The expenditure cycle includes fraudulent transactions (rebutted)**<br>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets.<br>Having considered the risk factors relevant to the Pension Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 6. | During the audit, we have undertaken the following work:<br>• obtained an understanding of the design effectiveness of controls relating to operating expenditure.<br>• performed testing over post-year end transactions to assess completeness of expenditure recognition.<br>• tested a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.<br>No issues have been identified from the testing performed in this area. |



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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of Directly Held Property (Level 2 Investment) (Annual Revaluation)**<br>The Fund revalues its directly held property on an annual basis, and indexed on a monthly basis with the relevant property sector index, to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br>Management have engaged the services of a valuer to estimate the current value as at December 2020.<br>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | During the audit, we have undertaken the following work:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work<br>• independently request year-end confirmations from investment managers and custodian, and assessed their responses as part of our work.<br>• evaluated the competence, capabilities and objectivity of the valuation expert<br>• written to the valuer to confirm the basis on which the valuations were carried out<br>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.<br>• tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records<br>• where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.<br>To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Governance and Audit Committee should any issues be identified from our remaining testing. |



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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of Level 3 Investments (Quarterly Revaluation)**<br>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.<br>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.<br>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | During the audit, we have undertaken the following work:<br>• evaluated management's processes for valuing Level 3 investments<br>• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met<br>• independently request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in the asset valuations<br>• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the Fund Manager reports at that date. We reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period; and<br>• in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert<br>• tested revaluations made during the year to see if they had been input correctly into the Pension Fund's Asset Register<br>• where available, reviewed investment manager service auditor reports on design effectiveness of internal controls; and<br>To date, we have identified an error with the Capital Commitments disclosed in the draft Accounts, which were found to be **£63.6 million** higher than were initially disclosed. However as this is just shown as a disclosure note to the Accounts, this has no impact on the Fund Account or Net Asset Statement.<br>No other issues have been identified from the testing performed in this area. |



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# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Level 2 Investments – Direct Property - £493 million** | The Pension Fund has investments in Direct Property that in total are valued on the Net Asset Statement as at 31 March 2021 at **£493 million**.<br>These properties are valued by a RICS Qualified Valuer as at December 2020. The Valuer is employed by the Fund Manager on behalf of the Fund to provide valuations in line with the CIPFA Code of Practice guidance in this area. | At the current date our work in this area is ongoing, which includes our Auditor's Expert reviewing the work of the Valuer to help provide us with assurance over the assumptions and judgements made in respect of these valuations as at 31 March 2021. | TBC |
| **Level 3 investments** | The Pension Fund has investments in Private Equity and Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2021 at **£282 million**.<br>These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2020, with the valuation then rolled forward to March 2021, considering any cash movements which have taken place in the intervening period. These are new investments for the Fund in 2020-21. | Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts.<br>We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. No issues have been identified from the work performed in this area. | ● Light Purple |



**Assessment**

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Level 2 Investments (excluding Direct Property) – £4,885 million** | The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2021 at **£4,885 million**.<br><br>Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2021, or the closest trade date to year end.<br><br>The valuation of these investments has increased by **£1,908 million** from their value at 31 March 2020 **(£2,977 million)**. Whilst there has been growth in the valuation as part of the recovery from the Pandemic, the Fund has also moved some of its Pooled Investments into Funds which are classified as Level 2 instead of the old Funds which were classified as Level 1. | • Based on the work performed, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts.<br><br>• We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area. | ● Light Purple |



**Assessment**

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# 2. Financial Statements - other communication requirements

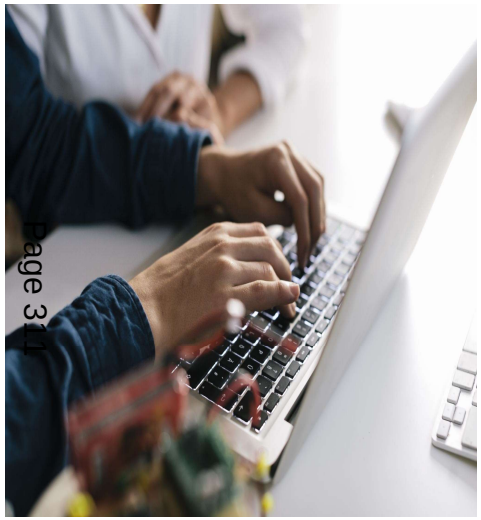
We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Commentary |
|---|---|
| **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed. |
| **Matters in relation to laws and regulations** | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| **Written representations** | A letter of representation has been requested from the Pension Fund, which is appended to this Report. |



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# 2. Financial Statements - other communication requirements





| Issue | Commentary |
|---|---|
| **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.<br>We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified. |
| **Accounting practices** | We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. |
| **Audit evidence and explanations/ significant difficulties** | The Fund produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management. |
| **Disclosures** | A handful of minor inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D. |
| **Matters on which we report by exception** | We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed. |

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# 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Issue | Commentary |
|---|---|
| **Going concern** | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Pension Fund and the environment in which it operates<br>• the Pension Fund's financial reporting framework<br>• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |



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# 3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)



## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit service was identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Provision of IAS 19 Assurances to Scheme Employer auditors | £11,000* (was £11,000 in 2019-20) | Self-Interest (because this is a recurring fee) | Fee is recurring but not significant compared to the audit of the financial statements, and is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing of controls undertaken as part of the audit.<br>The main self interest threat would arise if we reported weaknesses to the Pension Fund TCWG that they then put pressure on GT not to report to other auditors that are seeking to rely on the GT response for request for information. The safeguard to this would be to have a safeguarding partner review the AFR and request for information to confirm all matters where communicated. However we do not anticipate this to be an issue for our work at the Kent County Council Superannuation Fund. |

* We have estimated the cost being the same as in the prior year, however we will only know the final figure once all IAS 19 letters have been issued and the Audit Certificate has been issued.

These services are consistent with the Pension Fund's on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

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# Appendices

# A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



### Impact of adjusted and unadjusted misstatements

No adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

### Misclassification and disclosure changes

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

| Disclosure omission | Impact on the Accounts | Adjusted? |
|---|---|---|
| Note 25 – Capital Commitments | Our testing identified that the Fund had not included the full Capital Commitments figure in the Accounts for two of the Private Equity Funds, which meant the value was understated by **£63.6 million**. This has subsequently been updated in the revised Accounts. | ✓ |
| Note 23 – Additional Voluntary Contributions | The Fund has been unable to obtain updated AVC Values from one of their providers, Prudential, and has included a Note in the Accounts to reflect the issues being identified here. | ✓ |
| Note 17 – Valuation of Assets and Liabilities at Fair Value | A number of minor amendments have been made to Note 17 to enhance the transparency of the disclosures for the benefit of the reader of the Accounts. | ✓ |

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# B. Fees

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

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Pension Fund Audit | 41,000 | TBC |
| Total audit fees (excluding VAT) | £41,000 | TBC |

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services | | |
| Provision of IAS19 Assurances to Admitted and Scheduled Bodies | £11,000 | TBC |
| Total non-audit fees (excluding VAT) | £11,000 | TBC |

The fees reconcile to the financial statements – refer to Note 11 of the Pension Fund Accounts for confirmation of this.

It should be noted that the Pension Fund received a reimbursement of £4,340 in year from Public Sector Audit Appointments (PSAA) as part of their annual distribution of excess funds.

We are unable to confirm the total cost of our IAS19 Assurances as we have yet to receive letters from all of those bodies that we would expect to provide assurances to as part of this work. In respect of the costs of this work, we have proposed a similar pricing structure to previous years, with a charge of £2,500 for the required controls testing, and a fee of £550 per response.



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# C. Audit opinion

Our audit opinion is included below.

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

## Independent auditor's report to the members of Kent County Council on the pension fund financial statements of the Kent County Council Superannuation Fund

### Opinion

We have audited the financial statements of the Kent County Council Superannuation Fund (the 'Pension Fund') administered by Kent County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Corporate Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Corporate Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Corporate Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Finance



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# C. Audit opinion

Our audit opinion is included below.

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

and Those Charged with Governance for the financial statements' section of this report.

**Other information**

The Corporate Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

**Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance. The Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Corporate Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.



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# C. Audit opinion

Our audit opinion is included below.

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

The Governance and Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

• We enquired of senior officers and the Governance and Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- the journals posted by relevant officers during the course of the year, taking into account a range of different criteria to focus our testing on the most risky journals.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Corporate Director of Finance has in place to prevent and detect fraud;

- journal entry testing, with a focus on those journals that have been deemed risky via our assessment based on a range of criteria;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments; and



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# C. Audit opinion

Our audit opinion is included below.

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

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner

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

London

xx November 2021



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# D. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

xx November 2021

Dear Sirs

**Kent County Council Superannuation Fund**

**Financial Statements for the year ended 31 March 2021**

This representation letter is provided in connection with the audit of the financial statements of the Kent County Council Superannuation Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Level 3 Investments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Fund has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.



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# D. Management Letter of Representation

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xiv. We have communicated to you all deficiencies in internal control of which management is aware.

xv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xviii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xix. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xx. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.



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# D. Management Letter of Representation

Approval

The approval of this letter of representation was minuted by the Fund's Governance and Audit Committee at its meeting on 7 October 2021

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Signed on behalf of the Fund



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By: **Benjamin Watts – General Counsel**

To: Governance and Audit Committee – 30 November 2021

Subject: **External Audit – Draft Audit Findings Report 2020/21 – Kent Superannuation Fund**

Classification: Unrestricted

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

FOR DECISION

**Recommendations**

Members of the Governance and Audit Committee are recommended to agree the findings in the report:

**Benjamin Watts**
**General Counsel**

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# FRC Report on Local Audit

## November 2021





# Background

- On 29 October 2021, the FRC published its annual report summarises the results of its audit file review for the last financial year.
- Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as ‘major audits’ which fall within the scope of the AQR.
- This year, the FRC looked at nine of our audits.



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# Our results since 2018/19

| Grant Thornton UK AQR results – Local Audit – Opinion work | | | |
|---|---|---|---|
| Grade | Number 2018/19 | Number 2019/20 | Number 2020/21 |
| Good with limited improvements (Grade 1 or 2) | 1 | 1 | 6 |
| Improvements required (Grade 3) | 2 | 5 | 3 |
| Significant improvements required (Grade 4) | 1 | 0 | 0 |
| Total | 4 | 6 | 9 |



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# The FRC's overall judgement

The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.'

Our Value for Money work also continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement.

We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.



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# Good practices identified

The FRC  identified a number of good practices in our work including:

- effective challenge of management's valuer
- use of an auditor's expert to assist with the audit of a highly specialised property valuation
- the extent and timing of involvement by the audit partner on the VFM conclusion.

Our Value for Money work also continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement.



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# Kent Council and Pension  Fund FRC Review

The FRC  identified a small number of issues in respect our work in respect of Kent County which we need to address in future years:

- Effective challenge of management's valuer in respect of the Council's Investment Properties ( a small part of your overall property portfolio)
- Effective challenge of management's assessment of the obsolescence of investment property
- Ensuring that the Council do a robust assessment of credit loss allowances in respect of non statutory debt
- .Ensuring a clear link between the Council's corporate risk strategy  and our approach to Value for Money audit.

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# Our continued commitment to quality

We remain committed to the delivery of high quality audit work.

Over the coming year we will:

- make further investments in our quality and technical support functions
- increase the level of training, support and guidance for our audit teams.

We will also address the specific recommendations raised by the FRC, including:

- enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- formalising our arrangements for the consideration of complex technical issues by Partner Panels.



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# Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it.

As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds. This is very much illustrated by our Public Interest reports at Nottingham and Croydon and our statutory recommendations at Thanet and Slough.



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

To: Governance and Audit Committee – 30 November 2021

Subject: **Kent Pension Fund Auditor Risk Assessment**

Classification: Unrestricted

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**Summary:** The attached report from Grant Thornton sets out a range of questions and management's responses to those questions on the Pension Fund's processes in relation to general enquiries of management, fraud, law and regulations, going concern, related parties and accounting estimate.

**FOR DECISION**

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## Introduction

1. Under International Standards on Auditing (UK and Ireland) (ISA(UK&I) the auditor has specific responsibilities to communicate with the Governance and Audit Committee (the Committee) enabling the auditor to obtain information relevant to the audit from the Committee and to support the Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Purpose of Report

2. As part of Grant Thornton's risk assessment procedures they are required to obtain an understanding of management processes and the Committee's oversight of the following areas in relation to the Kent Pension Fund:
    - General Enquiries of Management
    - Fraud
    - Laws and regulations
    - Going concern
    - Related Parties
    - Accounting Estimates

3. The attached report includes a series of questions on each of these areas and the response we have provided to Grant Thornton. Although incorporated into a Grant Thornton report and layout, these are responses from Pension Fund management.

4. The Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

**Recommendation**

5. Members are asked to consider and agree the management responses provided to Grant Thornton.

Alison Mings, Acting Business Partner – Kent Pension Fund

**T: 03000 416488**

**E: Alison.mings@kent.gov.uk**

**September 2021**

# Informing the audit risk assessment for Kent County Council Pension Fund 2020/21



**Name: Parris Williams**
Title: **Senior Manager, Audit**

T: **+44 (0)20 7383 5100**
E: parris.Williams@uk.gt.com

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

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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between Kent County Council Pension Fund's external auditors and Kent County Council Pension Fund's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.



## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

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# Purpose

This report includes a series of questions on each of these areas and the response we have received from Kent County Council Pension Fund's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.



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# General Enquiries of Management

| Question | Management response |
|---|---|
| 1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21? | Implementation of the Equity Protection Programme managed by Insight |
| 2. Have you considered the appropriateness of the accounting policies adopted by Kent County Council Pension Fund?<br>Have there been any events or transactions that may cause you to change or adopt new accounting policies? | The Equity Protection programme is a new type of investment and will require appropriate accounting policies |
| 3. Is there any use of financial instruments, including derivatives? | All the investments made by the Pension Fund except directly held property assets are classified as Financial Instruments. These include derivatives |
| 4. Are you aware of any significant transaction outside the normal course of business? | No |



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# General Enquiries of Management

| Question | Management response |
|---|---|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? | All of the Fund's non current assets are held at market value and there is no impairment required |
| 6. Are you aware of any guarantee contracts? | The pension Fund holds Bonds issued by financial institutions on behalf of admission employers . There are no other guarantee contracts |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? | No |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by Kent County Council Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years? | The Council has used Squire Patton Boggs to obtain advice on investment issues and regulatory queries, and Invicta Law to advise on employer admission and regulatory matters. DTZ who manage the Council's owned properties have used Invicta Law and other 3rd parties for legal advice<br>Currently there is no open litigation or contingencies from prior years. |



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# General Enquiries of Management

| Question | Management response |
|---|---|
| 9. Have any of the Kent County Council Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? | No |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | Mercer provide investment advice to the Pension Fund on an ongoing basis. Barnett Waddingham has been engaged to undertake a review of the governance of the Pension Fund and KCC Finance support to the Fund. |



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# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Kent County Council Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.



As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Kent County Council Pension Fund's 's management.

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# Fraud risk assessment

| Question | Management response |
|---|---|
| 1. Have Kent County Council Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?<br><br>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?<br><br>How do the pension fund's risk management processes link to financial reporting? | Yes and we believe the risk of fraud is very low both with regard to external as well as internal fraud.<br><br>We have procedures in place for the process of investing / divesting from fund managers who also issue internal control reports. We regularly review our processes and procedures and internal audit also undertake audits<br>With regard to internal fraud officers comply with KCC protocols to assess and identify fraud. In particular they comply with KCC policies and procedures with regard to payment / procurement processes and IT security. Segregation of duties, several stages of review for payments<br><br>Pension payment fraud is managed through ATMOS, Tell us once and NFI, who review the records against the registry of deaths etc. to identify fraudulent continuing claims for benefits. No significant issues noted in this regard. |
| 2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud? | See above |



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# Fraud risk assessment

| Question | Management response |
|---|---|
| 3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kent County Council Pension Fund as a whole or within specific departments since 1 April 2020?<br>As a management team, how do you communicate risk issues (including fraud) to those charged with governance? | No<br>A copy of the risk register is reported to every meeting of the Pension Board and to the Superannuation Fund committee. |
| 4. Have you identified any specific fraud risks?<br><br>Do you have any concerns there are areas that are at risk of fraud?<br><br>Are there particular locations within Kent County Council Pension Fund where fraud is more likely to occur? | The risk register includes:<br><br>In-house treasury management risks – use of counterparties, separation of duties, sufficient cover for tasks.<br><br>Fraudulent payments to deceased pensioners. ATMOS, Tell us once and NFI used to monitor these payments.<br><br>Non payment by employers of pension contributions, continuous monitoring of monthly receipts and follow tPR guidelines.<br><br>There are no locations where fraud is more likely. |
| 5. What processes do Kent County Council Pension Fund have in place to identify and respond to risks of fraud? | See answer to 4 above |



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# Fraud risk assessment

| Question | Management response |
|---|---|
| 6. How do you assess the overall control environment for Kent County Council Pension Fund, including:<br>• the existence of internal controls, including segregation of duties; and<br>• the process for reviewing the effectiveness the system of internal control?<br><br>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?<br><br>What other controls are in place to help prevent, deter or detect fraud?<br><br>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? | Each year an annual audit plan is developed that takes into account the risks to the Council. Internal Audit carry out a periodic review of Pension Fund risks.<br><br>Ensure all investment transactions authorised and that there is separation of duties where appropriate eg re settlement of investment commitments. All reconciliations reviewed by a separate officer.<br><br>Established ongoing monitoring of employer and employee payments, quarterly reporting to the board and committee.<br><br>KCC controls re procurement / payment processes<br><br>No pressure from the S151 officer, committee or board to achieve financial targets and for the override of controls. |
| 7. Are there any areas where there is potential for misreporting? | Not that we are aware of |



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# Fraud risk assessment

| Question | Management response |
|---|---|
| 8. How do Kent County Council Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?<br><br>How do you encourage staff to report their concerns about fraud?<br><br>What concerns are staff expected to report about fraud?<br>Have any significant issues been reported? | Officers engaged on the pension Fund are employees of Kent County Council. They are expected to comply with KCC standards and follow KCC policies and use the KCC e-learning modules.<br><br>There are KCC standards which include the Nolan principles, staff code of conduct, Anti-Fraud and Corruption Strategy and Anti Bribery Policy. There is e-learning provided to support the prevention and detection for fraud. There is a whilst blowing policy which encourages staff to report there concerns, the Counter Fraud Team is included in this policy as an alternative to raising concerns with management. As part of Fraud Awareness presentations whistleblowing is covered, through the Counter Fraud Culture work staff are engage with to asses how confident they are in raising concerns with management, counter fraud or external sources, this is then fed back to management with advice and support on how to raise, if needed, the trust in staff to raise concerns.<br>Staff are expected to raise all financial irregularities with Internal Audit. |
| 9. From a fraud and corruption perspective, what are considered to be high-risk posts?<br><br>How are the risks relating to these posts identified, assessed and managed? | Currently the S151 officer has delegated authority to spend up to £1m without member decisions, these posts are considered high risk due to no separation of duty being required however in practice they work with the Chair of the Committee implementing committee decisions. There is an enhanced vetting process in place when recruiting into a KR16 and above, this ensures that<br>not only the information provided on the application form is correct, but also ensures there are no financial or reputational risks to the authority.<br>Furthermore through the development of the fraud, bribery and corruption risk assessment, further areas of high risk will be identified with relevant controls being identified to mitigate the risk, for example regular reminders on declarations of interest, budget monitoring, separation of duties, rotation of duties<br><br>Internal controls in place, staff expected to follow KCC policies and guidelines. Segregation of duties |
| 10. Are you aware of any related party relationships or transactions that could give rise to instances of | No |

# Fraud risk assessment

| Question | Management response |
|---|---|
| 11. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?<br>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?<br>What has been the outcome of these arrangements so far this year? | A Counter Fraud Report is produced to the Governance and Audit Report at each meeting. This includes issues and risks identified during the reported period. |
| 12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response? | KCC has a whistle blowing policy and no complaints reported. |
| 13. Have any reports been made under the Bribery Act? | None |



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# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact  of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that Kent County Council Pension Fund's 's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make enquiries of management and the Governance and Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.



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# Impact of laws and regulations

| Question | Management response |
|---|---|
| 1. How does management gain assurance that all relevant laws and regulations have been complied with?<br><br>What arrangements does Kent County Council Pension Fund have in place to prevent and detect non-compliance with laws and regulations?<br>Are you aware of any changes to the pension fund's regulatory environment that may have a significant impact on the pension fund's financial statements? | Consideration of communication from the LGA, MHCLG, Scheme Advisory Board, the Fund actuary – Barnett Waddingham, and investment consultant – Mercer. The Pensions Regulator (tPR), Pensions Ombudsman, Internal Dispute Resolution Procedure (IDRP). CIPFA<br><br>Staff and member training programme eg re the Pensions Regulator code of Practice 14. report non compliance to tPR. An annual report on training is provided to the Committee and Board<br><br>Management are not aware of any changes. |
| 2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with? | Reporting to the Pensions Board and Committee who are responsible for governance<br><br>Any issues would be highlighted by internal audit in their progress reports to GAC |
| 3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements? | None |
| 4. Is there any actual or potential litigation or claims that would affect the financial statements? | None |



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# Impact of laws and regulations

| Question | Management response |
|---|---|
| 5. What arrangements does Kent County Council Pension Fund have in place to identify, evaluate and account for litigation or claims? | The Business Partner liaises with the Pensions Admin manager to identify and account for issues. |
| 6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | None. |



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# Related Parties

## Issue

### Matters in relation to Related Parties

Kent County Council Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Kent County Council Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the pension fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the pension fund, or of any entity that is a related party of the pension fund .

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the pension fund 's perspective but material from a related party viewpoint then the pension fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



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# Related Parties

| Question | Management response |
|---|---|
| 1. Have there been any changes in the related parties including those disclosed in Kent County Council Pension Fund's 2019/20 financial statements?<br>If so please summarise:<br>• the nature of the relationship between these related parties and Kent County Council Pension Fund<br>whether Kent County Council Pension Fund has entered into or plans to enter into any transactions with these related parties<br>the type and purpose of these transactions | None |
| 2. What controls does Kent County Council Pension Fund have in place to identify, account for and disclose related party transactions and relationships? | KCC procedures, declarations of interest updated annually |
| 3. What controls are in place to authorise and approve significant transactions and arrangements with related parties? | All such transactions and arrangements require authorisation by senior KCC officers in line with the KCC procedures. Normal KCC procurement and payment procedures apply. |
| 4. What controls are in place to authorise and approve significant transactions outside of the normal course of business? | All controls on the authorisation of such transactions are in line with the KCC procedures |

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

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

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

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

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.



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# Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|---|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | Significant estimates relate to the levels 2 and 3 investments, primarily property investments and Private Equity and Infrastructure Funds.<br>Estimates are also required in calculation of actuarial pension fund liability |
| 2. How does the pension fund's risk management process identify and addresses risks relating to accounting estimates? | Having identified the areas of significant estimation involved, management ensures that ~~the~~ they employ the services of regulated and certified experts that are best placed to undertake the estimation following guidance, regulations and best practice.<br>Property Valuation is undertaken by independent valuer (Colliers) and these are validated by the property manager DTZ.. Private Equity and Infrastructure Funds are valued by the Fund Managers in accordance with the applicable accounting standards and laws. Internal control reports provided by these managers provide assurance on the controls on valuations in their organisation to ensure that risk related to estimates is mitigated.<br>Pension fund liability estimates are calculated by the Actuary based on actuarial standards and LGPS regulations. The Government Actuary's Department is currently undertaking a review of the 2019 actuarial valuation. |
| 3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | Quarterly reporting provided by investment managers details the methodology of valuations as well as the breakdown of assets that make up the valuations. It also highlights changes in movements in the valuations as well as the factors behind the changes. This would include adjustments for the underlying market conditions as well as the business model and prospects for the underlying investments. This helps the fund to assess the reasonableness of the valuation which often in these cases includes estimation. |
| 4. How do management review the outcomes of previous accounting estimates? | The outcomes of estimated valuations get validated when underlying assets are sold and the valuations are realised or if there is a sudden write down/adjustment required for valuation of assets. The information provided by fund managers in their quarterly reporting, enables the fund to assess the soundness of the estimation and valuation process employed by the managers. Any large unexpected variations in valuations or realised value will trigger an enquiry and review. |

# Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|---|
| 6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates? | Management are aware of the specialist nature of investment or liability to determine the need to apply specialised skills or knowledge related to accounting estimates |
| 7. How does the pension fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | The level of controls required for specialist services are often dictated by professional standards and overseen by professional bodies which the service provider is expected to be members of. Management can rely on the service providers' accreditation from such professional bodies.<br><br>Additionally management takes advice from its investment consultants who carry out the due diligence in respect of the activities of the service provider |
| 8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | Service providers are required to produce control reports that provide independent assurance of the operation of these controls. |
| 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:<br>- Management's process for making significant accounting estimates<br>- The methods and models used<br>- The resultant accounting estimates included in the financial statements. | Review undertaken by Senior management re oversight and governance. The Committee also plays a significant role in terms of oversight etc. |

# Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|---|
| 10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? | No |
| 11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable? | Yes |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ? | Review by senior management |



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# Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---|---|---|---|---|---|
| Valuation of level 3 investments | Replacement cost or Market approach depending upon stage of direct investments and applying discounts or fair value approach for partnerships | Free Cash Flows, EBITDA ,entry level valuation Developments in markets, private transactions | Management relies on information provided by fund managers who employ experts | These are separate for each underlying investments depending upon the business and applicable sector and wider market conditions | No |
| Valuation of Pension Liabilities | Per Barnett Waddingham IAS26 | Per Barnett Waddingham IAS26 | Fund actuary Barnett Waddingham | Per IAS26 | No |
| Valuation of property and pooled property investments | RICS valuation – global standards prepared by the royal Institute of Chartered Surveyors | Considerations of acquisitions and disposals, inspections, tenure floor areas and lettings, market conditions etc | Yes- registered under the RICS valuer Registration Scheme | These are separate for each asset in the portfolio depending upon the asset, and applicable sector and wider market conditions | No |

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|---|---|
| **By**: | Amanda Beer – Corporate Director - People and Communications |
| **To**: | Governance and Audit Committee |
| **Date**: | 7th October 2021 |
| **Subject**: | KCC Annual Customer Feedback Report 2020/21 |
| **Classification**: | Unrestricted |


| | |
|---|---|
| **Summary**: | This report provides a summary of the compliments, comments and complaints recorded by the Council. The report includes statistics relating to customer feedback received by the Council and a sample of complaints considered by the Ombudsman. |
| **Recommendation**: | The Committee is asked to note the contents of this report for assurance. |


## 1. Introduction

1.1 This is the Council's eleventh annual report on compliments, comments and complaints. This year has been turbulent with 3 lockdowns in Kent and the majority of the workforce moving to homeworking, although many of those delivering our front line services continued to work in the community. Customer feedback has seen the impact of Covid-19 onvolumes, which initially slowed down as the public got to grips with the first lockdown; but following the lifting of restrictions the numbers of complaints and feedback grew exponentially.

1.2 Overall complaints volumes are down slightly this year but the themes and topics reflected the year and the decisions that had to be made in light of the restrictions. This report will reflect on the feedback received during the Council's and nation's response to the pandemic.

1.3 For the purposes of this report customer feedback only relates to those comments, compliments and complaints received from members of the public and our external customers. It does not include internal feedback between departments or contractors.

## 2. Progress in refining practices within KCC

2.1 The customer feedback system has been in place for over 3 years, enabling us to breakdown data easily, understand trends and react to evolving issues.

2.2 We are seeing an increase in customers raising their concerns directly with us using our online form representing a good upwards trend in digital participation.

2.3 This year training has been focused on equipping staff in the Special Educational Needs (SEN) department, following the Ofsted report, with the tools to confidently

respond to customers.This included covering customer service skills, example responses and tips for dealing with difficult customers.

2.4 Next year's training will focus on investigation training and responding to the Ombudsman. The guidance is intended to impress upon managers the seriousness of an investigation and the expectations of both KCC and the LGSCO in forming our responses. This is in its final stages of development and should be rolled out in the Autumn.

2.5 The Customer Feedback Forum meets monthly to discuss best practice, performance and system developments. This group increased the frequency of meetings during the pandemic to assist each other with changes to the Customer Feedback Policy, discuss Ombudsman requirements and approaches to contacting customers regarding service changes.

## 3. Overview of Customer Feedback Received

3.1 A compliment is an expression of thanks or congratulations or any other positive remark. (Internal compliments are excluded from this process).

3.2 A comment is a general statement about policies, practices or a service as a whole, which has an impact on everyone and not just one individual. A comment can be positive or negative in nature. Comments may question policies and practices, make suggestions for new services or for improving existing services.

3.3 A complaint is an expression of dissatisfaction, whether justified or not and however made, about the standard or the delivery of a service, the actions or lack of action by the Council or its staff which affects an individual service user or group of users. This is consistent with the definitions used by other local authorities.

3.4 The following table gives an overview of the feedback received by KCC as a whole compared with the previous year.

**Table 1** – Feedback received by KCC compared with previous year

| Year | Complaints (Stage 1) | Comment | Compliments | Local Government and Social Care Ombudsman complaints |
|---|---|---|---|---|
| **2020/21** | **5375** | **571** | **1351** | **152** |
| 2019/20 | 5866 | 480 | 1324 | 218 |
| Difference | -496 | 91 | 27 | -66 |
| % difference | -8% | 19% | 2% | -30% |

3.5 We saw a decrease in the volumes of cases in 2020/21 which reflects a quiet start to quarter one when the country was in lockdown. The nature of complaints and

comments received during the pandemic, were in many cases different to previous years reflecting the decisions that needed to be made at the time. This has made it difficult to draw direct comparisons to previous years. Across all case types we received 1,594 pieces of feedback that mentioned Covid.

3.6 It is also important to note that customers also complimented the Council and its employees for work carried out during this time. This included keeping services running, going above and beyond to help and for its response to the pandemic for example the establishment of Kent Together and local testing sites, offering vouchers for those who receive Free School Meals in the holidays and the click and collect service in Libraries.

**Table 2 -** Cases received at stages 1 (local resolution)

| Stage 1 | Adults Social Care and Health | Children Young People and Education | Growth Environment and Transport | Strategic and Corporate Services (including Public Health) | Total |
|---|---|---|---|---|---|
| **2020/21** | **754** | **867** | **3585** | **169** | **5375** |
| 2019/20 | 1092 | 1044 | 3611 | 119 | **5866** |
| Difference | -338 | -180 | -29 | 52 | **-495** |
| % difference | -31% | -17% | -1% | 44% | **-8%** |

3.7 Due to Covid restrictions and regulations, there were a number of changes to the way in which services were delivered during the pandemic. This included closure of services, partial opening of services, advanced booking, the introduction of pilot schemes or new services, as well as refunds or goodwill payments for services not delivered. This resulted in feedback to the Council both in complaints but also in comments from customers who wanted to suggest alternative ways of providing services for example Free School Meals or Active Travel.

3.8 Within Growth, Environment and Transport (GET), some services within Environment, Planning and Enforcement saw an increase on last years figures, these were largely due to Country Parks with regards to parking charges for passholders during the pandemic and for Public Rights of Way due to vegetation growth and accessibility of paths.

3.9 Adult Social Care and Health (ASCH), saw a decrease last year after a significant increase in 2019/20 due to the changes in eligibility for the Blue Badge scheme and subsequent backlogs, this is now beginning to settle down resulting in fewer complaints about that service.

3.10 Whilst Children, Young People and Education (CYPE) saw a reduction in complaints overall, Specialist Children's Services saw an increase in volumes. This figure also

includes Special Educational Needs (SEN) cases, there was an expected increase in feedback following the SEN Ofsted inspection. These complaints tend to be more complex in nature.

3.11 All directorates bar Strategic and Corporate Services (SCS) saw a decrease in the number of complaints received. The increase in SCS is largely attributed to Public Health. This service is responsible for the Council's response to Covid with regards to operating local asymptomatic testing sites, applying National Government guidance locally including communications and in some cases enforcement.

3.12 Overall we have seen a 8% decrease in the number of complaints received at stage one. A breakdown of complaints received by division/service can be found in Appendix A.

**Table 3 – Feedback received at Stage 2 compared with the previous year**

| Stage 2 | Adults Social Care and Health | Children Young People and Education | Growth Environment and Transport | Strategic and Corporate Services |
|---|---|---|---|---|
| **2020/21** | **1** | **125** | **150** | **23** |
| 2019/20 | 2 | 158 | 86 | 9 |
| Difference | -1 | -33 | 64 | 14 |
| % difference | -50% | -21% | 74% | 156% |

*ASCH operate a 2-stage process with the Local Government Ombudsman acting as the second stage

3.13 We have seen a significant increase in complaints escalating to stage 2 within the GET and SCS Directorates, however this is largely due to services using the complaints procedure where conversations with customers have resulted in on going correspondence despite a response being provided previously.

3.14 Cases closed by Directorate at Stage 1

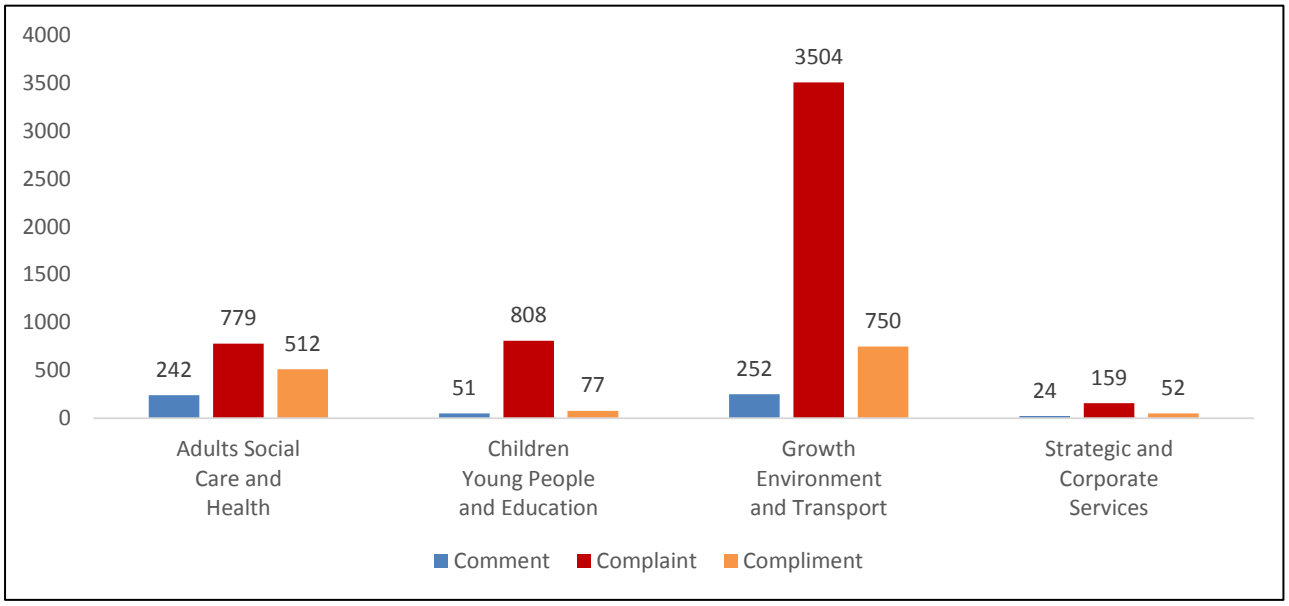
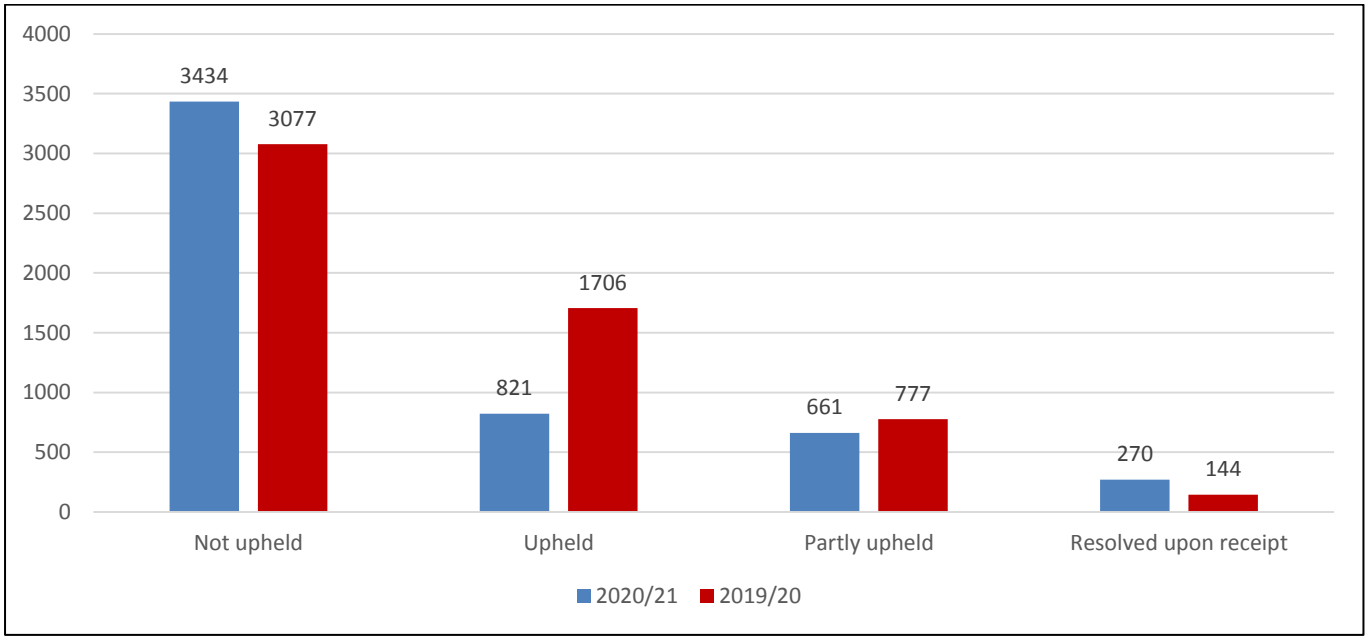



**Table 4 -** Cases closed by Directorate at Stage 1

| | Comment | Complaint | Compliment | Total |
|---|---|---|---|---|
| Adults Social Care and Health | 242 | 779 | 512 | 1533 |
| Children Young People and Education | 51 | 808 | 77 | 936 |
| Growth Environment and Transport | 252 | 3504 | 750 | 4506 |
| Strategic and Corporate Services | 24 | 159 | 52 | 235 |
| **Total for 2020/21** | **569** | **5250** | **1391** | **6968** |
| Total for 2019/20 | 471 | 5844 | 1254 | 7569 |
| Difference | 98 | -594 | 137 | -601 |
| % Difference | 21% | -10% | 11% | -8% |

## 3.15 Case outcomes at Stage 1*




*Number of cases closed will not equal the number received

**Table 5 – Stage one - cases not upheld, upheld, partly upheld and resolved upon receipt**

| Stage 1 | Not upheld | Upheld | Partly upheld | Resolved upon receipt |
|---|---|---|---|---|
| **2020/21** | **3434** | **821** | **661** | **270** |
| **%** | **66%** | **16%** | **13%** | **5%** |
| 2019/20 | 3077 | 1706 | 777 | 144 |
| % | 54% | 30% | 14% | 2% |

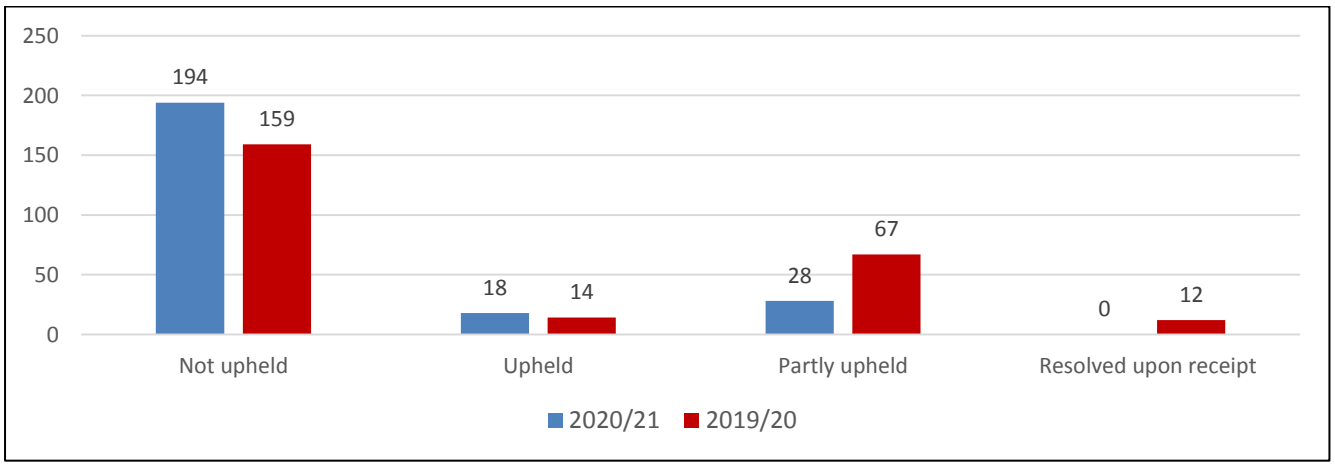
3.16 16% of cases were upheld this year, compared with 30% the previous year at stage one. This decrease can largely be attributed to customers disagreeing with policy changes or encountering issues with a service as a result of Covid beyond our control i.e. Household Recycling and Waste site bookings and provision of school meal vouchers during holidays.

3.17 An example of a not upheld and partially upheld case.

A customer disagrees with a decision the Council has made, an example this year, includes implementing a booking system for Household Recycling and Waste sites.

This was a policy decision taken in light of the necessary restrictions at the time. If however, a customer also has issues booking a slot online or whilst on site they have cause to complain about staff behaviour, this will be investigated and responded to accordingly. If fault is found these cases are likely to be partially upheld, as their policy complaint is not upheld but their additional complaints are upheld.

3.18 Case outcomes at Stage 2*




*Number of cases closed will not equal the number received

**Table 6 – Stage two – Not upheld, upheld, partly upheld, resolved upon receipt**

| Stage 2 | Not upheld | Upheld | Partly upheld | Resolved upon receipt |
|---|---|---|---|---|
| **2020/21** | **194** | **18** | **28** | **0** |
| **%** | **81%** | **8%** | **12%** | **0%** |
| 2019/20 | 159 | 14 | 67 | 12 |
| % | 63% | 6% | 26% | 5% |

3.19 8% of cases were upheld this year compared with 6% the previous year at stage two. There is an decrease in the number of those partly upheld, where there are some areas of fault identified on the Council in the complaints raised but not in all the issues raised.

3.20 Table 7 below tracks the other types of feedback received by the Council including Member and MP enquiries and informal concerns compared with the previous year. Enquiries include Ask a Kent Librarian service requests which account for a significant proportion of the volumes received below.

**Table 7 –** Volumes received for other types of feedback.

| | Member/MP enquiry | Enquiry (includes Ask a Kent Librarian) | Informal Concerns | Representation |
|---|---|---|---|---|
| **2020/21** | **1216** | **16708** | **242** | **3** |
| 2019/20 | 1035 | 14424 | 234 | 3 |
| Difference | 181 | 2284 | 8 | 0 |

3.21 The increase in Member/MP enquiries is closer to expected volumes, following the decrease last year when work was carried out to ensure that Member Enquiries, where the source is from an MP or a Council Member, are logged appropriately.

3.22 A representation is a procedure for cases where a complainant wishes to complain about something eligible for progression through the statutory Children Act complaints procedure, but there is something else in progress which prevents them from having it accepted. This would include a Section 47 child protection enquiries, legal proceedings, a Child and Family Assessment, Tribunal, disciplinary etc.

**Table 8 -** Reasons for complaints this year

**Full breakdown for 2019/20***

| Year | Break-down | Communications or Information | Equalities & regulatory | Not for KCC | Policy and procedure | Service failure | Service Quality | Staff Conduct cause | Value for money | Impact of major incident | Issues with service | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **20-21** | **Total** | **785** | **265** | **92** | **1392** | **51** | **25** | **285** | **97** | **283** | **2079** | **5354** |
| | **% of total complaints** | **15%** | **5%** | **2%** | **26%** | **1%** | **>1%** | **5%** | **2%** | **5%** | **39%** | |
| 19-20 | Total | 826 | 81 | 63 | 929 | 2158 | 1263 | 520 | 270 | | | 6110 |
| | % of total complaints | 14% | 1% | 1% | 15% | 35% | 21% | 9% | 4% | | | |

*Some cases will have more than one reason for the complaint

3.21 'Service failure' was recatecogrised following feedback from Audit in 2020, staff felt 'failure' was subjective. The majority of those that were categorised under 'service failure' are now logged under 'issues with service', this has allowed us to drill down into the data to provide greater insight into the issues raised (these are examined in table 10). During the pandemic it was also decided that a new category 'impact of major incident' should be added.

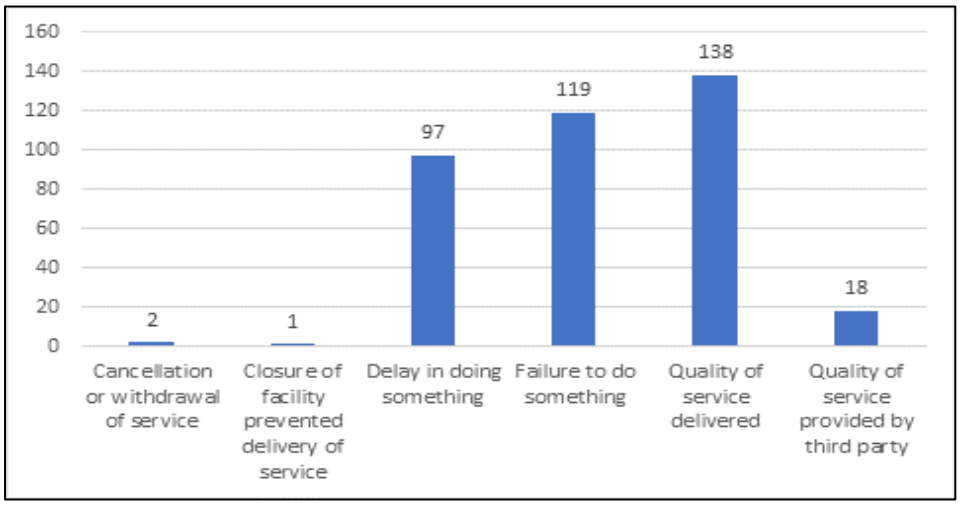
3.22 Policy and procedure saw an increase largely due to the changes to services and access to those services during Covid. This includes booking to access Household Waste and Recycling Sites, goodwill payments for freedom passes and implementation of temporary cycle lanes through the Active Travel scheme.

**Table 9** – Breakdown of reasons for upheld* complaints by Directorate Stage one and two**

| Complaint reason | Adults Social Care Services & Health | Children Young People & Education | Growth Environment & Transport | Strategic & Corporate Services | Total | % |
|---|---|---|---|---|---|---|
| **Communications or Information** | 51 | 33 | 63 | 16 | **163** | 19% |
| **Equalities & regulatory** | 2 | 9 | 29 | 1 | **41** | 5% |
| **Policy and procedure** | 63 | 20 | 83 | 0 | **166** | 19% |
| **Service failiure** | 4 | 1 | 2 | 0 | **7** | 1% |
| **Staff Conduct cause** | 7 | 8 | 36 | 5 | **56** | 7% |
| **Value for money** | 4 | 0 | 14 | 0 | **18** | 2% |
| **Impact of major incident** | 4 | 2 | 30 | 2 | **38** | 4% |
| **Issues with service** | 62 | 107 | 183 | 20 | **372** | 43% |
| **Total** | **197** | **180** | **440** | **44** | **861** | |
| **%** | 23% | 21% | 51% | 5% | | |

*table only includes upheld complaints and not those partially upheld
**some complaints will have multiple reasons as to why they were upheld

**Table 10 – Breakdown of 'Issues with Service' category where complaint was 'upheld'**




| | Adults Social Care Services and Health | Children Young People and Education | Growth Environment and Transport | Strategic and Corporate Services | Total | % of total |
|---|---|---|---|---|---|---|
| Cancellation or withdrawal of service | | | 1 | 1 | 2 | 1% |
| Closure of facility prevented delivery of service | | | 1 | | 1 | 0% |
| Delay in doing something | 17 | 54 | 23 | 3 | 97 | 26% |
| Failure to do something | 21 | 35 | 53 | 10 | 119 | 32% |
| Quality of service delivered | 12 | 20 | 102 | 4 | 138 | 37% |
| Quality of service provided by third party | 13 | | 3 | 2 | 18 | 5% |
| **Total** | **63** | **109** | **183** | **20** | **375** | |
| % | 17 | 29 | 49 | 5 | | |

Of those upheld under the category ‘Issues with Service”

- Adult Social care reasons cited were delays in carrying out an assessment. Financial/Needs/Carer,or that services were not provided or provided late.
- Children, Young People and Education reasons include delays including in receiving Education, Health and Care Plans (EHCP) and arranging home to school transport.
- In Growth, Environment and Education reasons for complaints included cleanliness and help at Household Waste and Recycling Centres and quality of repairs made to highways.

## 4. Compliance with standards

4.1 KCC is committed to acknowledging any complaints received within 3 working days and to provide the customer with a response within 20 working days. As a whole KCC **responded to 82%** of complaints within corporate timescales which compares to **85%** the previous year.

4.2 This year services struggled with meeting deadlines for handling complaints within timescales. Quarter 3 saw a significant dip in performance with only 78% responded to within timeframe, the standard is 85%.

4.3 Whilst we saw a decrease in complaints from April to June during the first lockdown, services saw a significant increase in complaints being received from September. During this third quarter, Kent was placed in Tier 4; resources were stretched partly due to the complexity of cases but also due to staff availability either through sickness or frontline demands.

4.4 A temprorary complaints policy was put in place during the first initial lockdown and was reinstated again in January following the announcement of an additional lockdown. This suspended the 20-working day target, enabled work to be triaged, put on hold or to complete a complaint in one stage. Staff were reminded of the importance of keeping customers up to date with their complaint regardless of the extended timescales.

**Table 11** - Delay reasons

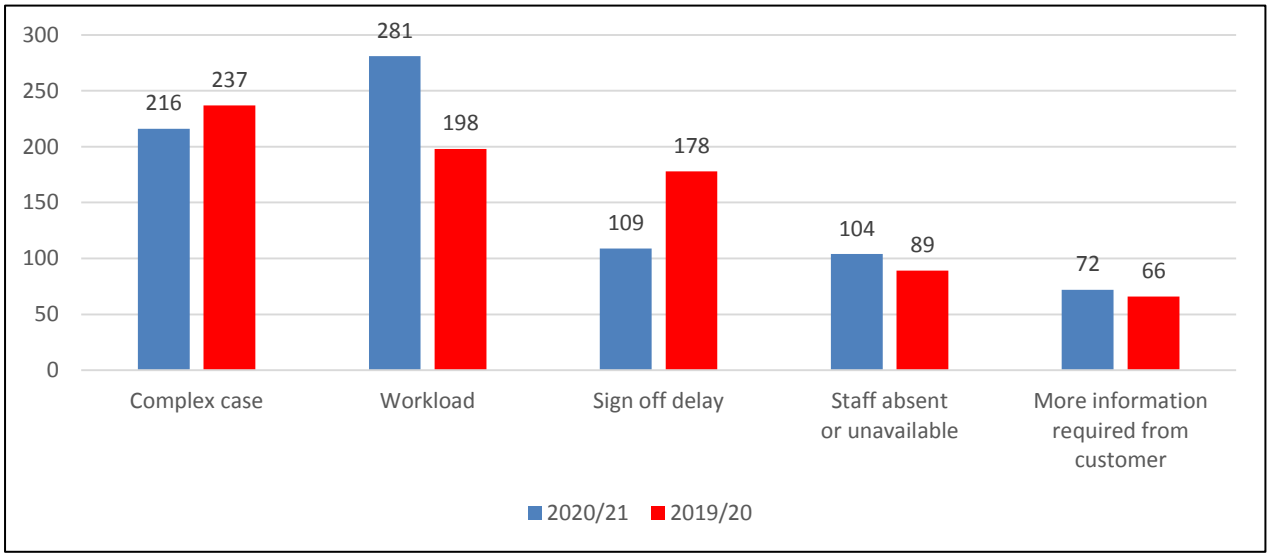



**Table 12** - Top five overall delay reasons

| | Complex case | Workload | Sign off delay | Staff absent or unavailable | More information required from customer |
|---|---|---|---|---|---|
| **2020/21** | **216** | **281** | **109** | **104** | **72** |
| 2019/20 | 237 | 198 | 178 | 89 | 66 |
| % of total complaints rec'd | 4% | 5% | 2% | 2% | 1% |

4.5 The above table shows the overall delay reason cited alongside the percentage of complaints that represents the number of total complaints received. Complex case is the most cited reason. In Adult Social Care, The Local Authority Social Services and National Health Service Complaints (England) Regulations 2009 makes provision for customers and the complaints team to set the timescales for responding. This can be up to 6 months for the most complex of cases, and means that complaints will often not meet the 20 working day KCC standard. This is because an agreement with the customer has been formed to allow for more time to investigate and respond.

4.6 In addition, Mental Health complaints have an agreed 30 working day response time when requiring a joint response from Kent and Medway Partnership Trust. This is reviewed regularly.

4.7 This year there has been a reduction in complaints delayed due to sign off, but a significant increase in those late due to workload which is now the main reason for delays. Quarter three was particularly challenging following a significant influx of complaints in Quarter two following the easing of restrictions.

**Table 13 -** Top three delay reasons by directorate

**Adults Social Care and Health**

| | Complex case | Workload | Sign off delay |
|---|---|---|---|
| **2020/21** | **147** | **44** | **36** |
| 2019/2018 | 141 | 82 | 101 |
| % of total complaints rec'd by Directorate | 19% | 6% | 5% |

**Children Young People and Education**

| | Workload | Complex case | Sign off delay |
|---|---|---|---|
| **2020/21** | **136** | **40** | **39** |
| 2019/20 | 61 | 12 | 17 |
| % of total complaints rec'd by Directorate | 16% | 5% | 5% |

**Growth Environment and Transport**

| | Workload | Staff absent or unavailable | More information required from customer |
|---|---|---|---|
| **2020/21** | **96** | **79** | **45** |
| 2019/20 | 58 | 74 | 13 |
| % of total complaints rec'd by Directorate | 3% | 2% | 1% |

**Strategic and Corporate Services**

| | Sign off delay | Workload | Complex case |
|---|---|---|---|
| **2020/21** | **23** | **8** | **4** |
| 2019/20 | 1 | 2 | 10 |
| % of total complaints rec'd by Directorate | 13% | 5% | 2% |

## 5. Customer communications channels

5.1 Information on 'How to complain' is available on our website and on our Complaints, Comments and Compliments leaflets. The public can provide feedback to the Council through a number of different channels including via our online form, phone, email and through Social Media.

5.2 The breakdown below indicates by percentage which channel customers have chosen to communicate feedback (compliments, comments & complaints) during 2020/2021 & 2019/2020.

**Table 14 -** Channels used to communicate compliments, comments, informal concerns and complaints

| | Phone | Letter | Email | Comment card/ Face to Face | Online | Contact via Corporate Director, Member or MP | Other |
|---|---|---|---|---|---|---|---|
| **2020/2021** | **16%** | **2%** | **32%** | **1%** | **49%** | **>1%** | **>1%** |
| Volume | 1154 | 154 | 2316 | 78 | 3546 | 29 | 13 |
| 2019/2020 | 23% | 5% | 28% | 5% | 39% | 1% | >1% |
| Volume | 1819 | 379 | 2177 | 381 | 3008 | 17 | 0 |

5.3 The above table shows that there has been a continual increase in the submitting of compliments, comments and complaints via our online systems. This was perhaps helped by necessity during Covid. Customers were encouraged where possible not to write in as obtaining mail during lockdown resulted in additional delays.

5.4 We have seen a significant decrease people opting to feedback via phone. 81% of feedback received is now arriving digitally either by email, through social media or via the online form.

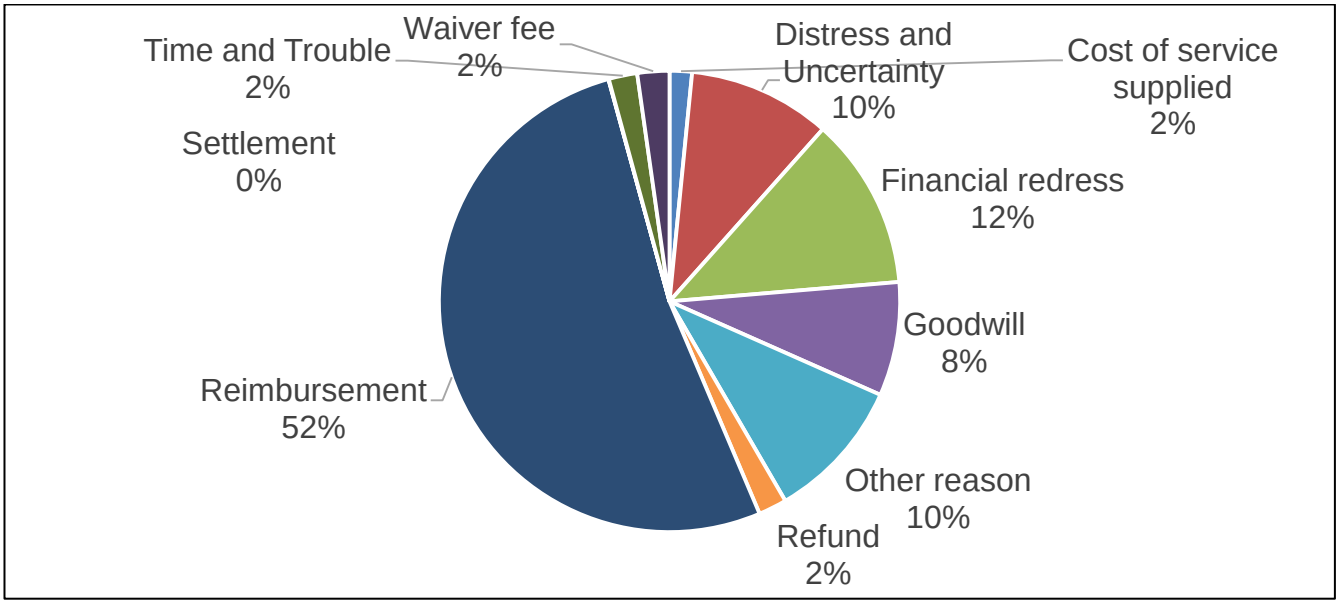
## 6. Compensation across all complaints received by KCC

6.1 In 2020/21, £64,966.05 was paid in compensation, settlements, changes to the amount we charge and waived charges as a result of complaints to the organisation this includes;

- £26,660.44 has been paid or waived as part of local resolution in Adult Social Care and Health.
- £200.00 has been paid out by Strategic and Corporate services including Legal Services, Insurance and Property & Infrastructure.
- £1,634.90 has been paid out for Growth, Environment and Transport
- £3,320.00 has been paid out for Children, Young People and Education Directorate including Community Learning and Skills and Children Social Work Services
- £33,150.71 additional payments were made following Local Government and Social Care Ombudsman Decisions found against KCC.

6.2 This is a decrease of £16,986.74 from 2019/20 when £81,952.79 was paid out in settlements or through waived charges.

**Table 15** - Compensation complaint reason chart




6.3 It is important to note that monies paid out during the 2019/20 financial year may relate to complaints recorded in previous years. This is due to the time that elapses

between the date the complaint was lodged and achieving resolution. This is particularly true of Ombudsman complaints.

## 7 Levels of complaints to the standards committee (Member complaints)

### Complaints recorded in 2019/20

7.1 During 2020/21 the Monitoring Officer has responded to 8 complaints of alleged misconduct of the breach of the Elected Member Code of Conduct.

**Table 16**

| Number of Complaints | | | |
|---|---|---|---|
| **2020/21** | **2019/2020** | **2018/2019** | **Outcome** |
| 8 | 8 | 12 | No Action or resolved upon receipt. Dismissed by the Monitoring Officer |
| 0 | 0 | 0 | Action taken by party |

## 8 The Local Government and Social Care Ombudsman complaints review 2020/21

### Overview of Ombudsman

8.1 In cases where a customer is unhappy with the responses received about their complaint from the Council they can exercise their right to involve the Local Government and Social Care Ombudsman (LGSCO). The Ombudsman will investigate cases where a customer has exhausted the Council's own complaints policy and feel that their case has not been appropriately heard or resolved.

8.2 Each year, in July, the Ombudsman issues an annual review to each local authority. In his letter he sets out the number of complaints about the authority that his office has dealt with and offers a summary of statistics to accompany this.

8.3 The annual review statistics are publically available, allowing councils to compare their performance on complaints against their peers; copies of the Annual Review letter as well as any published Ombudsman complaints are issued to the Leader of the Council and Head of Paid Service to encourage more democratic scrutiny of local complaint handling and local accountability of public services.

8.4 Decision statements made are published on the Ombudsman's website six weeks after the date of the final decision. The information published will not name the

complainant or any individual involved with the complaint. Cases in which the complainant, despite redaction of names, can be easily identified are not published.

## 9 KCC Performance – Ombudsman complaints

9.1 It should be noted that there will be discrepancies between the volume recorded by the Ombudsman and the authority. This is due to the Ombudsman recording complaints that it does not progress to Kent County Council, as it is able to resolve the issue at first point of contact, either through referring the customer to the Council or it is identified as out of jurisdiction.

9.2 During 2020/21 KCC received a total of 152 decisions from the Ombudsman this included 40 referred back for local resolution. The full letter and Ombudsman statistics can be found in Appendix B.

9.3 The level of complaints received by KCC for the size of population, volume of services and interaction is low. Each complaint provides an opportunity to learn from our customers and improve our systems and we need to focus on those complaints that are upheld to ensure that lessons are learned.

9.4 The Ombudsman's report noted that the national average that the Ombudsman upheld is **67%** of complaints they investigated; this is up nationally from 61% last year. This is a record high for the Ombudsman.

9.5 The average upheld rate for other County Councils increased from 66% to **71%**, Kent County Council's average is 74**%**; this was an increase from last year's 59% upheld

9.6 In **13%** of upheld cases the Council had provided a satisfactory remedy before the complaint reached the Ombudsman.This compares to an average of **8%** in similar authorities.

9.7 It is also worth noting that the number of KCC cases the Ombudsman investigated and upheld in Education and Children's Services is lower than the national, where 77% are nationally upheld, compared with **70%** in Kent.

**LGSCO and Covid Response**

9.8 The Ombudsman halted case work in March 2020 but began opening cases in May, KCC were one of the first Councils that indicated they were willing to take on casework. Decisions made during the pandemic are now being heard at Ombudsman level.

9.9 The pause on complaints from the Ombudsman has had a knock on effect on both the LGSCO and the Council. The Ombudsman is experiencing significant delays in their investigations due to volumes of complaints. The delays to their investigations is a risk to the Council, some cases are taking in excess of 6 months to be fully heard and responded to by the Ombudsman's office.

9.10 Our upheld rate with Ombudsman cases is especially high this year, this is also reflected in the increase in the upheld rate for similar Councils. We believe this is, in part, as a result of a knock on effect of the delays to investigation, a number of cases that were due to have an outcome last year, that have had not upheld judgements have been given in the 2021/22 financial year instead.

9.11 The Ombudsman in a webinar to Link Officers, said that the upheld rate has increased year on year in the last 10 years, their research has led them to believe that this is in part due to the financial and external pressures felt by Councils following 10 years of austerity measures.

## 10. Public Report

10.1 The Council received one public report in 2020/21. Public reports are released by the Ombudsman where they believe that there is an issue that has significant public interest and that the learning from that issue could be applied to other authorities.

**Complaint**
Mrs B complains about the way Kent County Council and London Borough of Croydon council responded when her daughter, child C, disclosed sexual abuse.

Kent County Council.

Mrs B says Kent County Council:

- delayed in offering C support and failed to pro vide appropriate support;
- incorrectly considered referring Mrs B to the Local Authority Designated Officer (LADO); and
- failed to provide Mrs B with appropriate support.

Mrs B says this caused significant distress to C and she missed out on the support she needed. As a result, C experienced the effects of ongoing trauma and blamed herself for her mother's distress.

Mrs B suffered her own distress from the way the Council failed to meet her needs. She says the thre at of the LADO referral caused her significant distress, worry and loss of sleep. She also suffered significant distress because the Council failed to meet C's needs and provide support. Mrs B says the Council's failures have had a significant and lasting impact on C and her family.

London Borough of Croydon

Mrs B says London Borough of Croydon failed to:

- convene a strategy discussion following C's disclosure of sexual abuse;
- carry out an investigation into the potential risk posed by the alleged offenders; and
- share information with Kent County Council.

She says this caused a delayed and uncoordinated response and caused additional distress. She also says it placed other children at risk.

**Finding Fault**

Fault found causing injustice and recommendations made.

**Recommendations**

To remedy the injustice caused, we recommend the Councils take the following action.

Kent County Council

Kent County Council should

- pay C £ 1,000;
- pay Mrs B £1,000 to acknowledge the distress and impact of the faults;
- pay Mrs B £150 for the additional time and trouble she exp erienced pursuing her complaint; and
- remind all staff dealing with children's services complaints when the statutory complaints process should be used. It should also ensure its staff understand who can make a complaint in this process.

Kent County Council and London Borough of Croydon

Both Councils should:

- share the learning points from this case across its organisation to ensure staff are aware of their responsibilities in respect of information sharing, professional curiosity, and cross border child protection referrals; and

- conduct an audit of 50 cases closed in similar circumstances between 2018 to date. If more than 25% of those cases identify similar issues the Council should make resources available to conduct a full case audit. The full audit should review all cases closed in similar circumstances between 2018 to date.

Both Councils must consider the report and confirm within three months the actions they have taken or propose to take. The Councils should consider the report at a full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this. *(Local Government Act 1974, section 31(2), as amended)*

**The full report –** Can be accessed at the following link - https://www.lgo.org.uk/decisions/children-s-care-services/child-protection/19-010-981

**Lessons Learned** – a report was heard at the Children's, Young People and Education Committee on the 9th March 2021. (Item 252) For more information about

the service's response to the report please visit https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=894&MId=8728&Ver=4

## 11 Local authority report – Kent County Council

11.1 For further information on interpretation of statistics click on this link to go to http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics

### Complaints and enquiries received

11.2 The following table examines the number of complaints received by the Ombudsman over the last three years against the LGSCO's service categories.

**Table 17**

| | Adult care Services | Benefits and Tax | Corporate and other services | Education and children's services | Environ mental services | Highways and transport | Housing | Planning and Development | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **2020/21** | **56** | **0** | **4** | **79** | **5** | **9** | **1** | **1** | **1** | **156** |
| 2019/20 | 66 | 0 | 8 | 112 | 3 | 23 | 0 | 4 | 2 | 218 |
| 2018/19 | 56 | 0 | 11 | 83 | 8 | 17 | 0 | 1 | 3 | 179 |

### Decisions made

11.3 The following table examines the number of complaints decided by the Ombudsman over the last three years and decision category given by the LGSCO.

**Table 18 – LGSCO complaints received**

| | Detailed investigation carried out | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Upheld** | **Not upheld** | **Advice given** | **Closed after initial enquiries** | **Incomplete / Invalid** | **Referred back for local resolution** | **Total** |
| **2020/21** | **40** | **14** | **0** | **49** | **9** | **40** | **152** |
| **2019/20** | **39** | **27** | **2** | **69** | **14** | **61** | **212** |
| **2018/19** | **36** | **23** | **2** | **59** | **11** | **45** | **176** |

11.4 The number of complaints heard at Ombudsman level has reduced in 2020/21, however this is an anomaly as the Ombudsman did not investigate any new complaints during the first three months of the financial year due to Covid.

## 12 Ombudsman Complaints – Themes and Outcomes

12.1 The following section examines some cases that were investigated by the Ombudsman. The complaint and the subsequent decisions are taken from the Ombudsman's website where all decisions (in which the complainant cannot be identified) are published.

**Table 19 - Children, Young People and Education**

| | Upheld | Not upheld | Closed: out of jurisdiction/ no further action or withdrawn | Premature | Total |
|---|---|---|---|---|---|
| **Children Social Work Services** | 7 | 5 | 16 | 5 | **33** |
| **Kent Test/ School Admission appeals** | 0 | 0 | 1 | 0 | **1** |
| **Home to School Transport/ Free School Meals** | 1 | 2 | 2 | 0 | **5** |
| **Special Educational Needs** | 11 | 1 | 3 | 2 | **17** |
| **The Education People** | 0 | 0 | 0 | 0 | **0** |
| **Community Learning and Skills** | 0 | 0 | 0 | 0 | **0** |
| **Total** | **19** | **8** | **22** | **7** | **56** |

**Children Social Care - Not upheld example – 19 020 166**

**Complaint**

The complainant, whom I shall call Mr C, complains the Council failed to offer his son, E, an assessment from the Disabled Children's Service. He said E met their criteria for support and needed the help that the service could offer. The Council agreed to assess E under Early Help, which Mr C refused.

**Outcome**
There is no evidence of fault in the Council refusing to assess E for a service from the Disabled Children's Service as he has no diagnosis of a disability.

**Children Social Care - Upheld example - 19 017 019**

**Complaint**

The complainant, whom I shall call Miss T complains the Council failed to treat her properly through the child protection process and failed to investigate safeguarding allegations, and her complaints, appropriately. This caused her significant distress.

Miss T also asked us to look at the actions of the Council in relation to a Section 7 report and child protection meetings. She also complained about 'aggressive action' by the Council following allegations of fabricated and induced illness and the refusal of the Council to become involved their father's failure to return the children.

**Outcome**

For the Council to apologise for the fault identified in this statement within a month of my decision.

For the Council to make a payment of £300 for the distress caused to Miss T from the Council's failure to circulate documents or to explain why it would not circulate them, for the delayed circulation of meeting notes and for its failure to consider supporting the family under Section 17 of the Children Act 1989 when the family was without hot water or heating. It should also make a payment of £200 for the time and trouble experienced by Miss T because of the Council's complaints handling. The Council should do this within three months of the date of my decision.

For the Council to explain how it will ensure meeting notes are issued in accordance with the timescales it has set going forward. It has told me it has changed its procedures in order to do this. It should send me a copy of these procedures within three months of the date of my decision.

For the Council to tell me what action it will take going forward to ensure all complaints are logged with the complaints team. The Council has said it has embarked on an awareness campaign for all staff and has reviewed the relevant documents. It should send me evidence of this within three months of the date of my decision.

## Education - Not upheld example – 19 009 689

### Complaint

1. Mr B complains that the Council:
    - has wrongly refused to provide home to school transport for his younger son, D to his grammar school;
    - has wrongly refused to consider the alternative safe routes which he has provided which demonstrate that the grammar school is the nearest school to his home when using the nearest available route; and
    - has an unclear and contradictory policy which does not comply with the law and statutory guidance in the way it determines the nearest suitable school.

### Outcome

There was no fault in the way that the Council refused transport for D or Mr B's subsequent appeal.

## Education - Upheld example – 19 005 926

### Complaint

Ms X complained the Council:

- agreed to make amendments to her son, Z's draft EHC Plan, wait for a trial place at Ms X's preferred school and wait for professional reports but then failed to do any of these; and
- delayed or failed to consult with relevant professionals, in particular an educational psychologist, when drafting Z's EHC Plan.

Ms X said these faults resulted in the Council delaying issuing Z's EHC Plan. She said this caused her and Z significant distress. In addition, she said the school Z attended during the EHC Plan process was unable to meet his special educational needs, causing Z additional distress.

Ms X also made a number of complaints about the actions of the school Z attended.

### Outcome

Within one month of the date of the final decision, the Council has agreed to pay Ms X £150 to acknowledge the uncertainty and frustration caused by the Council's faults.

Within three months of the date of the final decision, the Council has agreed to provide evidence of the actions it is taking to ensure EHC plans are being completed within the statutory timescales.

**Table 20 - Growth, Environment and Transport**

| | Upheld | Not upheld | Closed: out of jurisdiction/no further action or withdrawn | Premature | Total |
|---|---|---|---|---|---|
| **Environment, Planning and Enforcement** | 0 | 0 | 2 | 1 | **3** |
| **Highways, Transportation and Waste** | 1 | 0 | 7 | 1 | **9** |
| **Total** | **1** | **0** | **9** | **2** | **12** |

**Not Upheld example – 19 008 141**

**Complaint**

Mrs X says that the Council:

- Failed to properly address her safeguarding and other concerns about a taxi company used by Miss D
- Failed to address her complaint properly because she complained about other issues.

Mrs X says the Council's approach has caused her and Miss D an injustice. She says it has meant that they do not have confidence the Council will properly address any future concerns that may arise.

**Outcome**

As Mrs X has not responded to our correspondence, we have discontinued our investigation into this complaint.

**Table 21 - Strategic and Corporate Services**

| Upheld | Not upheld | Closed: out of jurisdiction/no further action or withdrawn | Premature | Total |
|---|---|---|---|---|
| 0 | 0 | 3 | 0 | **3** |

**Upheld example – 19 020 328**

**Complaint**

The complainant, Miss X, complains the Council used her email address to log a fictitious pothole report. She is also unhappy about the Council's handling of the matter. She says the incident has upset her and caused her stress.

**Outcome**

The Ombudsman will not investigate this complaint. This is because the Council has provided a suitable remedy for Miss X and it is unlikely we could achieve anything more.

**Table 22 - Adult Social Care and Health**

| Upheld | Not upheld | Closed: out of jurisdiction/no further action or withdrawn | Premature | Total |
|---|---|---|---|---|
| 20 | 6 | 14 | 0 | **40** |

**Not Upheld example – 19 014 121**

**The complaint**
The complainant, whom I shall refer to as Mrs D, is represented by her daughter (Ms E). Ms E makes the following complaints.

a. The Council refused to provide a deferred payment arrangement, to act as a bridging loan. They needed this, to pay nursing home fees, until they sold Mrs D's home.
b. In its needs assessment, the Council disregarded evidence about Mrs D. It did not take account of:

- her dementia and mental health needs;
- that her mental health had improved after she moved to the nursing home;
- her anti-anxiety drugs, that mask her underlaying mental health needs;
- the fact she often called emergency services when she was at home and was a regular visitor to the accident and emergency department;
- her risk of falls when she was at her own home; and
- her wellbeing.

c. The Council has not listened to them; for example their evidence of Mrs D's frequent falls when she was still at home.
d. The Council has not taken account of the nursing home's view that Mrs D is unsafe to return home.
e. Ms E feels they are being penalised for managing, before Mrs D moved, without Council involvement.

**Outcome**

The Ombudsman finds no fault with the Council's assessment, so cannot question the merits of its decision.

**Upheld example – 19 013 241**

**Complaint**

Mrs X complains the Council has reduced her weekly support hours from 29 hours per week to16 hours per week. She says the information the Council relied on when completing the assessment was inaccurate, and it failed to take account of the reason she had unspent direct payments.

**Outcome**

The Council will within four weeks of the final decision

- apologise to Mrs X for the faults highlighted above
- offer Mrs X a fresh assessment of her care needs
- offer Mr X a carers assessment.

There is evidence of fault by the Council in this complaint. The reassessment of Mrs X's care needs was flawed. It was incomplete and took account of factors it should not. The Council failed to establish if Mrs X's husband was willing and able to provide support and it failed to offer him a carers assessment. The Council then reduced Mrs X's support hours based on a flawed assessment. Mrs X has been denied a fair assessment of her needs.

The above recommendations are a suitable remedy for the injustice caused. It is on this basis; the complaint will be closed.

## 13 LESSONS LEARNED

13.1 Where the Ombudsman has made a decision against the Council, steps are taken by officers in the service to ensure that any lessons learned are applied across the service to improve the customer experience and avoid any further complaints of a similar nature.

13.2 With regards to lessons learned across the Council, the following table shows a list of actions that have been recorded where they exceed 100 complaints.

**Table 23 -** Top remedy actions

| Action taken | Stage 1 |
|---|---|
| Arrange staff training or guidance | 151 |
| Change or review communications | 175 |
| Discuss at team meeting | 246 |
| Explanation | 393 |
| Formal apology | 432 |
| Provided service requested | 148 |

13.3 Other actions taken include changing or reviewing services, a financial remedy and changing or reviewing policies or procedures.

13.4 We are seeing a greater emphasis on sharing the learning within Directorates with more training now available either on Delta or through bespoke sessions such as those delivered for CYPE.

## 14 RECOMMENDATIONS

14.1 The Committee is asked to note the contents of this report for assurance.

Report Author:
Pascale Blackburn-Clarke
Delivery Manager – Engagement and Consultation
03000 417025
Pascale.blackburn-clarke@kent.gov.uk

Relevant Director:
Amanda Beer, Corporate Director, People and Communications
03000 415835
Amanda.beer@kent.gov.uk

## Appendix A – Directorate overview of Customer Feedback Received

## Children, Young People and Education

**All Feedback Reported**

| | Complaints (Stage One) | Comments | Compliments | Resolved Local Government and Social Care Ombudsman enquiries & complaints* |
|---|---|---|---|---|
| **2020/21** | **867** | **51** | **77** | |
| 2019/20 | 1,044 | 43 | 113 | 75 |
| 2018/19 | 862 | 32 | 94 | 65 |



The below table compares the number of complaints received in 2020/21 with those received in 2018/19 and 2019/20

| Service | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| Specialist Children Service/Children's Social Work Services | 490 | 592 | **698** |
| Community Learning & Skills (was Adult Education) | 94 | 77 | **24** |
| Education Services | 259 | 351 | **143** |
| The Education People | 19 | 24 | **2** |
| **Total Complaints** | **862** | **1044** | **867** |

## Growth, Environment and Transport

**All Feedback Reported**

| | Complaints (Stage one) | Comments | Compliments | Resolved Local Government and Social Care Ombudsman enquiries & complaints* |
|---|---|---|---|---|
| **2020/21** | **3585** | **252** | **750** | |
| 2019/20 | 3611 | 361 | 664 | 20 |
| 2018/19 | 2658 | 486 | 828 | 16 |

The below table compares the number of complaints received in 2020/21 with those received in 2018/19 and 2019/20



| Service | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| Environment, Planning and Enforcement | 79 | 133 | 242 |
| Economic Development | 3 | 5 | 1 |
| Highways and Transportation and Waste Management | 2059 | 3147 | 3106 |
| Libraries, Registrations and Archives | 517 | 326 | 236 |
| **Total Complaints** | 2658 | **3611** | **3585** |

(* Data not previously collected) (^ Q1 data not captured)

**Adult Social Care and Health**

**All Feedback Reported**

| | Complaints (Stage One) | Comments | Compliments | Resolved Local Government and Social Care Ombudsman enquiries & complaints* |
|---|---|---|---|---|
| **2020/21** | **754** | **252** | **512** | |
| 2019/20 | 1092 | 65 | 518 | 46 |
| 2018/19 | 777 | 15 | 480 | **29** |

The below table compares the number of complaints received in 2020/21 with those received in 2018/19 and 2019/20

| Service | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| Adult Social Care and Health | 777 | **1092** | **754** |
| **Total Complaints** | 777 | **1092** | **754** |

**Strategic and Corporate Services**

**All Feedback Recorded**

| | Complaints (Stage One) | Comments | Compliments | Resolved Local Government and Social Care Ombudsman enquiries & complaints* |
|---|---|---|---|---|
| **2020/21** | **169** | **52** | **24** | |
| 2019/20 | 119 | 10 | 22 | 6 |
| 2018/19 | 154 | 6 | 11 | 4 |



The below table compares the number of complaints received in 2020/21 with those received in 2018/19 and 2019/20

| Service | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| Finance | 52 | 30 | **28** |
| FOI | 7 | 4 | **3** |
| Gateways and Contact Point | 55 | 28 | **33** |
| Insurance | 5 | 2 | **1** |
| Infrastructure, Property and Total Facilities Management | 23 | 10 | **28** |
| Public Health | - | - | **59** |
| Other | 12 | 45 | **17** |
| **Total Complaints** | **154** | **119** | **169** |

**Appendix B**

**Ombudsman Letter**

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Local Government & Social Care OMBUDSMAN

21 July 2021

*By email*

Mr Cockburn
Head of Paid Service
Kent County Council

Dear Mr Cockburn

**Annual Review letter 2021**

I write to you with our annual summary of statistics on the decisions made by the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2021. At the end of a challenging year, we maintain that good public administration is more important than ever and I hope this feedback provides you with both the opportunity to reflect on your Council's performance and plan for the future.

You will be aware that, at the end of March 2020 we took the unprecedented step of temporarily stopping our casework, in the wider public interest, to allow authorities to concentrate efforts on vital frontline services during the first wave of the Covid-19 outbreak. We restarted casework in late June 2020, after a three month pause.

We listened to your feedback and decided it was unnecessary to pause our casework again during further waves of the pandemic. Instead, we have encouraged authorities to talk to us on an individual basis about difficulties responding to any stage of an investigation, including implementing our recommendations. We continue this approach and urge you to maintain clear communication with us.

**Complaint statistics**

This year, we continue to focus on the outcomes of complaints and what can be learned from them. We want to provide you with the most insightful information we can and have focused statistics on three key areas:

**Complaints upheld** - We uphold complaints when we find some form of fault in an authority's actions, including where the authority accepted fault before we investigated.

**Compliance with recommendations** - We recommend ways for authorities to put things right when faults have caused injustice and monitor their compliance with our recommendations. Failure to comply is rare and a compliance rate below 100% is a cause for concern.

**Satisfactory remedy provided by the authority** - In these cases, the authority upheld the complaint and we agreed with how it offered to put things right. We encourage the early resolution of complaints and credit authorities that accept fault and find appropriate ways to put things right.

Finally, we compare the three key annual statistics for your authority with similar types of authorities to work out an average level of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

Your annual data will be uploaded to our interactive map, Your council's performance, along with a copy of this letter on 28 July 2021. This useful tool places all our data and information about councils in one place. You can find the decisions we have made about your Council, public reports we have issued, and the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

I would encourage you to share the resource with colleagues and elected members; the information can provide valuable insights into service areas, early warning signs of problems and is a key source of information for governance, audit, risk and scrutiny functions.

As you would expect, data has been impacted by the pause to casework in the first quarter of the year. This should be considered when making comparisons with previous year's data.

This year, we issued one public report about your Council and its response, along with another council, to a report of child sexual abuse.

Our investigation found your Council failed to take responsibility for the case or properly assess the victim or her mother's needs. We found the Council demonstrated a lack of professional curiosity or a child-centred approach. We also disagreed with the Council's decision not to use the children's statutory complaint process to investigate the matter. We recommended the Council pay victim and their mother £1,000 each for the distress caused. We also recommended you share the learning from the complaint across your organisation, remind staff when the statutory children's complaints procedure should be used and conduct an audit of 50 similar cases.

I was very disappointed with the Council's response to our findings, which echoed our concerns about a lack of child-focused working and a reluctance to take responsibility and ownership. Your Council continued to challenge the findings up to the point of our report's publication and then challenged our decision in the media. I am very concerned about the Council's response to this case and would ask you to ensure the necessary action is taken to ensure it does not repeat the fault in future.

**Supporting complaint and service improvement**

I am increasingly concerned about the evidence I see of the erosion of effective complaint functions in local authorities. While no doubt the result of considerable and prolonged budget and demand pressures, the Covid-19 pandemic appears to have amplified the problems and my concerns. With much greater frequency, we find poor local complaint handling practices when investigating substantive service issues and see evidence of reductions in the overall capacity, status and visibility of local redress systems.

With this context in mind, we are developing a new programme of work that will utilise complaints to drive improvements in both local complaint systems and services. We want to use the rich evidence of our casework to better identify authorities that need support to improve their complaint handling and target specific support to them. We are at the start of this ambitious work and there will be opportunities for local authorities to shape it over the coming months and years.

An already established tool we have for supporting improvements in local complaint handling is our successful training programme. During the year, we successfully adapted our face-to-face courses for online delivery. We provided 79 online workshops during the year, reaching more than 1,100 people. To find out more visit www.lgo.org.uk/training.

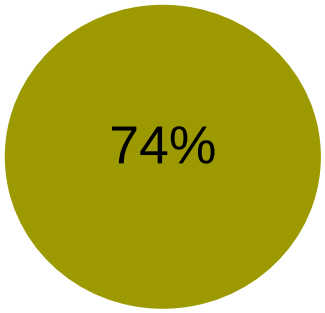
Yours sincerely,



Michael King
Local Government and Social Care Ombudsman
Chair, Commission for Local Administration in England

Kent County Council
For the period ending: 31/03/21

## Complaints upheld



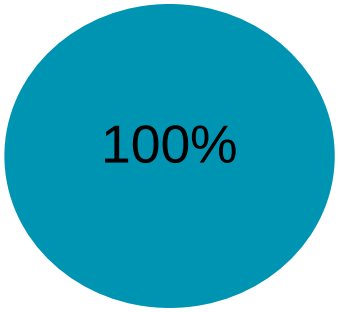

**74%** of complaints we investigated were upheld.

This compares to an average of **71%** in similar authorities.

40
upheld decisions

Statistics are based on a total of 54 detailed investigations for the period between 1 April 2020 to 31 March 2021

## Compliance with Ombudsman recommendations



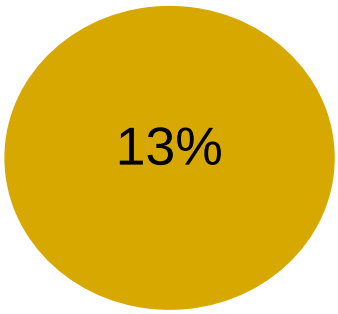

In **100%** of cases we were satisfied the authority had successfully implemented our recommendations.

This compares to an average of **100%** in similar authorities.

Statistics are based on a total of 33 compliance outcomes for the period between 1 April 2020 to 31 March 2021

- Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

## Satisfactory remedy provided by the authority




In **13%** of upheld cases we found the authority had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **8%** in similar authorities.

5
satisfactory remedy decisions

Statistics are based on a total of 54 detailed investigations for the period between 1 April 2020 to 31 March 2021

**NOTE:** To allow authorities to respond to the Covid-19 pandemic, we did not accept new complaints and stopped investigating existing cases between March and June 2020. This reduced the number of complaints we received and decided in the 20-21 year. Please consider this when comparing data from previous years.

**To:** Governance & Audit Committee

**From:** Mike Hill, Cabinet Member, Community and Regulatory Services
Simon Jones, Corporate Director, Growth, Environment & Transport

**Date:** 30 November 2021

**Subject:** Report on use of covert investigative techniques surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2020 – 31 March 2021

**Classification:** Unrestricted

**FOR ASSURANCE**

**Summary** This report outlines work undertaken by KCC Officers on surveillance, the use of covert human intelligence sources (CHIS) and access to telecommunications data governed by the Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act (IPA) during the 2020/21 business year.

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

## 1. Background

1.1 The document sets out the extent of Kent County Council's use of covert surveillance, covert human intelligence sources and access to telecommunications data. The County Council wishes to be as open and transparent as possible, to keep Members and senior officers informed and to assure the public these powers are used only in a 'lawful, necessary and proportionate' manner.

1.2 To achieve transparency and in accordance with the Codes of Practice, an annual report outlining the work carried out is submitted by the Senior Responsible Officer (SRO) to an appropriate Committee. The last report was submitted and approved by the Governance and Audit Committee on 21st January 2021.

## 2 What this report covers

2.1 Covert Surveillance – Surveillance which is intended to be carried out without the person knowing and in such a way that it is likely that private information may be obtained about a person (not necessarily the person under surveillance). Local authorities are only permitted to carry out certain types of covert surveillance and for example cannot carry out surveillance within or into private homes or vehicles (or similar "bugging" activity).

2.2 Covert Human Intelligence Source (CHIS) – the most common form is an officer developing a relationship with an individual without disclosing that it is being done on behalf of the County Council for the purpose of an investigation. In most cases this would be an officer acting as a potential customer and talking to a trader about the goods / services being offered for sale. Alternatively, a theoretical and rare occurrence would be the use of an 'informant' working on behalf of an officer of the Council. In such cases, due to the potential increased risks, KCC has agreed a memorandum of understanding with Kent Police.

2.3 Access to communications data – Local authorities can have access to data held by telecommunications providers. Most commonly this will be the details of the person or business who is the registered subscriber to a telephone number or social media account. Local authorities are not able to access the content of communications and so cannot "bug" telephones or read text messages.

2.4 In each of the above scenarios an officer is required to obtain authorisation before undertaking the activity. This decision is logged in detail, with the authorising officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing an authorisation document.

After authorisation has been granted (if it is), in relation to surveillance and CHIS, the officer applies for judicial approval and attends a Magistrates' Court to secure this.

For surveillance and CHIS the approval document is then held on a central file. There is one central file for KCC, held on behalf of the Corporate Director, Growth, Environment and Transport, which is available for inspection by the Investigatory Powers Commissioner (IPC). For telecommunications authorisations KCC uses the services of the National Anti-Fraud Network (NAFN) to manage applications and keep our records. Authorisation for communications data requests is now not carried out by KCC managers but, by law, is undertaken by the Office for Communications Data Authorisations. KCC managers are required only to confirm that officers are seeking authorisation in the course of their duties. Any inspection of this type of approval carried out by IPC is conducted at the offices of NAFN.

## 3 Covert authorisations carried out between 1 April 2020 – 31 March 2021

Total number of authorisations granted for 2020/21 (figure for 2019/20 in brackets):

Surveillance – 0 (4)

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

Access to telecommunications data – 4 (7)

## 4. Purposes for which covert techniques used

The 20/21 business year was characterised by the response to the Coronavirus pandemic. This is significant in terms of use of covert techniques as the greatest users of these techniques in KCC is by our Trading Standards Service and a very significant proportion of that service's resources were diverted into carrying out enforcement duties under the various pieces of emergency legislation brought into force to control disease spread.

The impact of this situation on use of covert techniques is that this emergency legislation did not meet the "serious offending" test which local authorities are required to meet before they can engage in the use of covert techniques and, therefore, the use of such techniques by KCC during that year was considerably reduced. Much of the Coronavirus legislation was required to be enforced until September 2021 and it is likely, therefore, that next year's report will also show some reduction in the use of covert techniques.

Use of these techniques during 20/21 was limited to four occasions of access to communications data. All four related to fair trading and consumer fraud type matters. One was in relation to illicit television streaming, one was in relation to a doorstep fraud involving some £86,000 from one victim and two were in relation to a car mileage fraud investigation.

Coronavirus restrictions on the courts have meant that none of the cases currently in the pipeline have been completed.

## 5. Reportable errors

These are errors which are required, by law, to be reported to the oversight commissioners for either surveillance or communications data requests. The errors can include those made by KCC or those made by third parties including communications data providers.

No reportable errors have been made in relation to KCC authorisations this year.

## 6. KCC Policy

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

Appendix 1 to this report is KCC's policy.

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

## 7. Recommendations

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

Contact Officer
Mark Rolfe
Head of Kent Scientific Services
8 Abbey Wood Road
Kings Hill
West Malling ME19 4YT

Tel: 03000 410336
Email: mark.rolfe@kent.gov.uk

# Kent County Council

# Policy in relation to the use of covert investigative techniques

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## 1. Introduction

This policy document is based on the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA) as amended, The Protection of Freedoms Act 2012, The Investigatory Powers Act 2016 and the Home Office's Codes of Practice for Directed Surveillance, Covert Human Intelligence Sources (CHIS) and Acquisition and Disclosure of Communications data.

Links to the above documents can be found at:

http://www.legislation.gov.uk/ukpga/2000/23/contents

http://www.legislation.gov.uk/ukpga/2012/9/contents

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

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

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

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

1.1 Surveillance plays a necessary part in modern life and law enforcement. It is used not just in the targeting of criminals, but also as a means of preventing crime and disorder. The Regulation of Investigatory Powers Act 2000 (RIPA) introduced a system of authorisation and monitoring of activities, to ensure that the rights of the individual were not unnecessarily compromised, in the pursuance of regulatory compliance. The Protection of Freedoms Act and Investigatory Powers Act have refined the system introduced by RIPA.

1.2 Within the County Council, Trading Standards Officers may need to covertly observe and then visit a shop, business premises, website, social media page or to follow a vehicle or individual as part of their enforcement functions. During a visit or a test purchase situation it may be necessary to covertly video record a transaction, as it takes place. Environmental crime enforcement staff may also need to observe or record at places where illegal tipping or other similar crimes take place and access communications data when investigating such crimes. Similarly, KCC's Internal Audit fraud investigators may need to carry out covert surveillance or acquire communications data when they are investigating a crime which they intend to prosecute using the criminal law. They need to use covert surveillance techniques as part of their official duties.

1.3 Only those officers designated as "authorising officers" from the specified units or services are permitted to authorise the use of techniques referred to in RIPA. Trading Standards may use Covert Directed Surveillance, Covert Human Intelligence Sources and acquisition of communications data. Environmental Crime enforcement team may use Covert Directed Surveillance and acquisition of

communications data. Internal Audit fraud investigators may use Covert Directed Surveillance and acquisition of communications data.

1.4 Covert Directed Surveillance is undertaken in relation to a specific investigation or operation, where the person or persons subject to the surveillance are unaware that it is, or may be, taking place. The activity is also likely to result in obtaining private information about a person, whether or not it is specifically for the purpose of the investigation.

1.5 Investigations may also require the use of Covert Human Intelligence Sources (CHIS). These may be under-cover officers, agents or informants. Such sources may be used by the County Council to obtain and pass on information about another person, without their knowledge, as a result of establishing or making use of an existing relationship. This clearly has implications as regards the invasion of a person's privacy and is an activity which the legislation regulates. A CHIS (other than our own staff) would be used only rarely and in exceptional circumstances.

1.6 The Investigatory Powers Act (IPA) also requires a control and authorisation procedure to be in place in respect to the acquisition of telecommunications data. The County Council needs to comply with these requirements when obtaining, for example, telephone or internet subscriber, billing and account information.

1.7 In addition, the IPA put in place the Investigatory Powers Commissioner whose duties include inspection those public bodies undertaking covert surveillance and the acquisition of communications data and introduced an Investigatory Powers tribunal to examine complaints that human rights may have been infringed.

## 2. Policy Statement

2.1 Kent County Council will not undertake any activity defined within RIPA or the IPA without prior authorisation in the legally prescribed form.

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

2.3 The Authorising Officer will not authorise the use of surveillance techniques or CHIS unless the authorisation can be shown to be necessary for the purpose of preventing or detecting crime or of preventing disorder.

2.4 In addition, the Authorising Officer must believe that the surveillance or use of CHIS is lawful, necessary and proportionate to what it seeks to achieve. In making this judgment, the officer will consider whether the information can be obtained using other methods and whether efforts have been made to reduce the impact of the surveillance or intrusion on other people, who are not the subject of the operation.

2.5 Applications for authorisation of surveillance or the use of a CHIS will be made in writing on the appropriate form (see Annexes 1 or 2 for example forms).

2.6 Intrusive surveillance operations are defined as activities using covert surveillance techniques on residential premises or in any private vehicle, which involves the use of a surveillance device or an individual in such a vehicle or on such premises. Kent County Council officers are NOT legally entitled to authorise or undertake these types of operations. Operations must not be carried out where legal consultations take place at the places of business of legal advisors or similar places such as courts, Police stations, prisons or other places of detention.

2.7 Public bodies are permitted to record telephone conversations, where one party consents to the recording being made and an appropriate authorisation has been granted. On occasions, officers do need to record telephone conversations, to secure evidence.

2.8 It is the policy of this authority to be open and transparent in the way that it works and delivers its services. To that end, a well-publicised KCC Complaints procedure is in place and information on how to make a complaint will be provided on request being made to the Corporate Director or Authorising Officer.

## 3. Internet and social media investigations

3.1 On-line communication has grown and developed significantly over recent years. The use of this type of communication in the commission of crime is a recognised aspect of routine investigations.

3.2 Observing an individual's lifestyle as shown in their social media pages or securing subscriber details for e-mail addresses is covered by the same considerations as off-line activity.

3.3 Staff using the internet for investigative purposes must not, under any circumstances, use their personal equipment or their personal social media or other accounts.

3.4 KCC will provide equipment not linked to its servers for this purpose and will maintain a number of "legends" (false on-line personalities) for use in investigations. A register of all such legends will be maintained by the Trading Standards Service.

3.5 Under no circumstances will a legend include personal details of any person known to be a real person, including their photograph, or a name known to be linked to the subject of the covert technique.

3.6 A log will be maintained by the Trading Standards Service of the use of each legend. The log will include details of the user, time, date and enforcement purpose for which the legend is used. The log will be updated each time a legend is used.

3.7 It is unlikely that single viewing of open source data will amount to obtaining private information and it is therefore unlikely that an authorisation will be required. If in doubt, the investigating officer should consult a RIPA Authorising Manager.

3.8 Where data has restricted access (e.g. where access is restricted to "friends" on a social networking site), an application for CHIS and, if appropriate, directed surveillance should be made before any attempt to circumvent those access controls is made.

## 4. Obtaining Authorisation

4.1 The Corporate Director will designate by name one or more Directors, Heads of Service, Service Managers or equivalent to fulfil the role of Authorising Officer (for the purposes of Surveillance and CHIS authorisation), Senior Responsible Officer and "Made Aware" Officer (for the purposes of access to communications data). The Corporate Director will cause to be maintained a register of the names of such officers.

4.2 Where a CHIS is a juvenile or a vulnerable person, or there is the likelihood that the information acquired by covert surveillance will be Confidential Information (see Glossary), then the authorisation must be from the Head of Paid Service or, in his absence, a Corporate Director nominated by the Head of Paid Service to deputise for him. In the event of such circumstances, the KCC General Counsel will also be informed.

4.3 Authorisations from the Authorising Officer for directed surveillance or to use a CHIS shall be obtained using the appropriate application form (see annexes 1 and 2 for example forms). Also see Section 12 in relation to CHIS.

4.4 Applications for access to communications data shall be made using the system provided by the National Anti-Fraud Network.

4.5 Guidance for completing and processing the application forms is attached (annexes 3 or 4). Guidance for use of the NAFN portal is published and updated on that website.

4.6 If authorisation is granted by the Authorising Officer, the applicant, or a suitably experienced officer nominated by the applicant, will make the necessary arrangements to secure judicial approval of the authorisation in compliance with the requirements of the Protection of Freedoms Act 2012. This requires the applicant, or their nominee, to attend a Magistrates' Court and seek an approval order.

## 5. Duration of authorisations

5.1 All records shall be kept for at least 3 years.

5.2 A written authorisation (unless renewed) will cease to have effect at the end of the following periods from when it took effect:

a) Directed Surveillance - 3 months
b) Conduct and use of CHIS - 12 months

## 6. Reviews

6.1 Regular review of authorisations shall be undertaken by the relevant Authorising Officer to assess the need for the surveillance or CHIS to continue. The results of the review shall be recorded on the central record of authorisations (see annexes 1 or 2 for review forms). Where surveillance or CHIS activity provides access to Confidential Information or involves collateral intrusion, particular attention shall be given to the review for the need for surveillance or activity in such circumstances.

6.2 In each case, the Authorising Officer shall determine how often a review is to take place, and this should be as frequently as is considered necessary and practicable.

## 7. Renewals

7.1 If, at any time, an authorisation ceases to have effect and the Authorising Officer considers it necessary for the authorisation to continue for the purposes for which it was given, s/he may renew it, in writing, for a further period of:

- three months – directed surveillance
- twelve months – use of a CHIS
- (see annexes 1 or 2 for examples of renewal forms)

7.2 A renewal takes effect at the time at which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until shortly before the authorisation period is drawing to an end. Any person who would be entitled to grant a new authorisation can renew an authorisation. Authorisations may be renewed more than once provided they continue to meet the criteria for authorisation.

## 8. Cancellations

8.1 The Authorising Officer who granted or last renewed the authorisation must cancel it if s/he is satisfied that the Directed Surveillance or the use or conduct of the CHIS no longer meets the criteria for which it was authorised (see annexes 1 or 2 for examples of cancellation forms). When the Authorising Officer is no longer available, this duty will fall on the person who has taken over the role of Authorising Officer or the person who is acting as Authorising Officer.

8.2 As soon as the decision is taken that Directed Surveillance should be discontinued or the use or conduct of the CHIS no longer meets the criteria for which it was authorised, the instruction must be given to those involved to stop all surveillance of the subject or use of the CHIS. The authorisation does not ‘expire’ when the activity has been carried out or is deemed no longer necessary. It must be either cancelled or renewed. The date and time when such an instruction was given should be recorded in the central register of authorisations and the notification of cancellation where relevant.

## 9. Central Register and Oversight by Corporate Director

9.1 A copy of any authorisation, any renewal or cancellation (together with any supporting information relevant to such authorisation or cancellation) shall be forwarded to the Corporate Director or a person nominated by them within 5

working days of the date of the application, authorisation, notice, renewal or cancellation.

9.2 The Corporate Director shall:

(a) ensure that a register of the documents referred to in paragraph 9.1 above is kept;
(b) monitor the quality of the documents and information forwarded;
(c) monitor the integrity of the process in place within the Council for the management of CHIS;
(d) monitor compliance with Part II of RIPA and with the Codes;
(e) oversee the reporting of errors to the relevant Oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
(f) engage with the IPC inspectors when they conduct their inspections, where applicable; and
(g) where necessary, oversee the implementation of post-inspection action plans approved by the relevant Oversight Commissioner.

## 10. Training

10.1 The Authorising Officers shall be provided with training to ensure awareness of the legislative framework.

## 11. Planned and Directed Use of KCC CCTV Systems

11.1 KCC's CCTV systems shall not be used for Directed Surveillance, without the Corporate Director or other senior legal officer confirming to the relevant operational staff that a valid authorisation is in place.

## 12. Special Arrangements

12.1 The use of a CHIS can present significant risk to the security and welfare of the person. Each authorisation will have a specific documented risk assessment and the CHIS (and all members of any support team) will be briefed on the details of the assessment. Kent County Council has a Memorandum of Understanding with Kent Police for circumstances where the CHIS is not an employee or other agent working for or on behalf of the authority. In other circumstances such as a member of public, "whistle-blower" or informant then Kent Police will handle the operation of the CHIS. Kent Police will ensure the compliance with the Regulations, codes of practice and all other risks such as the security and welfare of the CHIS (and associated persons). Any necessary and relevant information will be provided following best practise as to not risk identifying CHIS unless this is appropriate and approved by Kent Police. In such cases, Kent Police are responsible for all records and monitoring processes.

## 13. Oversight

13.1 The Corporate Director shall ensure that this policy is reviewed on an annual basis by presenting a report of activity to the Governance and Audit Committee (or similar Committee). There shall also be brief details of all activity under this policy provided to the Corporate Director and shared with the appropriate Cabinet

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

13.2 Every two years the KCC General Counsel will review the policy, and also contact the Corporate Directors responsible for all other units and services within Kent County Council to inform them of any changes or alterations. The communication will also seek to highlight the details of the restrictions imposed by RIPA, the IPA and Human Rights legislation. Should any unit or service (other than those permitted by this policy) consider that any actions it may have taken (or are considering taking) might infringe this policy, they must be raised with the KCC General Counsel as soon as practicable.

## Glossary

**"Confidential information"** consists of matters subject to legal privilege, confidential personal information, or confidential journalistic material.

**"Directed Surveillance"** is defined in section 26 (2) of RIPA as surveillance which is covert, but not intrusive (i.e. takes place on residential premises or in any private vehicle), and undertaken:

(a) for the purpose of specific investigation or specific operation;
(b) in such a manner is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and
(c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for the carrying out of the surveillance.

**"A person is a Covert Human Intelligence Source"** if:

- he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything within paragraph (b) or (c);
- he covertly uses such a relationship to obtain information or to provide access to any information to another person; or
- he covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.

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

## Annex 1 – Surveillance forms

Application for Authorisation to Carry Out Directed Surveillance

Review of Directed Surveillance Authorisation

Cancellation of a Directed Surveillance Authorisation

Application of Renewal of a Directed Surveillance Authorisation

(Forms available at http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/ )

## Annex 2 – Covert Human Intelligence forms

Application for Authorisation of the Use or Conduct of a Covert Human Intelligence Source

Review of a Covert Human Intelligence Source Authorisation

Cancellation of an Authorisation for the use of or Conduct of a Covert Human Intelligence Source

Application for renewal of a Covert Human Intelligence Source Authorisation

(Forms available at http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/ )

## Annex 3 - Guidance on completing surveillance forms

### Details of Applicant

Details of requesting officer's work address and contact details should be entered.

### Details of Application

1. **Give rank or position of authorising officer in accordance with the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2003; No. 3171**

   Fill in details of Authorising Officer (see paras 3.1 and 3.2 of Policy)

2. **Purpose of the specific operation or investigation**

   Outline what the operation is about and what is hoped to be achieved by the investigation. Indicate whether other methods have already been used to obtain this information. Give sufficient details so that the Authorising Officer has enough information to give the Authority e.g. "Surveillance at Oakwood House and Mr. X".

3. **Describe in detail the surveillance operation to be authorised and expected duration, including any premises, vehicles or equipment (e.g. camera, binoculars, recorder) that may be used**

   Give as much detail as possible of the action to be taken including which other officers may be employed in the surveillance and their roles. If appropriate append any investigation plan to the application and a map of the location at which the surveillance is to be carried out.

4. **The identities, where known, of those to be subject of the directed surveillance**

5. **Explain the information that it is desired to obtain as a result of the directed surveillance**

   This information should only be obtained if it furthers the investigation or informs any future actions

6. **Identify on which grounds the directed surveillance is necessary under section 28(3) of RIPA**

   The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder.

   This can be used in the context of local authority prosecutions, or where an employee is suspected of committing a criminal offence e.g. fraud.

7. **Explain why this directed surveillance is necessary on the grounds you have identified (code chapter 3)**

   Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance.

**8. Supply details of any potential collateral intrusion and why the intrusion is unavoidable (code chapter 3) Describe precautions you will take to minimise collateral intrusion**

Who else will be affected by the surveillance, what steps have been done to avoid this, and why it is unavoidable?

**9. Explain why the directed surveillance is proportionate to what it seeks to achieve. How intrusive might it be on the subject of surveillance or on others? And why is this intrusion outweighed by the need for surveillance in operational terms or can the evidence be obtained by any other means? [Code chapter 3]**

If the Directed Surveillance is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

**10. Confidential information (Code chapter 4)**

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

**12. Authorising Officer's Statement**

**13. Authorising Officer's comments**

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary.

## Annex 4 - Guidance on completing Covert Human Intelligence forms

**Details of Application**

1. **Authority Required**
   Fill in details of Authorising Officer (see paras 4.1 and 4.2 of the Policy)

   Where a vulnerable individual or juvenile source is to be used, the authorisation MUST be given by the Head of Paid Service or, in their absence, the Corporate Director deputising for them.

2. **Describe the purpose of the specific operation or investigation**

   Sufficient details so that the Authorising Officer has enough information to give Authority. Outline what the operation is about and the other methods used already to obtain this information.

3. **Describe in detail the purpose for which the source will be tasked or used**

   Give as much detail as possible as to what the use of the source is intended to achieve.

4. **Describe in detail the proposed covert conduct of the source or how the source is to be used**

   Describe in detail the role of the source and the circumstances in which the source will be used

5. **Identify on which grounds the conduct or the use of the source is necessary under Section 29(3) of RIPA**

   The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder

6. **Explain why this conduct or use of the source is necessary on the grounds you have identified (Code chapter 3)**

   Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance for the investigation.

7. **Supply details of any potential collateral intrusion and why the intrusion is unavoidable (Code chapter 3)**

   Who else will be affected, what steps have been done to avoid this, and why it is unavoidable?

8. **Are there any particular sensitivities in the local community where the source is to be used? Are similar activities being undertaken by other public authorities that could impact on the deployment of the source? (see Code chapter 3)**

Ensure that other authorities such as the police or other council departments are not conducting a parallel investigation or other activity which might be disrupted.

**9. Provide an assessment of the risk to the source in carrying out the proposed conduct (see Code chapter 6)**

A risk assessment will have to be carried out to establish the risks to that particular source, taking into account their strengths and weaknesses. The person who has day to day responsibility for the source and their security (the 'Handler') and the person responsible for general oversight of the use made of the source (the 'Controller') should be involved in the risk assessment.

**10. Explain why this conduct or use of the source is proportionate to what it seeks to achieve. How intrusive might it be on the subject(s) of surveillance or on others? How is this intrusion outweighed by the need for a source in operational terms, and could the evidence be obtained by any other means? [Code chapter 3]**

If the use of a Covert Human Intelligence Source is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

**11. Confidential information (Code chapter 4). Indicate the likelihood of acquiring any confidential information**

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

**13. Authorising Officer's comments**

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary to use the source and that a proper risk assessment has been carried out.

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By: 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 – 30 November 2021

Subject: External Auditor appointments process

Classification: Unrestricted

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Summary: This report asks Members to agree the recommendation to opt into the national scheme for auditor appointments managed by PSAA as the appointing person and that this recommendation goes before County Council.

**FOR AGREEMENT**

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## 1. Purpose of the report

1.1. This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24.

## 2. Background and summary

2.1. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

2.2. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

2.3. The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;

- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and

- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

2.4 If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

## 3. Recommendation

3.1 That this committee agrees to forward the recommendation to County Council that the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of our external auditors for five financial years from 1 April 2023.

| | |
|---|---|
| L;/By: | James Flannery – Counter Fraud Manager |
| To: | Governance and Audit Committee – 7th October 2021 |
| Subject: | **COUNTER FRAUD UPDATE** |
| Classification: | Unrestricted |

**Summary**:
This report details:

- The Counter Fraud activity undertaken for Quarter 1 of 2021/22, including reported fraud and irregularities.

**Recommendation: FOR ASSURANCE**

## Introduction

1.1 This report outlines Counter Fraud work which has been undertaken in Quarter 1 of 2021/22, the report provides:

- An overview of the work of the Counter Fraud Team;
- details of actual, recoverable, potential and prevented losses identified through counter fraud activity; and
- a spotlight on the volume and variety of investigations work that the Counter Fraud Team undertakes and the competing priorities.

## Irregularity Referrals

1.2 Irregularities reported to the Counter Fraud team are starting to increase again, a new category has been created to capture the number of referrals from the public on blue badge misuse due to an increase in this area.

1.3 For Quarter 1 for 2021/22, there were 103 suspected irregularities (Trend analysis shown in tables below) reported to the Counter Fraud Team (compared to 63 during the same period in 2020/21).

1.4 Actual losses for Quarter 1 2021/22 were £61,663, however recoverable losses are £29,663. This is due to the loss of £32,000 of income due on school appeals. Potential fraud losses equate to £58,665, with prevented fraud losses amounting to £1,725. Prevented fraud losses will fluctuate depending on the nature of cases referred.

## Case Summaries

### Charging of School Appeals

1.5 An investigation into school appeals has been completed by the Counter Fraud Team following a financial irregularity being reported. The irregularity related to the failure to charge primary schools the fee for preparing the General Defence Statement as part of the school appeal process.

1.6 It was established that from April 2019 to March 2021, the General Defence Fee applicable to each primary school for their first appeal, totalling £110 was not being included on the invoices to primary schools who used this service, secondary schools however, had been invoiced for this fee. All schools had been charged the fee for the appeal preparation and presenting officer. This has resulted in a financial loss of £32,000 to KCC.

1.7 The investigation identified a number of control weaknesses, namely a lack of segregation of duties in the administration of appeals, no reconciliation of services delivered to amount invoiced, and income received, no budget monitoring occurring for the appeals income and a lack of financial awareness of the charging requirements. The issues on control weaknesses have been reported to management via a management letter and responses to the issues raised have been received. The management responses address the issues to ensure the risk of further loss is suitably mitigated.

### Blue Badge Offences

1.8 Referrals for Q1 from District and Borough Councils are relatively low, given this period is just after full lockdown and the health and safety requirement to maintain social distancing means the referral rates are reflective of the situation.

1.9 To support Districts and Borough Councils, two enforcement days in August 2021 to train Civil Enforcements Officers (CEOs) and raise awareness have progressed with Dartford and Tonbridge and Malling. During the enforcement day, a number of blue badge misuse offences were detected and will be progressed to investigation. CEOs welcomed the training to support their enforcement activity, referrals rates will be monitored to assess the impact of the training. A press release has been issued to act as a deterrent for others, this has received favourable local press coverage. The following table shows the referral rates per District/ Borough for Q1:

| Council | Referrals | Council | Referrals | Council | Referrals |
|---|---|---|---|---|---|
| Ashford | 10 | Folkestone & Hythe | 0 | Sevenoaks | 0 |
| Canterbury | 0 | Gravesham | 4 | Thanet | 0 |
| Dartford | 1 | Maidstone | 2 | Tonbridge and Malling | 0 |
| Dover | 2 | Swale | 0 | Tunbridge Wells | 0 |

1.10 Through the National Fraud Initiative, a further 19 referrals have been reviewed following the matching of data relating to deceased individuals whose badges were issued after the date of death. The review of these cases has identified the applications were started prior

to their death but due to processing times were issued after their death. All badges have been cancelled.

1.11 Eight referrals have been received from members of the public regarding misuse identified in residential areas. This information has been passed to the District/ Borough parking teams to monitor and enforce the scheme if required. Two cases have been received in respect of concerns on the representations made through the assessment process.

1.12 The Counter Fraud Team have secured a prosecution for a blue badge offence, with details reported in the press. The offence related to the use of a deceased person's blue badge. The offender received a £250 fine, £700 contribution to investigation and prosecution costs and a £32 victim surcharge, to be paid within 28 days. A costly experience for avoiding paying the £2.30 per hour parking charge.

**Direct Payments**

1.13 There have been 16 cases of financial irregularities reported in Quarter 1 on Direct Payments made to adults and children in social care, with known actual losses equating to £15,599 due to spend outside of the agree care and support plan. All amounts are subject to civil recovery.

**Fraud and Irregularity Trends**

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

***Table CF1 - Areas of reported fraud and irregularities over the past 2 years + Quarter 1.***

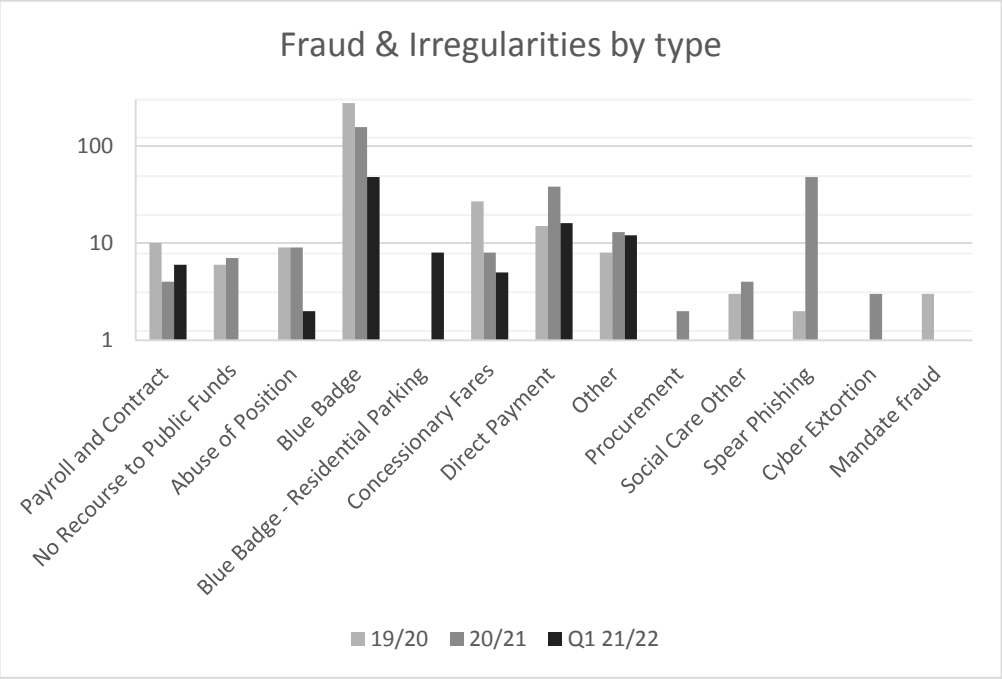


***Table CF2 – Number of Irregularities Reported by Month***

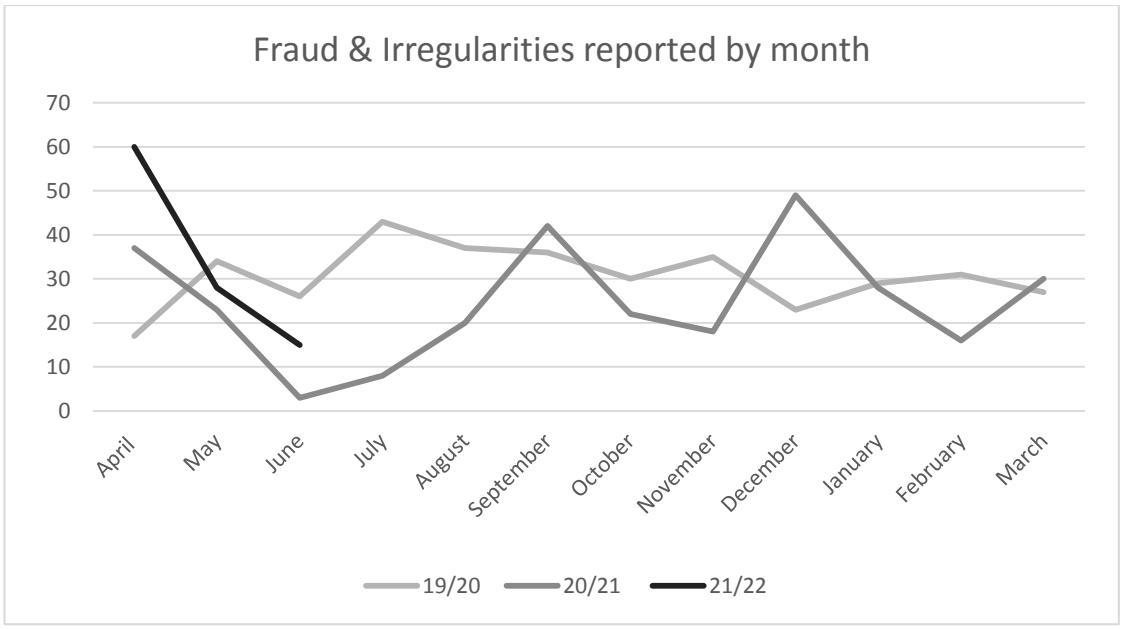
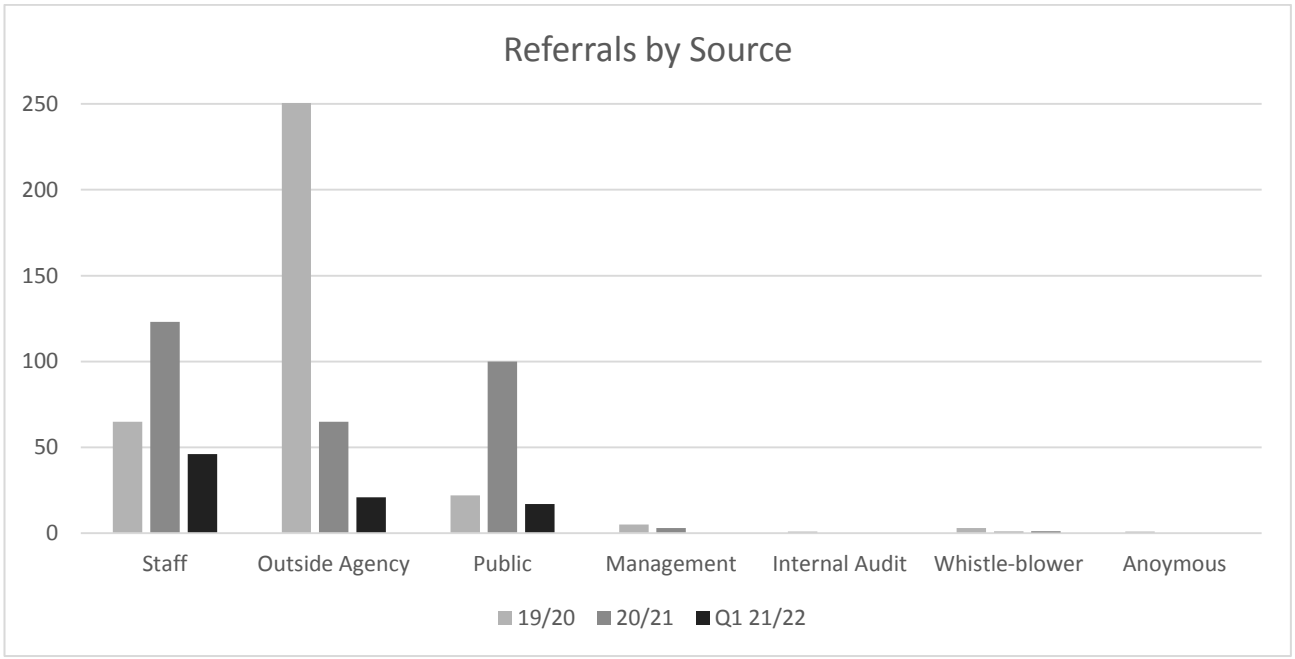
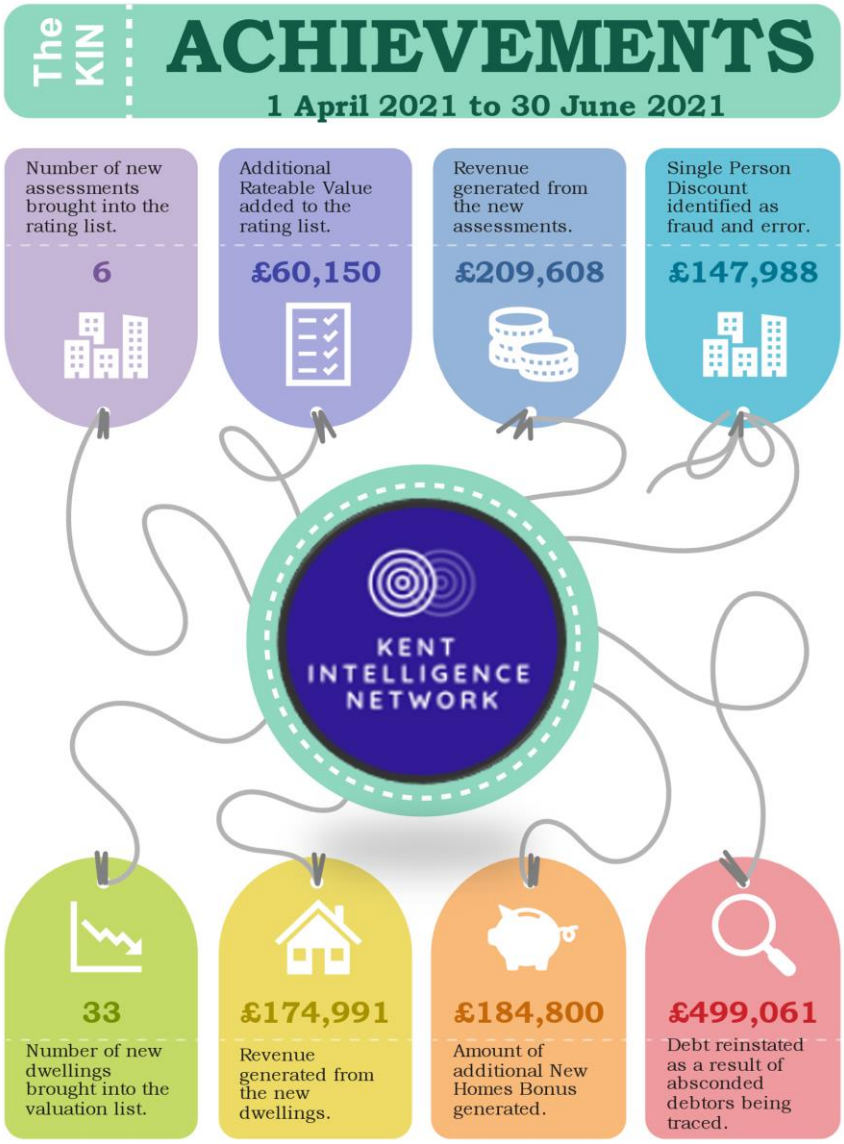



***Table CF3 – Referrals by Source***



**Kent Intelligence Network (KIN)**

1.15 The KIN continues to provide valuable support to the District/Borough Councils and the outcomes at the end of Q1, set out below, show the results and financial returns achieved in the first 3 months of this financial year.




1.16 Six commercial properties have been identified that were previously missing from the rating list. These properties have now been brought into the list by the Valuation Office Agency and consequently, the businesses occupying these properties are now paying business rates.

1.17 The additional business rates revenue generated from the identification of these missing properties is £209,608, of which broadly 9% comes to KCC, and is a combination of the following:

- The total amount of business rates billed for both the current financial year and previous financial years of £119,562; and

- A ‘future loss prevention’ provision of 3 years of £90,046. This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.

1.18 It is also pertinent to highlight that as of 30th June 2021, there were a further 32 cases with the Valuation Agency awaiting assessment/valuation. The KIN also helps to identify dwellings missing from the valuation list. So far, 33 dwellings have been identified, the majority of which are self-contained annexes missing from the list.

1.19 The additional council tax revenue generated from the identification of these properties is £174,991, of which broadly 73% comes to KCC, is a combination of the following:

- The total amount of council tax billed for both the current financial year and previous financial years of £38,387; and
- A ‘future loss prevention’ provision of 3 years of £136,604. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.

1.20 Dwellings added to the valuation list also help to generate additional New Homes Bonus (NHB) for both Districts/Boroughs and KCC. It is estimated that the 33 dwellings identified will generate £184,800 in additional NHB, of which 20% will come to KCC.

1.21 In total, the financial benefit to KCC from the initiatives and successes detailed above in the first quarter of the financial year amounts to £183,408.

**Counter Fraud Pro-Active Work**

1.22 The Counter Fraud Proactive Work delivered for this period, is set out below. Further details of activity against the Counter Fraud Plan can be found at Appendix A:

- Providing fraud awareness sessions to our external clients and school finance officers.

- Supporting the Reconnect grant funding process through reviewing the application processes, producing a fraud risk assessment as well as providing advice and support on some of the application being received.

- Completing Blue Badge enforcement days with two parking teams.

- Completing a review of the way ‘Indi’ contracts for the adult social care provision has been managed following a complaint from a provider.

- Working with the Accountancy Team in developing the Tax Evasion Strategy and risk assessing Tax Evasion within KCC to support compliance with the Criminal Finances Act 2017.

## Counter Fraud Resources

1.23 The team is now at full strength with the appointment of the Counter Fraud Apprentice who joined the team in August. This now means the team compromises of; 0.8FTE Counter Fraud Manager, 2.6FTE Counter Fraud Specialists, 1FTE Counter Fraud Technician and 1FTE Counter Fraud Apprentice.

## Conclusions

1.24 The number of referrals (103) received in Q1, 2021/22 is the highest figure the Counter Fraud Team has received over the past four financial years.

## Recommendation

1.25 The Governance and Audit Committee note the Counter Fraud Update report for quarter 1 2021/22.

**James Flannery, Counter Fraud Manager**

03000 416092, james.flannery@kent.gov.uk Sept 2021

## Appendix A: Counter Fraud Plan 2021/22

| Ref | Risk Area | Activity | Progress |
|---|---|---|---|
| CF01-2022 | Payroll<br>Pension<br>Blue Badge<br>Concessionary fares<br>Trade Creditors | Progression of NFI Data Matches | In progress – Matches being cleared |
| CF02-2022 | Corporate risk of Fraud | Policy and Strategy Review | Completed review of Anti-Fraud and Corruption Strategy, Anti Bribery Policy, Anti Money Laundering Policy, Financial Regulations.<br>Whistleblowing policy and procedure reviewed and issued to the Monitoring Officer and Corporate Director for People and Communications for review and progression. |
| CF03-2022 | Corporate Fraud | Kent Intelligence Network | In progress – savings reported above |
| 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. | Fraud risk assessment of the Reconnect grant programme completed.<br>Relationship management meetings being arranged for Oct/Nov to discuss current risk assessments |
| CF05-2022 | All fraud risk areas faced by schools to support the prevention and detection of fraud | Proactive Fraud Exercise - Schools | Two sessions delivered to the Finance officers' group. |
| CF06-2022 | Blue Badge fraud risk | Proactive Fraud Exercise - Blue Badges | Two enforcement days delivered – with press release to raise awareness<br>Training video under development<br>Engagement with Parking managers occurring |
| CF07-2022 | Social Care fraud risks | Proactive Fraud Exercise - Social Care | Completed – issued and live on Knet. |
| CF08-2022 | Procurement fraud risks | Proactive Fraud Exercise - Commissioning | Awaiting Strategic Commissioning to release the commissioning standards for Counter Fraud to review and comment on. |
| CF09-2022 | Payment/ procurement fraud risks | Data analytics development - payments | Planned for Q3 |
| CF10-2022 | Procurement fraud risks | Data analytics development - procurement card usage | Planned for Q3 |

| | | | |
|---|---|---|---|
| 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 | In progress - 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 | In progress |
| CF14-2022 | All fraud risk areas | Reactive Investigations | In progress. |

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| | |
|---|---|
| By: | Jonathan Idle – Head of Internal Audit |
| To: | Governance and Audit Committee – 30 November 2021 |
| Subject: | **INTERNAL AUDIT PROGRESS REPORT** |
| Classification: | Unrestricted |

**Summary**:

This Progress Report details summaries of completed Audit reports between for the period July to October 2021.

**Recommendation:**

**The Governance and Audit Committee note the Internal Audit Progress Report for the period July to October 2021.**

**FOR ASSURANCE**

## 1. Introduction

1.1 Public Sector Internal Audit Standards (PSIAS) require that periodic reports on the work of Internal Audit should be prepared and submitted to those charged with governance.

1.2 This Progress Report provides the Governance and Audit Committee with an accumulative summary view of the work undertaken by Internal Audit during July to October 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 July to October 2021.

## 3. Background Documents

Internal Audit Progress Report.

**Jonathan Idle, Head of Internal Audit**

E: Jonathan.Idle@kent.gov.uk

T: 03000 417840

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# INTERNAL AUDIT PROGRESS REPORT

# GOVERNANCE AND AUDIT COMMITTEE

# 30 November 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 between July and October 2021.

## 2. Key Messages

- All audits from the 2020/21 audit plan have been completed
- 9 audits have been finalised since the previous progress report, which was reported to Members in July 2021. See **Appendices A & B**
- 33 of 55 audits from the 2021/22 audit plan are either in progress or at reporting stage
- The audit **RB22-2022 – Foster Care – Transition to Shared Lives** has been deferred to 2022/23
- 22 grants / certifications have been certified to date, with a further 4 currently in progress. See **Appendix C**

## 3. Updates

### 3.1 Internal Audit Plan

The following report provides an update on the work completed between July and October 2021 against both the 2020/21 and 2021/22 Audit Plans.

Following discussions with the respective officers it has been agreed that audit **RB22-2022 – Foster Care Transition to Shared Lives** will be deferred to 2022/23.

In addition to the planned work completed during this period, Internal Audit has also provided consultancy advice in relation to:

- The Reconnect Programme, in respect of the grant application process and the Holiday Activities and Food Programme.
- The Total Placement Service in relation to the process for authorising placement costs.

**Table 1: Summary of Assurance Levels to Date**

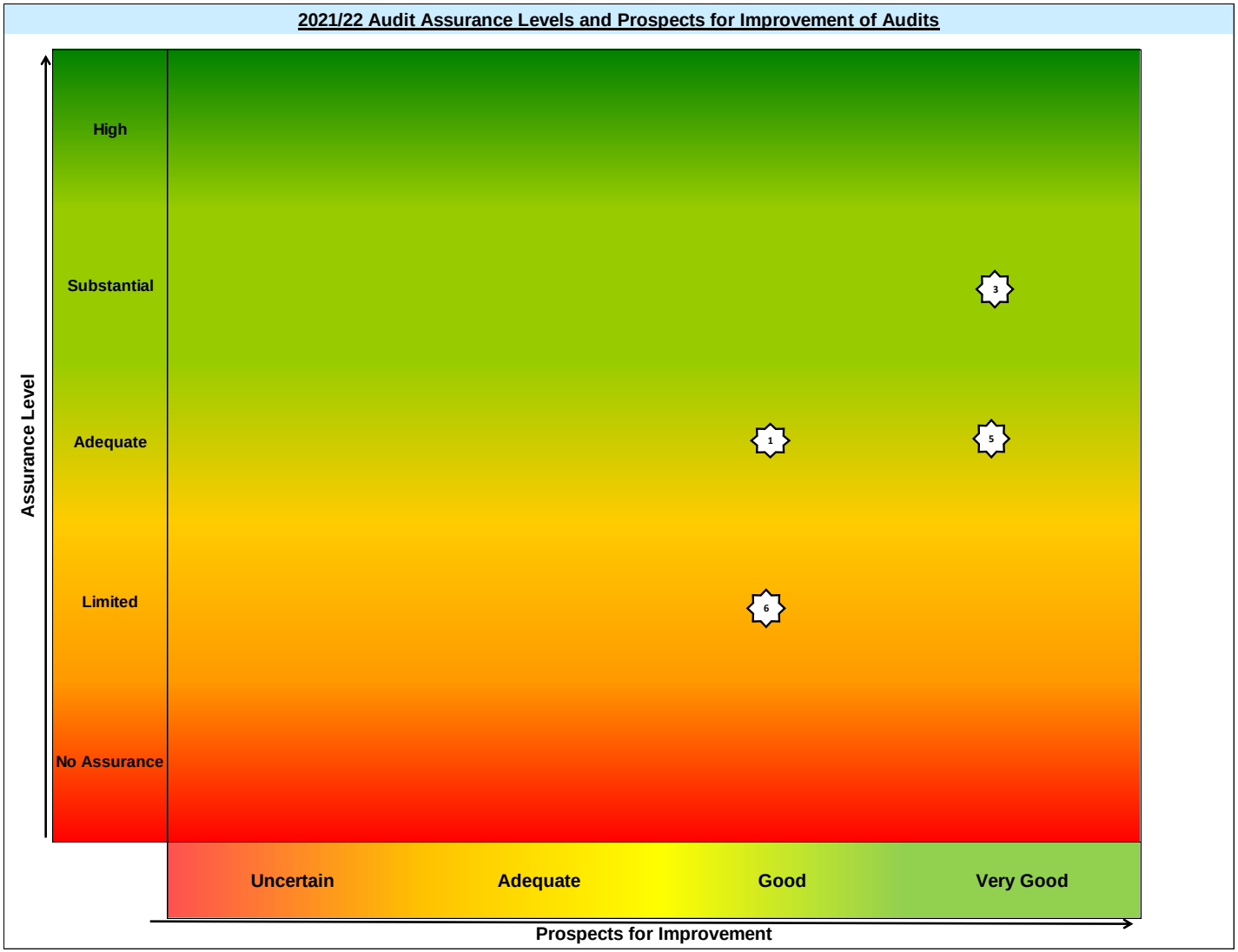
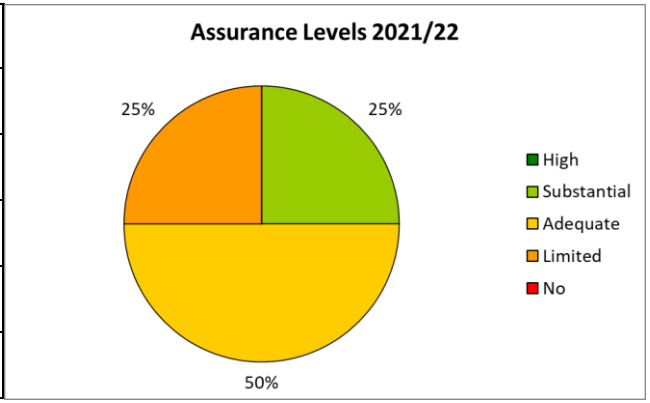


**Table 2 – Summary of Audits by Committee Meeting**

| Governance & Audit Committee – 30 November 2021 | | | |
|---|---|---|---|
| | **Audit** | **Assurance** | **Prospects for Improvement** |
| 1 | Schools Themed Review - Cyber Security (**EXEMPT)** | ADEQUATE | GOOD |
| 2 | Imprest Accounts Follow-up (**EXEMPT)** | N/A | N/A |
| 3 | ACCESS Pool | SUBSTANTIAL | VERY GOOD |
| 4 | Strategic Commissioning Follow-up | N/A | N/A |
| 5 | Cyber Security - Management of Backups for Applications, Data and active Network Devices (**EXEMPT)** | ADEQUATE | VERY GOOD |
| 6 | Records Management | LIMITED | GOOD |
| 7 | Information Governance Assurance Map Update | N/A | N/A |
| 8 | ASCH Day Care Centre Review **(EXEMPT)** | N/A | N/A |
| 9 | Sessions House Data Centre Failure – Lessons Learnt Review **(EXEMPT)** | N/A | N/A |

| Assurance Level | No | % |
|---|---|---|
| High | 0 | 0% |
| Substantial | 1 | 25% |
| Adequate | 2 | 50% |
| Limited | 1 | 25% |
| No | 0 | 0% |



### 3.2 Grant Certification Work:

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 certifications is an ongoing commitment of Internal Audit resources which requires adherence to strict timescales for the certification of claims submitted.

In 2021-22, the team has audited and certified Interreg 22 grant claims with a value of €1,737,363 with a further 2 grant claims currently in progress. Additional On The Spot (enhanced re-audit) for two grant projects has been completed with a further 4 On The Spot checks currently in progress.

The Audit team also certify Interreg grant claims for external clients with 4 claims having been certified this year.

Grant work is also completed by the Audit team in respect of validating expenditure of various UK Government Grants awarded for particular activities such as Highways Travel Demand Management and Bus Service Operators Grant.

Details of all certifications can be seen at **Appendix C**.

### 3.3 Internal Audit Resources:

In accordance with the Public Sector Internal Audit Standards, members of the Committee need to be appraised of relevant matters relating to the resourcing of the Internal Audit function.

The recent team restructure was finalised in September 2021. The recruitment for all vacant Auditor and Trainee Auditor posts has been completed. All of the newly appointed team members will be in post by mid-November.

Recruitment for the Principal Auditor (IT Specialist) post was unsuccessful due to the specialist nature of the role. Alternative recruitment options are currently being considered.

A number of contract auditors have been resourced to support audit plan delivery, whilst the new team members are inducted / trained.



### 3.4 External Quality Assessment

Work is underway to address the actions arising from the recent External Quality Assessment. A full update on the External Quality Assessment action plan, will be reported to Members in April 2022.

## 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 D**, for the Committee's information and discussion.

| (A) Cross Directorate | (B) Adult Social Care and Health |
|---|---|
| CA05-2022 Information Governance Assurance Mapping Update | AD01-2022 ASCH Day Care Centre Review **(EXEMPT)** |
| **(C) Children, Young People and Education** | **(D) Strategic and Corporate Services** |
| RB24-2021 Schools Themed Review - Cyber Security **(EXEMPT)** | CS01-2021 Imprest Accounts Follow-up **(EXEMPT)**<br>CS08-2021 Access Pool<br>RB02-2021 Strategic Commissioning Follow-up<br>IT03-2021 Cyber Security - Management of Backups for Applications, Data and active Network Devices **(EXEMPT)**<br>CA03-2021 Records Management<br>ICT05-2022 Sessions House Data Centre Failure - Lessons Learnt Review **(EXEMPT)** |
| **E. Growth, Environment and Transport** | |
| None | |

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

| Ref | Audit | Status as at 9/11/2021 | Assurance |
|---|---|---|---|
| CA01 | Annual Governance Statement Assurance Statement (2019-20) | Final Report | Adequate – GAC Oct 20 |
| CA02 | Corporate Governance | Complete | N/A |
| CA03 | Records Management | Final Report | Limited – GAC Nov 21 |
| 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. | Complete | N/A |
| 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 | Final Report | N/A GAC Nov 21<br>**EXEMPT** |
| 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 | Final Report | Substantial – GAC Nov 21 |
| 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 | Final Report | N/A – GAC Nov 21 |
| RB03 | Enterprise Business Capabilities (Oracle) | Final Report | N/A – GAC July 21 |

| Ref | Audit | Status as at 9/11/2021 | Assurance |
|---|---|---|---|
| RB04 | Health and Wellbeing Strategy | Final Report | Substantial – GAC July 21 |
| RB05 | Succession Planning | Final Report | N/A - Management Letter – GAC Jan 21 |
| 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 | Final Report | Adequate – GAC Nov 2021<br>**EXEMPT** |
| 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 | |

| Ref | Audit | Status as at 9/11/2021 | Assurance |
|---|---|---|---|
| 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 | |
| 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 | Adequate – GAC Nov 21<br>**EXEMPT** |
| 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 9/11/2021 | 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 9/11/2021 | Assurance |
|---|---|---|---|
| N/A | Sessions House Data Centre Failure – Lessons Learnt Review | Final Report | N/A GAC Nov 21 **(EXEMPT)** |
| N/A | Care Act Easement | Final Report | N/A Management Letter – GAC April 21 |
| N/A | Highways Capital Grants | Complete | N/A |
| CA02 | Annual Governance Statement (2020-21) | Final Report | Adequate – GAC July 21 |
| AD01 | ASCH Day Care Centre Review | Final Report | N/A - GAC Nov 21 **(EXEMPT)** |

## Appendix B – 2021/22 Internal Audit Plan Status and Assurance Summary

| Ref | Audit | Status as at 9/11/2021 | Assurance |
|---|---|---|---|
| CA01 | Annual Governance Statement | Not Started | |
| CA02 | Corporate Governance | Planning | |
| CA03 | Equalities Act 2010 Duties | Not Started | |
| CA04 | Future of Sessions HQ | Planning | |
| CA05 | Information Governance Assurance Mapping Update | Final Report | N/A |
| CA06 | Records Management Follow Up | Not Started | |
| CA07 | Risk Management | Not Started | |
| CA08 | Strategic Commissioning | Not Started | |
| CS01 | CIPFA Financial Management Code | Planning | |
| CS02 | General Ledger | Draft Report | |
| CS03 | Imprest Accounts Follow Up | Not Started | |
| CS04 | Payroll | Planning | |
| CS05 | Pension Scheme Admin | Not Started | |
| CS06 | Urgent Payments Follow Up | Not Started | |
| CR01 | Annual Audit Opinion | Not Started | |
| CR02 | Annual Governance Statement | Planning | |
| CR03 | Information Governance Steering Group | Ongoing | |
| CR04 | Provider Invoicing | In Progress | |
| RB01 | Declaration of Interests (Members) | Planning | |
| RB02 | Engagement of Consultants | Planning | |
| RB03 | Enterprise Business Capabilities (Oracle) – Strategic Reset Programme | Ongoing | |
| RB04 | Information Governance – DSP Toolkit | Not Started | |
| RB05 | KCC Estate Review – Strategic Reset Programme | Planning | |
| RB06 | New Grant Funding | Planning | |
| RB07 | People Strategy – Strategic Reset Programme | In Progress | |
| RB08 | Property Infrastructure – Functions and Processes Transferred from Gen2 | Planning | |
| RB09 | Public Health – Covid 19 Ring Fenced Grants | Planning | |
| RB10 | Schools Financial Services | Not Started | |

| Ref | Audit | Status as at 9/11/2021 | Assurance |
|---|---|---|---|
| RB11 | Strategic Reset Programme – Programme Governance | In Progress | |
| RB12 | Contract Management (ASCH) | Planning | |
| RB13 | Data Protection (ASCH) | Draft Report | |
| RB14 | Individual Contracts with Care Providers (ASCH) | Not Started | |
| RB15 | Making a Difference Every Day (MADE) Assurance Board | Ongoing | |
| RB16 | Provider Failure (Assurance Mapping) | Planning | |
| RB17 | Safeguarding Assurance Map (ASCH) | Planning | |
| RB18 | Supervision of Social Workers | Not Started | |
| RB19 | Accommodation for Young People / Care Leavers Follow Up | Planning | |
| RB20 | Business Continuity Planning (CYPE) | Not Started | |
| RB21 | Change for Kent Children – Strategic Reset Programme | Ongoing | |
| RB22 | Foster Care – Transition to Shared Lives | Deferred to 2022/23 | |
| RB23 | Information Governance (CYPE) | Not Started | |
| RB24 | Safeguarding Assurance Map Update (CYPE) | Planning | |
| RB25 | School Themed Review – Corporate Credit Cards | Planning | |
| RB26 | SEN Assurance Mapping | Not Started | |
| RB27 | Traveller Service – Site Allocation and Pitch Fee Collections | Planning | |
| RB28 | Highways Term Maintenance Contract | Ongoing | |
| RB29 | Inland Border Posts / Decision Making and Financial Management | Planning | |
| RB30 | Kent and Medway Business Fund | Not Started | |
| RB31 | Kent and Medway Energy and Low Emissions Strategy | Not Started | |
| RB32 | New Local Infrastructure Projects Across Kent (SELEP) | Planning | |
| ICT01 | Cyber Security Assurance Map Update | Not Started | |
| ICT02 | Information Technology Risk Management | Not Started | |
| ICT03 | IT Cloud Strategy, Security and Data Migration | Draft Report | |
| ICT04 | IT Data Security Audit for DSP Toolkit | Not Started | |
| ICT05 | Prevention of ICT Data Centre Outages Follow Up | Draft Report | |

## Appendix C - Grant Certifications completed since 1/4/2021:

| Grant | Description | Status as at 5/11/2021 |
|---|---|---|
| EU Interreg - Aspire | A holistic approach to lowering obesity and unemployment rates in identified communities where the two issues are linked. | 2 Claims Completed |
| EU Interreg - BEGIN | An approach to climate resilience for cities that mimics nature's potential to deal with flooding. | 1 Claim completed and On The Spot in progress |
| EU Interreg - BHC21 | To contribute to the development of more efficient and effective vocational training services for low-skilled people and develop a generic 21st century training model to reduce unemployment rates amongst low-skilled people. | 1 Claim completed and On The Spot in progress |
| EU Interreg – Blueprint | Upskill 18 social enterprises to train 2000 disadvantaged individuals with the skills they require to secure new jobs linked to circular economy growth (increased recycling, reverse logistics and secondary markets) | 1 Claim in progress |
| EU Interreg – BoostforHealth Capitalisation | Supporting Kent based life sciences companies with internationalisation and in particular market entry in mainland Europe. | |
| 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 and 1 On The Spot completed |
| EU Interreg – C-CARE | To deliver a range of activities linked to Covid-19 response including:<br>- A technology resilience voucher scheme for businesses (ED)<br>- A green recovery voucher scheme for businesses (Environment Team)<br>- A Covid-secure trading standards training module (Public Protection) | 1 Claim in progress |
| 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 |
| EU Interreg – Cool Towns | Spatial adaptation for heat resilience in small and medium sized cities to minimise the heat related effects of climate change. | |
| 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. | |
| EU Interreg - Empower Care | To create resilient communities and reduce individual frailty and loneliness, addressing issues facing the care of our aging population | 1 Claim completed |
| EU Interreg - Ensure | Making use of the community peer to peer support, which will allow societies to become proactive in addressing circumstances which create vulnerability across Kent. | 1 Claim completed |
| EU Interreg - Experience | To provide the tools and infrastructure to capitalise on the emerging trend for personalised and local tourism experiences which provide reasons to visit at any time of the year. | 1 Claim completed |
| EU Interreg – Green Pilgrimage | Protecting natural & cultural heritage whilst developing jobs & growth along pilgrim routes by developing low impact tourism, digitalisation, pilgrim accommodation & strengthening local traditions. | |
| EU Interreg - H20 | Overcoming barriers to integrated water and ecosystem management in lowland areas adapting to climate change. | 1 Claim in completed |

| | | |
|---|---|---|
| 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) | 1 Claim in completed |
| EU Interreg - Inn2Power | Supporting Kent based companies in the offshore wind sector with internationalisation & market entry in mainland Europe | 1 Claim completed |
| EU Interreg - PATH2 | Enabling women, families and healthcare professionals to prevent, diagnose and successfully manage mild and moderate perinatal mental health issues. | 1 Claim completed and On The Spot in progress |
| EU Interreg - Prowater | Contributing to climate adaptation by restoring the water storage of the landscape via ecosystem-based adaptation measures. | 1 Claim completed |
| EU Interreg - SCAPE | Developing landscape-led design solutions for water management that make costal landscapes better adapted and more resilient to climate change. | 1 Claim completed and On The Spot in progress |
| EU Interreg - SHIFT | Engaging with people over 45 years of age to develop a tailored sexual health and wellbeing model. | 1 Claim completed |
| EU Interreg - SIE | Evaluating and improving business support services for SMEs specifically related to exporting and internationalisation. | |
| EU Interreg – STAR2Cs | Overcoming the implementation gap faced by local government adapting to climate change. | 1 Claim Completed |
| EU Interreg – Step by Step | Seeking to increase the impact of the internationally evidenced men's sheds programme in particular employment & health outcomes. | 1 Claim completed and 1 On The Spot completed |
| EU Interreg - TICC | Implementing an integrated community team at a pilot site to work with the principles of Buurtzorg (A Dutch home-care model known for innovative use of independent nursing teams in delivering relatively low-cost care). | 1 Claim completed |
| EU Interreg - Triple A | Supporting homeowners to adopt different low-carbon technologies in their homes. | |
| EU Interreg - Triple C | Implementing a set of cost-effective actions to reduce flooding and erosion. | 1 Claim completed |
| EU Interreg - Upcycle your waste | The programme will run over three years and aims to support SMEs in reducing their running costs by handling and transforming their waste into new resources for the community. | 1 Claim completed |
| EU Interreg - USAC | | 1 Claim completed |
| Department of Health and Social Care | Public Health Test and Trace grant | In progress – deferred to 2022 |
| Department for Transport | Highways Travel Demand Management Grant | In Progress |
| Department for Transport | Bus Service Operators Grant | In Progress |
| Department for Transport | Additional School and College Transport Grant | In Progress |

## Appendix D – Summaries of Completed Audit Reviews

### A1. CA05-2022 – Information Governance Assurance Map - Update

| | |
|---|---|
| Audit Opinion | **N/A** |
| Prospects for Improvement | **N/A** |

**Introduction**

It was agreed that Internal Audit would undertake an assurance mapping exercise against the Council's significant risks, with this map focussed on Information Governance.

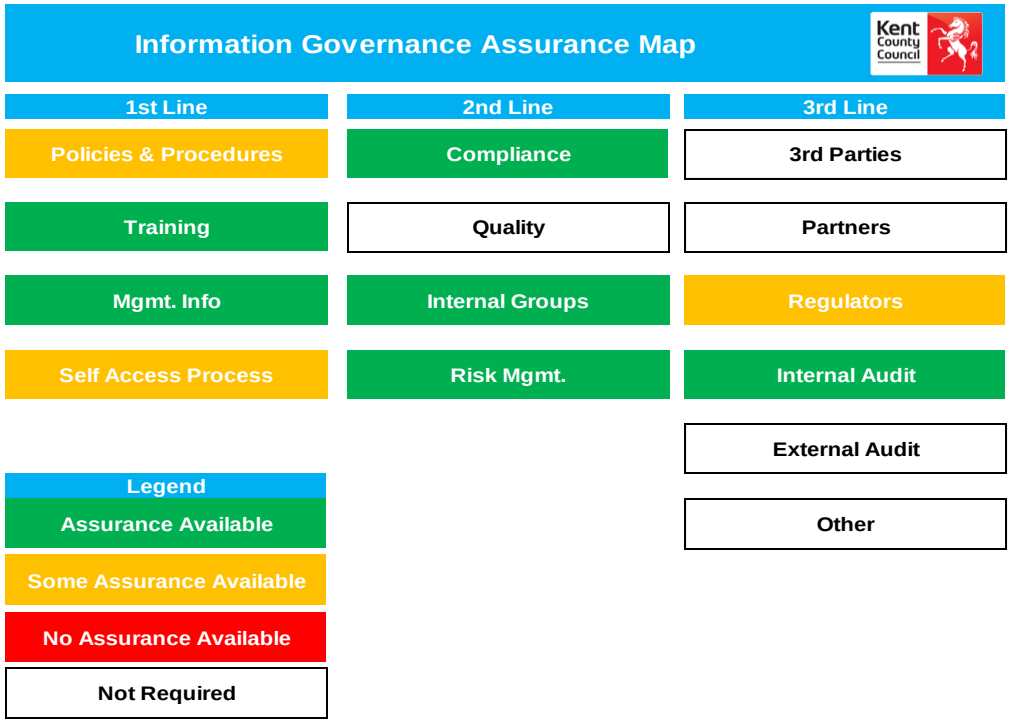
**Assessment Method**

Assessment was undertaken through interviews with key officers, and relevant documentation. The assessment should be undertaken on a regular basis to ensure that current position is captured.

**Findings**

An assurance map was provided for Corporate Information Governance Group and highlighted areas where assurance gaps exist and where future work should be directed. Below are the future key potential scope areas for Information Governance:

- Policies & Procedures
- Record of Processing Activity (ROPA)
- Information Management
- Legacy Systems
- Legacy Information



| Theme | Line of Defence | Assessment | RAG |
|---|---|---|---|
| Policies & Procedures | 1st Line | A vast array of Policies and Procedures are in place to support Information Governance, however, is this too vast for the end user. Information Governance (Remote Working) Audit found that policies required enhancement to support colleagues working in a remote working environment. | |
| Record of Processing Activity (ROPA) | 1st Line | This had been identified in the recent Data Protection Deep Dive audit undertaken in CYPE during 19/20. This action taken forward by Information Governance Cross Directorate Working Group (IGXDWG) however, further documentation is required | |
| Records Management | 1st Line/ 2nd Line | Records Management audit undertaken as part of 20/21 Audit plan with Limited Assurance Assigned. To be followed up as part of the 21/22 Audit Plan. | |
| Technical Risk Assessments | 2nd Line | No Audit Coverage undertaken by the Infrastructure Compliance and Risk Team | |
| Information Management | 1st Line | Information Asset Registers (IAR) are currently being reviewed across the Council by Information Governance Leads in conjunction with the Records Manager. As part of this work Information Asset Owners (IAO) may require review as current arrangements current owners may not be best placed within the organisation. | |
| Legacy Systems | 1st Line/ 2nd Line | There are potentially systems in place within KCC which would be classed as 'legacy systems' and thereby may no longer be supported by their developers leading to potential vulnerabilities. | |
| Legacy Information | 1st Line/ 2nd Line | Information retained within systems/ electronically may not be retained in line with timeframes of KCC Retention Schedules and Data Protection Act 2018. Systems information would only be cleansed from legacy systems if the IAO directs KCC's ICT provider to do so. | |
| Anonymisation & Pseudonymisation | 1st Line | Covered in Data Protection 18/19 and therefore sufficient assurance available. | |
| DPIA | 1st Line/ 2nd Line | Covered in Data Protection 18/19 and Data Protection Deep Dive 19/20 and therefore sufficient assurance available | |
| Privacy Notices | 1st Line | Covered in Data Protection 18/19 and Data Protection Deep Dive 19/20 and therefore sufficient assurance available. Privacy Notices are reviewed as part of IGXDWG and Information Governance Leads. | |

## D2 – CS08-2021 – Access Pool

| | |
|---|---|
| Audit Opinion | **Substantial** |
| Prospects for Improvement | **Very Good** |

Internal Audit concluded that there are strong governance arrangements to monitor and manage pooled investments in line with the Kent Pension Fund Investment Strategy, and effective performance monitoring and reporting mechanisms are in place. The expected benefits and savings from participation in the Access Pool are being realised and effectively reported to stakeholders. Income is being distributed in a timely manner and in line with the agreed arrangements, and effective risk management arrangements are well embedded.

Several key strengths have been identified below. No significant weaknesses were identified.

Two low risk issues have been identified in relation to scoring on the Fund Risk Register and Superannuation Fund Committee risk appetite training. It is recognised that these issues do overlap with a previous internal audit review on Pension Fund Investment Governance, which was issued in December 2019. The issues from this previous review are still under follow up review.

**Key Strengths**

- The governance arrangements for pooled investments are adequate and in line with the Kent Business Fund Investment Strategy, and appropriate delegations of authority are in place.
- Governance and exit arrangements are appropriately accounted for in contract documents.
- Value for money has been considered prior to investing in ACCESS Pool, and there is a controlled implementation and review method for launching pooled funds to ensure these investments are the best course of action for the Fund.
- Meetings of the ACCESS Joint Committee and Officer Working Group took place as required throughout 2020, with appropriate Council representation.
- There are appropriate information sharing mechanisms between ACCESS Pool and the Fund's representatives, which were applied in practice.
- Appropriate performance monitoring information is submitted and reviewed by the members of the ACCESS Joint Committee and S151 Group.
- The designated ACCESS Support Unit Technical Leads and Contract Manager compile performance reports for the Joint Committee as required.
- Details of savings realised from pooled arrangements are reported to the Superannuation Fund Committee.
- Internal Audit is satisfied that the savings projections for the year were reasonable and appropriate and accurately reported in the Fund's 2019 and 2020 Annual Reports.
  The Fund's net fee savings during 2019/2020 were £1.596m, with a cumulative net saving of £4.024m since the beginning of the pooling project, as reported in their 2020 Annual Report.
- There are controls in place for the management of the Fund's risks.
- Sensible arrangements are in place to govern the distribution of the Fund's income from pooled investments.

**Areas for Development**

- Scoring within the Fund's Risk Register could be improved.
- Risk appetite training for Superannuation Fund Committee members is not yet captured in the Fund's Training & Development Plan for 2021/22.

**Prospects for Improvement**

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

- Internal Audit is satisfied that the management actions provided address our findings in full.

**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 | 0 | N/A | N/A |
| Low Risk | 2 | 2 | 0 |

## D3 – RB02-2021 – Strategic Commissioning – Follow Up

| | |
|---|---|
| Audit Opinion | **N/A** |
| Prospects for Improvement | **N/A** |

**Scope Summary**

- The audit included a review of relevant documentation and interviews with the Interim Strategic Commissioner, Senior Commissioners and other officers.
- In order to provide assurance, Internal Audit reviewed the implementation and effectiveness of all management plans for the 5 Issues with a "Medium" risk rating in the report, CA11-2019 – Strategic Commissioning Overview.

**Key Findings**

- The Commissioning Framework, which includes Commissioning Standards, is still in draft and not yet complete. The absence of Standards is a weakness in itself and contributes to continuation of the issues raised in the original report, CA11-2019 – Strategic Commissioning Overview.
- There is insufficient evidence of a standard approach to strategic commissioning, in particular analysing and evaluation of benefits of low-value and in-house services and following up on those evaluations. Progress, however, has been made.
- There is insufficient evidence of a consistent approach to documenting outcomes from analysis or of a clear and universal understanding of commissioning across the Council, although progress has been made.
- There is insufficient evidence of consistency across the Council regarding how roles and responsibilities of commissioning are assigned.
- The issue of transformation of the Strategic Commissioning Division into a corporate support function is not widely understood.
- Procurement risk is now included in the Risk Register.

**Management Action Status**

**Implemented**

- One of the 5 management actions with a "Medium" risk rating has been fully implemented.

**In Progress**

- Management actions for 3 out of the 5 issues with a "Medium" risk rating are in the process of being implemented.

**Not Implemented**

- One of the 5 issues with a "Medium" risk rating has not been implemented.

**Summary of Implementation of Management Actions**

| Total Issues | Implemented | In Progress | Not Implemented | Superseded |
|---|---|---|---|---|
| 5 | 1 | 3 | 1 | 0 |

## D5 – CA03-2021 – Records Management

| | |
|---|---|
| Audit Opinion | **Limited** |
| Prospects for Improvement | **Good** |

The audit opinion of Limited is based on Internal Audit's findings from a review of the current processes, interviews with key members of staff and a staff survey. Overall, it is concluded that sufficient guidance, training and bespoke advice is available. However, there are a number of important areas where processes and organisational awareness, understanding and compliance require improvement.

**Key Strengths**

- Relevant policies and procedures, including the Data Protection Policy, Records Management Policy, and the Information Management Manual (IMM) were assessed and confirmed to be comprehensive, up-to-date and the latest versions are available to officers. The IMM is under review with an action plan that documents the required outcomes.
- Policies and procedures clearly outline corporate and service responsibilities and arrangements for record classification, storage, security, transmission and disposal.
- An organisational Information Asset Register (IAR) is in place and includes the main category requirements. However, there are important issues to be addressed, which are explained below (see Issue 4 below).
- A staff survey conducted as part of the audit identified that there is a high level of awareness (90%) that the overall responsibility for records management sits with all staff within the organisation.
- A Data Retention Schedule is in place and is consistent with the Information Asset Register. The use of a unique identifier in the IAR and Retention Schedule ensure that when a change is made to the database for one record, there is an automatic update to the other. However, there are important issues to be addressed, which are explained below.
- The contract for external archiving and retrieval of historic records is managed through a set of key performance indicators, for which there has been a high rate of compliance since the contract began in 2017.
- There is a clear process for paper record destruction and disposal by the Records Management Service.
- The Records Manager has a high level of expertise and is a subject matter expert, who is able to identify strategic actions required and is available to advise on all information governance queries.
- There is a governance structure in place for the management of records, via a Cross Directorate and a Corporate Information Governance Group.

**Areas for Development**

- An e-learning training module for Records Management is available to all staff; however, completion is not mandatory and is not monitored. The staff survey conducted as part of the audit identified a low level of completion, and a low level of awareness of the main components of the control framework.
- There is reduced assurance that the Information Asset Register is fully up to date due to restructures across the organisation, which may have resulted in unforeseen gaps.
- A programme of information audits (and the necessary level of resource to deliver it) is required, to conduct a full Information Asset Register review and give assurance that all assets are known, recorded and subject to appropriate controls and oversight.
- Processes to ensure the Data Retention Schedule remains up to date are reliant on the Records Manager being advised either a) of a new record type usually via a query from a service, or b) via the information audit process. There is reduced assurance that the Data Retention Schedule is fully up to date.
- The Data Retention Schedule is not sufficiently detailed to identify when specific records are due for retention or disposal review. The process is manual, and responsibility sits with services, although in practice, some do not have suitable processes or environments to identify when records have reached their retention deadline.
- There are three current cases of records required for a statutory request having gone missing and audit trails of their transmission have not been maintained. Furthermore, there is no clearly communicated policy on the specific process that staff should follow if a historic file requested via a statutory process cannot be located by the Records Management Service.
- ICT controls to be introduced with the implementation of SharePoint will vastly improve the Authority's ability to classify and manage electronic records but will require significant input and support from the Records Manager to issue guidance and provide training. The realisation of security benefits will also rely heavily on compliance by services.
- The substantial increase in storage capacity for electronic records that will come with SharePoint must be accompanied by organisation-wide training and guidance, to drive good file management behaviours and avoid the potential for relaxation of disciplines.

**Prospects for Improvement**

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

- The Records Manager has a clear and complete understanding of where organisational process gaps and weaknesses exist. However, aside from her attendance at the Cross Directorate Information Governance Group where she will report concerns, she has no line management route for implementing the required improvements to Records Management Service processes, limited authority to drive other cross-authority changes and also insufficient capacity**.**

**Summary of Management Responses**

| | No. of Issues Raised | Mgt Action Plan Developed | Risk Accepted and No Action Proposed |
|---|---|---|---|
| High Risk | 3 | 3 | N/A |
| Med Risk | 4 | 4 | N/A |
| Low Risk | 0 | 0 | N/A |

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