

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, 12 December 2024.

PRESENT: Mrs R Binks (Chairman), Mr A Brady, Mr N J D Chard, Mr M A J Hood, Mr C Passmore (Vice-Chairman) Mr T Bond, Mr O Richardson and Mr M Whiting.

ALSO PRESENT: Mr R Gough, Mr H Rayner, Mr P Oakford

IN ATTENDANCE: Mr B Watts (General Counsel), Miss K Reynolds (Governance Advisor), Mr J Betts (Acting Corporate Director Finance), Ms C Head (Head of Finance) Mr J McKay (Acting Chief Accountant), Mr P Dossett (Grant Thornton) Ms Lucy Nutley (Grant Thornton) Mr Parris Williams (Grant Thornton), Ms Julie Samson (Finance Manager) Mr James Graham (Pension Fund and Treasury Investments Manager) and Miss R Emberley (Democratic Services)

Mr J Idle (Head of Internal Audit and Counter Fraud) and Ms C Maynard (Head of Commercial and Procurement Division) Ms Sangeeta Surana (Investments, Accounting and Pooling Manager), Mr Connor Steensel (Accountant) were in virtual attendance.

UNRESTRICTED ITEMS

260. Introduction/Webcasting

(Item 1)

261. Apologies and Substitutes

(Item 2)

Apologies for absence had been received from Ms C Black, Dr D Horne and Mr S Webb.

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

(Item 3)

There were no declarations of interest.

263. Minutes of the meeting held on 12 November 2024

(Item 4)

RESOLVED that the minutes of the meeting held on 12 November 2024 were a correct record and that a paper copy be signed by the Chairman.

264. Verbal update on Committee Business

(Item 5)

1. The update was provided by the Governance Advisor, Miss Katy Reynolds. The key points were as follows:
 - a) Further information relating to Internal Audit progress report linked to the Loans to Schools had been provided to Members via the Microsoft Teams site.
 - b) An effectiveness review as part of the Work Programme would be carried out following the Committee meeting and Members were encouraged to participate by providing feedback. A report on the effectiveness of the Governance and Audit Committee would be provided in the new year.
 - c) Members were encouraged to continue keeping track of the updates via the Teams site.
2. RESOLVED to note the verbal update on Committee Business.

265. External Audit - Audit Findings for Kent County Council

(Item 6)

1. The report was presented by Auditor from Grant Thornton, Ms Lucy Nutley.
2. The key points were as follows:
 - a) Under Auditing standards, Ms Nutley drew Members' attention to the fact that Grant Thornton proposed an unqualified Audit opinion and no statutory powers or duties had been exercised during the audit.
 - b) Weaknesses had been identified in the Council's Value for Money Arrangements.
 - c) A slight increase in materiality occurred as the figured Grant Thornton assessed at planning was based on the prior year's gross revenue expenditure (page 33 of report), however the current year was higher and therefore materiality was reassessed. Ms Nutley confirmed that none of the benchmarks that were indicative of risk, had been changed.
 - d) For Management Override of Controls, which is a presumed risk, no issues were identified. One recommendation was raised, which was a repeat from the prior year.
 - e) No issues were identified around the presumed risk of fraud and error in revenue recognition or valuation of the defined benefit liability.
 - f) No significant issues were raised concerning the valuation of land and building Audit work but recommendations had been made and set out within the report.

- g) Page 51 of the audit report indicated that Grant Thornton were awaiting confirmation from NatWest regarding several accounts, however these had now been received.
 - h) The three recommendations featured on page 61 had all been accepted by Management.
 - i) A classification error of expenditure had been identified in Appendix D (Audit Adjustments). This should have been classed as capital expenditure and has since been corrected.
 - j) The Auditors were content with Management's view in relation to page 68 in that the differences were immaterial projected errors and were content with the decision not to adjust the accounts, however, the Governance and Audit Committee are required to approve this as part of the review of the report.
 - k) Page 71 contained the correct Audit fee however the scale fee should be £420, 894.
3. In answer to the Members questions and comments it was said that:
- a) A ledger update was due to be implemented 2025/2026 which would address the weakness around reviewing and testing journal entries by users.
 - b) The Council had carried out a full review of all assets that were leased to ascertain the likely impact of implementation of IFRS16 on the balance sheet, whereas assets which are owned are considered under the significant risk of land and building valuation. Additional work would be carried out by the Finance Team in relation to valuation of right of use assets for which KCC pays Peppercorn Leases and PFI Liabilities and these would be reflected in the 2024/2025 Financial Statements.
 - c) In response to a Member's question the Capital Finance Manager, Ms Julie Samson, commented that the Finance Team were currently undertaking the required work and the PFI Liabilities were being remeasured in line with guidance. In relation to the Peppercorn rents, she commented that if there have been market rent reviews (and the rents are considered to be market rents) then the assets would be measured to match the liability calculated by the future lease payments.
 - d) In response to a Member's question, the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services, Mr Oakford, commented that in regards to property, the Council took a holistic approach and before a property is declared surplus, a process is applied whereby all the directorates are utilised to see whether that property had another use. The property team this year had raised over £20 Million from revenue sales, against a budget of £12 Million to accelerate the disposable assets before deterioration. Many of the remaining assets are ones which were proving more difficult to sell, for a variety of complex reasons.

- e) In answer to the Chairman's question, Ms Nutley commented that Kent County Council were less prudent than other Councils when it came to the provision for Adult Social Care Debit and this should be increased.
 - f) The Interim Corporate Director of Finance, Mr John Betts, commented that the Finance Team were currently looking at how debt was collected in Adult Social Care and both the mechanisms and capacity to chase and collect bad debt were being considered in the current financial year.
 - g) Thanks was given to the Finance Team on behalf of all the Members in view of the hard work carried out in the preparation of accounts.
4. RESOLVED To note the External Auditor's Findings Report for Kent County Council for assurance.

266. Kent County Council Statement of Accounts (Item 7)

1. The report was presented by the Acting Chief Accountant, Mr Joe McKay and the Interim Corporate Director Finance, Mr John Betts.
2. The Interim Corporate Director Finance gave his thanks to all staff in Finance and all the other areas across the Council who contributed to preparing the accounts, as well as colleagues in Grant Thornton.
3. Members were made aware that a technical training session for colleagues regarding the Statement of Accounts was run earlier in the year.
4. In relation to the Draft Statement of Accounts 2023/24, the Acting Chief Accountant confirmed that further information could be provided to the Committee regarding the payment of £1.5m to Tunbridge Wells Borough Council.
5. In answer to the Chairman's question regarding schools which had moved to become academies, the Capital Finance Manager confirmed that the £86 million was the netbook value of the schools on the Council's balance sheet at the date they transferred to academies and under statute these are written out and derecognised as an asset.
6. In answer to a Member's question, the Interim Corporate Director Finance explained that the individual schools' delegated budgets would have revenue to fund maintenance, irrespective of whether the school was maintained or an academy. In terms of ongoing asset maintenance, the Council would receive less in grants from central Government because there are fewer maintained schools.
7. Both the Interim Corporate Director Finance and the Chairman signed the letter of recommendation.
8. RESOLVED to:
 - a) Consider and approve the statement of Accounts for 2023 – 2024
 - b) approve the Letter of Representation

- c) note the recommendation in the Audit Findings Report and their management responses.

267. External Audit - Audit Findings for the Kent Pensions Fund
(Item 8)

1. The report was presented by Auditor from Grant Thornton, Mr Parris Williams.
2. The following key points were highlighted:
 - a) It was a positive report and the Auditors received a good set of financial statements in line with the specified deadlines.
 - b) It was confirmed that work was now finished and the only procures which required completion, could only be carried out after once the Committee meeting had concluded.
 - c) Mr Williams drew Members' attention to the adjustment on the draft financial statement (set out on page 4 of the report) involving direct property investment and pooled property investment. He confirmed that this was essentially a disclosure change and did not impact the total assets available to the fund or any decision making. It was an accounting presentation which needed to be updated to the accounts.
 - d) It was confirmed that there was £10 million adjustment to net assets from the draft accounts to the final accounts and this was due to management receiving updated valuation information from their investment managers and the accounts were updated to reflect this.
3. In answer to a Member's question, Mr Williams explained that the 14 adjustments were predominantly disclosure adjustments and given the size of assets on the balance sheet, some of the adjustments may be classified higher than a 'trivial threshold' and so they must be reported. This could result in a large volume of adjustments however, there was nothing of significant concern to report or fundamental weaknesses.
4. The Committee gave thanks to Mr James Graham, Ms Sangeeta Surana and Mr Connor Steensel for their efforts in working collaboratively with Grant Thornton and for creating the accounts.
5. RESOLVED to note the External Auditor's Findings Report for the Kent Pension Fund for assurance.

268. External Audit - Annual Auditors Report
(Item 9)

1. The report was presented by Auditor from Grant Thornton, Mr Paul Dossett.
2. In answer to questions and comments from Members, it was said that:

- a) Mr Dossett commented that in relation to the implementation of Internal Audit recommendations, he would expect significant prospects for improvement. The report reflects where the Council was in 2023 / 2024 but by the end of the calendar year Internal Audit were expected to give a positive perspective, although this was depended on the responses to their reports.
- b) In terms of savings, the Council has continued to move away from a siloed approach and is focused on looking across the organisation at the impact of various decision making. In terms of sensitivity analysis, it was difficult to forecast, however scenario modelling was worth conducting as it was possible to add in percentages of growth and funding. Although these were scenarios and may not come to fruition, Mr Dossett explained that it was helpful to give Members the understanding of both the range and scale of the challenge.
- c) Mr Betts commented that in relation to a One Council Budget approach, there was a process in place whereby the Corporate Management Team had reviewed and shaped the budget and gained a wider understanding of the Corporate implications of savings proposals. In terms of the scenario testing and sensitivity analysis, it was acknowledged that the Council were struggling with another 1-year settlement to understand how much additional insight this could provide, as opposed to a multiyear settlement which would allow longer term planning.
- d) Mr Dossett commented that it was difficult to compare Local Authorities as different areas had different markets; the Council needed to look at the issues they were presented with in the context of the overall budget and overall negotiation with contractors. It was stated that the Council could not continue to overspend on Adult Social Care and needed to take action, whilst taking into account the complexities of how care can be provided going forwards.
- e) The Leader commented that the savings programmes in Adult Social Care were wide ranging and there were many levers which enabled services to be delivered differently and in a way that was more financially sustainable. He continued to explain that the Executive would analyse the delivery rate to see where it is being reached or not and then determine what further work is required. External advice would also be sought.
- f) In answer to a Member's question regarding both Financial Stability (Areas for Improvement) and Staff Training and Revenue Account Repairs, it was explained that these two areas reflect the wider challenges the Council faced in terms of balancing capital spend. It was explained to Members that it was a balancing act and caution needed be exercised when making cuts to one area to ensure that it did not have a negative knock-on effect in the longer term.
- g) In response to a Member's question regarding whether the Council had enough resources going forwards in order to meet the backstop in the future, it was stated that the central Government were looking at leadership of the Local Audit System as well as changes to the CIPFA (Chartered Institute of Public Finance and Accountancy) Code which would simplify the asset valuation process for Councils and Auditors. The National Audit Office were also looking at a number of other aspects to

ensure nationally there were sufficient Auditors to be able to conduct the work and FRC (Financial Reporting Council) were also looking at a work strategy with MHCLG (Ministry of Housing, Communities and Local Government).

- h) In answer to Chairman's question, the Deputy Leader commented that it had been stated numerous times that it was not possible to continue to reduce a budget as this would ultimately lead to a significant decrease in services provided, therefore he agreed with Grant Thornton's indication that spending control could not last forever and that a review was necessary. The Deputy Leader explained that 81% of Councils who provided Adult Social Care were in a similar position to that of Kent County Council in forecasting an overspend.
 - i) In response to a Member's question, the Interim Corporate Director Finance explained that the general level of reserves available for drawn down is on the point of the minimum required and over the next 12-18 months the Council had to either sustain this amount or increase it, but this was dependent on delivering to the budget in 2025 / 2026.
 - j) The Leader commented that the short term spending controls that were in place would continue to be applied. In relation to an earlier point made by Mr Dossett, the Leader commented that it was recognised that difficult financial decisions needed to be made in specific areas however, even with all of these savings, it would not equate to the pressures in the big spending areas, particularly the pressures in Adult Social Care. He commented that a short term solution was not a substitute for a structural issue and this was recognised by the Executive.
 - k) The Head of Internal Audit drew Members' attention to some of the wording contained on page 8 of the Executive Summary and explained that this was not in relation to Internal Audit, rather a response to issues raised by Internal Audit. Mr Dossett agreed with this.
3. RESOLVED to note the External Auditor's Annual Report on Kent County Council 2023/24 for assurance.

269. Treasury Management Mid-Year Update

(Item 10)

- 1. The report was introduced by the Pension Fund and Treasury Manager, Mr James Graham.
- 2. In answer to questions and comments by Members it was said:
 - a) There were different opinions and interpretations on the outlook for growth, however Treasury Management did not stick to just one, the commentary had been provided by the Council's Treasury Consultant link. Mr Graham drew Members' attention to the fact that the report had been provided prior to the United States presidential election, the new Government's budget and evidently events had moved on.

- b) In reply to a Member's comment, Mr Betts explained that Council's policy on borrowing is for repayments to not be more than 10% of the revenue budget. It was a matter of judgement on how much was invested in capital spend long term, compared to revenue spend on an annual basis. The current policy stated that no new additional borrowing would occur to maximise the amount of resource for ongoing revenue spending. If multiyear settlements were available in 2025 / 2026 this would provide a better indication of whether the policy needed to be reviewed. The Council needed to be sure about the criteria for borrowing and investing in capital and as part of this, consideration needed to be given to the current asset strategy.
 - c) The Deputy Leader commented that the Council was against additional borrowing at the present, as for every £100 Million, it added a cost of £10 Million cost on to revenue. He continued to explain that assets were continuously being reviewed to either identify those which would be part of the Council going forwards or disposing of those which were not. The money from disposal had been reinvested back into the property portfolio to prevent any new borrowing.
 - d) Mr Graham explained to Members that the strategic pooled funds investments were comprised of multiple investments to help achieve an appropriate risk adjusted return at the portfolio level. Longer term investments were an important means for managing interest rate exposure. There was a risk that if rates remained elevated this would put pressure on performance going forward, however in that environment, the larger, liquid cash portfolio would compensate for that effect.
3. RESOLVED to endorse the Treasury Management Mid-Year Update report and recommend that it is submitted to County Council.

270. Council's Governance in Relation to Wholly Owned Companies

(Item 11)

- 1. The item was presented by General Counsel, Mr Ben Watts. As part of the presentation, Mr Watts played an information video in Chambers.
- 2. The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services explained what a site visit to Commercial Services would entail and encouraged Members to attend an open day. In response, several Members and Officers commented how beneficial they found the visit.
- 3. In response to a Member's question, the Deputy Leader confirmed that Commercial Services did make money and the dividend for this year was around £10 Million.
- 4. A Member commented that it would be helpful to have a brief indication of how each company was performing, this was not a request for the full accounts, rather a snapshot showing profit and loss for the year.

5. The Deputy Cabinet Member for Finance commented that some of the information could be commercially sensitive particularly if there were joint ventures with other Local Authorities.
6. The General Counsel confirmed that there would be consideration of what information could be provided to the Governance and Audit Committee in relation to the companies' profits and losses.
7. In answer to a Member's question, the Deputy Leader explained that whilst the Council provided loans and put money into the original companies, Hold Co had repaid all of the debt from monies originally lent to them to set up the companies. Therefore, there were no debts owing and all investment had been repaid.
8. Mr Watts confirmed that all loans were made at market rates at the relevant times to ensure no inappropriate competition advantage.
9. RESOLVED to note the presentation.

271. Other items which the Chairman decides are urgent
(Item 12)

There were no other matters arising.

272. Legal Update
(Item 13)

1. The legal update was provided by the General Counsel, Mr Ben Watts.
2. In response to questions raised by Members, it was agreed that the General Counsel and the Interim Corporate Director Finance would provide further information to the Committee at their next meeting.
3. RESOLVED to note the report and Legal update.