Summons to and Agenda for a Meeting on

**Thursday, 12th September, 2024**

at **10.00 am**

DEMOCRATIC SERVICES
SESSIONS HOUSE
MAIDSTONE

Wednesday, 4 September 2024

To: All Members of the County Council

A meeting of the County Council will be held in the Council Chamber, County Hall, Maidstone, Kent, ME14 1XQ on Thursday, 12th September, 2024 at **10.00 am** to deal with the following business. **The meeting is scheduled to end by 4.30 pm.**

## A G E N D A

14. Motions for Time Limited Debate **(Pages 109 - 112)**

Benjamin Watts
General Counsel
03000 416814

# KENT COUNTY COUNCIL

## COUNTY COUNCIL

MINUTES of a meeting of the County Council held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 18 July 2024.

PRESENT: Mr B J Sweetland (Chairman), Mr A M Ridgers (Vice-Chairman), Mr N Baker, Mr M Baldock, Mr P V Barrington-King, Mr P Bartlett, Mr D Beaney, Mrs C Bell, Mrs R Binks, Mr T Bond, Mr A Brady, Mr D L Brazier, Mr S R Campkin, Miss S J Carey, Sir Paul Carter, CBE, Mrs S Chandler, Mr N J D Chard, Mr I S Chittenden, Mrs P T Cole, Mr P Cole, Mr N J Collor, Ms K Constantine, Mr G Cooke, Mr D Crow-Brown, Mr M C Dance, Ms M Dawkins, Mr M Dendor, Mr R W Gough, Ms S Hamilton, Peter Harman, Ms J Hawkins, Mr P M Hill, OBE, Mr A R Hills, Mr S Holden, Mr M A J Hood, Mr D Jeffrey, Mr A Kennedy, Mr J A Kite, MBE, Rich Lehmann, Mr B H Lewis, Mr R C Love, OBE, Mr R A Marsh, Mrs M McArthur, Mr J P McInroy, Ms J Meade, Mr J Meade, Mr D Murphy, Mr P J Oakford, Mr J M Ozog, Mrs L Parfitt-Reid, Mr C Passmore, Mrs S Prendergast, Mr H Rayner, Mr D Robey, Mr A Sandhu, MBE, Mr T L Shonk, Mr C Simkins, Mr M J Sole, Mr P Stepto, Mr R G Streatfeild, MBE, Mr R J Thomas, Mr D Watkins, Mr S Webb, Mr M Whiting, Mr J Wright and Ms L Wright

IN ATTENDANCE VIRTUALLY: Ms K Grehan and Mr A J Hook

IN ATTENDANCE: Mr B Watts (General Counsel) and Mr J Cook (Democratic Services Manager)

## UNRESTRICTED ITEMS

### 233. Apologies for Absence
*(Item 1)*

The Democratic Services Manager reported apologies from Mr Broadley, Mr Cooper, Mrs Dean, Mrs Game, Mrs Hohler, Mrs Hudson, Mr Manion and Dr Sullivan.

The Democratic Services Manager said Ms Grehan and Mr Hook had sent formal apologies but were in attendance virtually.

### 234. Declarations of Disclosable Pecuniary Interests or Other Significant Interests in items on the agenda
*(Item 2)*

Mr Bartlett declared an interest, in relation to Item 9 – *Integrated Care Partnership Terms of Reference* - that he was the East Kent Representative on the Integrated Care Partnership.

**235.** **Minutes of the meeting held on 23 May 2024 and, if in order, to be approved as a correct record**
*(Item 3)*

RESOLVED that the minutes of the Council meeting held on 23 May 2024 be approved as a correct record.

**236.** **Corporate Parenting Panel - April Minutes for noting**
*(Item 4)*

The Chairman clarified that the minutes under consideration were from the February meeting of the Corporate Parenting Panel, and not the April meeting as indicated on the agenda.

RESOLVED that the minutes of the meeting of the Corporate Parenting Panel held on 27 February 2024 be noted.

**237.** **Chairman's Announcements**
*(Item 5)*

<u>Birthday Honours List</u>

The Chairman congratulated all the people in Kent who had received an Honour in the King's first Birthday Honours List which was announced in June.

The Chairman sent his warmest congratulations to Christine Grosskopf, who had worked for Kent County Council for nearly twenty years and who had received the Award of Member of the Order of the British Empire for her service to Refugee Resettlement.

<u>General Election</u>

The Chairman congratulated the newly elected MPs, following the recent general election, who would be representing the county in parliament including Dr Lauren Sullivan who was the newly elected MP for Gravesham.

The Chairman thanked the former Kent MPs for their service and commitment over many years, and congratulated Mr Craig Mackinlay, the former MP for South Thanet, who had been given a life peerage.

<u>Leader of the Opposition item</u>

The Chairman advised Members that following the change of Group Leader of the Labour Group, it was necessary for the Council to Appoint the Leader of the Opposition and a late agenda item had been added.

**238.** **County Council Questions**

*(Item 6)*

In accordance with Sections 14.15 to 14.22 of the Constitution, 11 questions were submitted by the deadline and 9 questions were put to the Executive as two questioners had given apologies. 9 questions were asked and replies given. A record of all questions put and answers given at the meeting is available online with the papers for this meeting.

## 239. Report by Leader of the Council (Oral)

*(Item 7)*

1. The Leader spoke about the recent general election and highlighted the areas where clarity would be sought from the new government, including in relation to house building, infrastructure, and multiyear financial settlements.

2. Mr Gough referred to the anticipated introduction of the Entry/Exit System in October 2024 and said that the Kent and Medway Resilience Forum had prepared for a difficult summer due to increased pressures of the Paris Olympics, in addition to the usual summer getaway. He confirmed that Operation Brock had been in operation since 10 July and would continue throughout the summer. In addition, the Leader confirmed that the Kent and Medway Resilience Forum had also worked to mitigate pressures which included the introduction of a permit system to prevent queue jumping from HGV lorries.

3. The Leader turned to unaccompanied minors and asylum and commented that high levels of arrivals continued. He highlighted that he had written to the new Home Secretary and Education Secretary setting out that structural and systemic change was required, rather than crisis management, and invited them to see the work being carried out in the county to demonstrate how the issue was being addressed.

4. The Leader confirmed the intention to bring the Financial Hardship Programme into the Council's mainstream of activity and he awaited the new administration's intention regarding the Household Support Fund.

5. The Leader referenced the work being carried out in relation to Special Educational Needs and Disability (SEND) within the County Council Network and Local Government Association that aimed to set out a reform programme to the new administration.

6. The Leader referred to the King's Speech and the Deputy Prime Minister's letter which focused on devolution, new powers over transport, skills, housing, planning and employment support and commented that processes were in many respects a continuation of the previous administration.

7. Lastly, the Leader highlighted specific aspects of the King’s Speech including the proposed Children’s Wellbeing Bill and the Better Buses Bill in relation to the impacts on the county.

8. The Leader of the Labour Group, Mr Brady, thanked and paid tribute to the previous Leader of the Labour Group, Dr Sullivan.

9. Mr Brady commented that his party supported the Financial Hardship Programme as an initiative which benefitted Kent’s residents and businesses.

10. Mr Brady referred to the topic of housing and stated that his party awaited the deliverance of Framing Kent’s Future first pledges in relation to infrastructure and welcomed the new Labour government taking the lead on Infrastructure First.

11. Mr Brady acknowledged the results of the general election and welcomed the 11 Labour MPs throughout Kent.

12. In reference to the King’s Speech, Mr Brady highlighted and endorsed the new government’s proposed bills including those related to budget responsibility, support for Kent workers, new powers to deal with anti-social behaviour, public transport and railway reform, water quality, education and apprenticeships, mental health support, child poverty and wellbeing, and trade and investment with the EU.

13. Mr Lehmann, Leader of the Green and Independents Group, acknowledged the results of the recent general election and confirmed that the Green Party had received over 1.8 million votes nationally and the 4 MPs would represent nearly half a million voters each in the House of Commons.

14. Mr Lehmann explained that the global increase in temperature had made May and June 2024 the hottest ever recorded. The past 13 consecutive months were the hottest recorded for the respective time of year, with an estimated 95% chance 2024 would be the hottest year on record. He suggested that the climate crisis had not been given enough prominence during previous Full Council meetings. He said that multiyear settlements were a good start and hoped the new government would be able to provide both financial and policy support in relation to the growing climate crisis.

15. In relation to the King’s speech, he referred to several proposals including bringing rail services back into public ownership and the bill to ban conversion therapy.

16. In relation to the devolution of powers, Mr Lehmann confirmed that his group opposed the idea of concentrated decision-making power into a single representative and noted with concern that Labour adopted the outgoing government’s position in relation to directly elected mayors.

17. Mr Lehmann voiced some concerns relating to the proposed planning reforms but confirmed that he was in support of the rapid lifting of the de facto ban on new onshore wind farms.

18. Mr Lehmann closed by confirming his relief that the planned London resort project had ceased. He commented that the project would have impacted the biodiversity and insect life of north Kent as well as creating a strain on the local road network. He thanked the Save Swanscombe Peninsula Campaign for their work over many years in protecting the land.

19. Mr Streatfeild on behalf of the Liberal Democrats Group acknowledged the general election results and welcomed the first Liberal Democrat MP in Kent.

20. In relation to the King’s speech, Mr Streatfeild stated that he felt the NHS should be at the heart of the reforms with a legal right to be seen by a GP within one week. On the topic of devolution, he confirmed that his party did not share the Labour views for a Metro Mayor but did have the same enthusiasm for devolution.

21. Mr Streatfeild referred to Unaccompanied Asylum Seeking Children (UASC) and the National Transfer Scheme and questioned whether the new government would require local authorities to look after children who arrived in Kent, or instead, set up a national child refugee agency to meet the national responsibility.

22. Mr Streatfeild highlighted the current consultation on SEND specialist schools and the views submitted by headteachers that contrasted with the Council’s position.

23. Mr Streatfeild referred to the Household Support Fund and said that he hoped the government would take the Liberal Democrat view on Adult Social Care and commented on the Council’s ASCH Charging Policy which now took into account the higher rate of Disability Living Allowance (DLA), Personal Independent Payment (PIP) and Attendance Allowance (AA) when calculating the cost of care and support.

24. Mr Gough responded to the points raised about Infrastructure First and commented that work was carried out within the constraints of a national system, particularly in relation to developer contributions when it came to building school capacity.

25. In response to the point made about devolution, the Leader commented that the new administration was building on a previous levelling up white paper, although with some differences for example in relation to a less prescriptive approach to mayors.

26. In response to comments regarding climate change, the Leader stated that the Council sought to discharge the responsibilities within its remit. He highlighted that the reduction of greenhouse gasses from the Council’s

estate and operations, the local nature recovery strategy ‘Making Space for Nature’, and mitigation around flooding, demonstrated the administration’s awareness to the consequences of climate change.

27. The Leader identified that, from the comments made, there was common ground in relation to concerns surrounding planning changes.

28. In response to comments made about buses, the Leader said that whilst there was a range of options, funding was the key issue. He referred to the use of the Bus Service Improvement Plan (BSIP) to secure school transport.

29. In response to the point raised about SEND, the Leader commented that the approach taken in this area should be evidence based and was linked to a wider systemic issue. He referred to the programme the Council had undertaken in relation to significant change within SEND and highlighted the challenges in the current framework that needed to be addressed nationally to provide an affordable outcome for services for children and families.

30. RESOLVED that the Leader’s Report be noted.

**240. End of Year Performance Report 2023/24**
*(Item 8)*

1. Mr Grough proposed, and Mr Oakford seconded the motion that:

   “County Council is asked to note the Performance Report.”

2. The Chairman put the motion set out in paragraph 1.

3. RESOLVED that the County Council notes the Performance Report.

**241. Integrated Care Partnership Terms of Reference**
*(Item 9)*

1. Mr Gough proposed, and Mr Watkins seconded the motion that

   “County Council is asked to approve the refreshed ICP Terms of Reference.”

2. Following the debate, the Chairman put the motion set out in paragraph 1 to the vote.

For (44)

Mr Barrington-King, Mr Bartlett, Mrs Bell, Mrs Binks, Mr Bond, Mr Brazier, Miss Carey, Mrs Chandler, Mr Chard, Mr Cole, Mrs Cole, Mr Collor, Mr Cooke, Mr Crow-Brown, Mr Dance, Mr Dendor, Mr Gough, Ms Hamilton, Mr Hill, Mr Hills, Mr Holden, Mr Jeffrey, Mr Kennedy, Mr Kite, Mr Love, Mr Marsh, Mrs McArthur, Mr

McInroy, Mr Meade, Mr Murphy, Mr Oakford, Mr Ozog, Mrs Parfitt-Reid, Mr Rayner, Mr Ridgers, Mr Robey, Mr Sandhu, Mr Simkins, Mr Sweetland, Mr Thomas, Mr Watkins, Mr Webb, Mr Wright, Ms Wright

Against (3)

Mr Baldock, Ms Meade, Mr Whiting

Abstain (16)

Mr Brady, Mr Campkin, Mr Carter, Mr Chittenden, Ms Constantine, Ms Dawkins, Mr Harman, Ms Hawkins, Mr Hood, Mr Lehmann, Mr Lewis, Mr Passmore, Mr Shonk, Mr Sole, Mr Stepto, Mr Streatfeild

*Motion carried.*

3. RESOLVED that the County Council approves the refreshed ICP Terms of Reference.

**242. Standards - Independent Person appointment**
*(Item 10)*

1. Mr Kite proposed, and Mr Jeffrey seconded the motion that

   "County Council is asked to agree the appointment of Michael George as the Independent Person for the Member Code of Conduct for the three-year term 1 July 2024 to 30 June 2027."

2. The Democratic Services Manager advised Members of a typographical error in the report and clarified that the three-year term of appointment was from 1 July 2024 to 30 June 2027.

3. Following the debate, the Chairman put the motion set out in paragraph 1 to the vote.

For (57)

Mr Baker, Mr Barrington-King, Mr Bartlett, Mrs Bell, Mrs Binks, Mr Bond, Mr Brady, Mr Brazier, Mr Cannon, Miss Carey, Mr Carter, Mrs Chandler, Mr Chard, Mr Chittenden, Mr Cole, Mrs Cole, Mr Collor, Ms Constantine, Mr Cooke, Mr Crow-Brown, Mr Dance, Ms Dawkins, Mr Dendor, Mr Gough, Ms Hamilton, Mr Hill, Mr Hills, Mr Holden, Mr Jeffrey, Mr Kennedy, Mr Kite, Mr Lewis, Mr Love, Mr Marsh, Mrs McArthur, Mr McInroy, Mr Meade, Ms Meade, Mr Murphy, Mr Oakford, Mr Ozog, Mrs Parfitt-Reid, Mr Passmore, Mr Rayner, Mr Ridgers, Mr Robey, Mr Sandhu, Mr Shonk, Mr Simkins, Mr Sole, Mr Streatfeild, Mr Thomas, Mr Watkins, Mr Webb, Mr Whiting, Mr Wright, Ms Wright

Against (0)

Abstain (7)

Mr Baldock, Mr Campkin, Mr Harman, Ms Hawkins, Mr Hood, Mr Lehmann, Mr Stepto

*Motion carried.*

4. RESOLVED that the County Council agrees the appointment of Michael George as the Independent Person for the Member Code of Conduct for the three-year term 1 July 2024 to 30 June 2027.

**243. Ukraine co-operation**
*(Item 11)*

1. The Chairman welcomed Mr Vladyslav Sadovoi, a Ukrainian resident of Kent, to the meeting.

2. Mr Meade declared an interest that an exhibition at Kent County Council was funded through sponsorship of DPS Print, a local business in Gravesend.

3. Mr Meade proposed, and Mr Gough seconded the motion that

   “County Council is asked to

   a) Endorse the planned co-operation activity with the Chernihiv Region of Ukraine.

   b) Note that relevant Executive decisions and operational activity will be progressed to deliver the objectives in due course.”

4. Following the debate the Chairman put the motion set out in paragraph 3 and it was agreed unanimously.

5. A recorded message from Mr Vyacheslav Chaus, Regional Governor of the Chernihiv Oblast was shown to Members.

6. Mr Sadovoi spoke about his personal experience in relation to the conflict in his home country of Ukraine, and his experience since coming to Kent under the Homes for Ukraine Scheme where he has lived for the last two years.

7. The Chairman thanked Mr Sadovoi for sharing his experience and thoughts, and said it was important and helpful for the Council to hear about the impact of the conflict. The Chairman expressed his sympathy and support on behalf of the Council to Mr Sadovoi and all other displaced Ukrainians.

8. RESOLVED that the County Council:

a) Endorses the planned co-operation activity with the Chernihiv Region of Ukraine.

b) Notes that relevant Executive decisions and operational activity will be progressed to deliver the objectives in due course.

**244. Appointment of the Leader of the Opposition**
*(Item 12)*

*This item was taken after Item 5.*

The Chairman proposed that Mr Brady be appointed by Council as the Leader of the Opposition.

*Carried without a formal vote.*

RESOLVED that Mr Brady be appointed as Leader of the Opposition.

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# CORPORATE PARENTING PANEL – 4 June 2024

**MINUTES of the meeting held in the Darent Room, Sessions House, County Hall, Maidstone.**

PRESENT: Paul Bartlett (Chair), David Beaney, Dan Bride, Tom Byrne, Alison Farmer, Lesley Game, Stephen Gray, Kelly Grehan, Sarah Hamilton, Kayleigh Leonard, Nancy Sayer, Tracy Scott, and Caroline Smith.

ALSO PRESENT: Sue Chandler, Cabinet Member for Integrated Children's Services.

IN ATTENDANCE: Joanna Carpenter (Participation and Engagement Manager), Ingrid Crisan (Director – Operational Integrated Children's Services), Kevin Kasaven (Director of Children's Countywide Services), Nathan Moody, Hayley Savage (Democratic Services Officer), Mark Vening (Head of Fostering West)

*Due to the absence of the Chair and Vice-Chair the Committee resolved that Mr Paul Bartlett be elected as Chair for the meeting.*

## 1. Apologies and Substitutes

1.1 Apologies for absence were received from David Brazier, Tony Doran, Sarah Hammond, Brian Horton, Dylan Jeffrey, Rory Love, Shellina Prendergast.

1.2 Lesley Game, Kelly Grehan, and Sarah Hamilton were present virtually.

## 2. Chairman's announcements

2.1 The Chair announced that three new Members had joined the Panel – Mr Bartlett (himself), Mr Brazier and Mrs Prendergast.

## 3. Minutes of the meeting held on 27 February 2024.

3.1 RESOLVED that the minutes of the meeting held on 27 February 2024 were a correct record of the meeting.

## 4. Participation Team update

4.1 Mr Thomas Byrne, Ms Kayleigh Leonard, Ms Jo Carpenter, and Mr Nathan Moody provided an update on the following:

- Three new apprentices would be joining the Participation Team over the summer and two members of the team had completed, achieving distinctions, their Level 3 apprenticeship in Public Service Operational Delivery.
- During the Easter school holidays meetings of the Super Council and OCYPC took place in Maidstone and Thanet and included alternative ways for young

people to participate. The young people spoke about their experiences in education and feedback was used by the national charity for Children in Care and Care Leavers to produce a film. Young people raised a number of points which included, for example, negative assumptions made by school staff and bullying. Suggestions were made to support children in care which included, for example, forming positive relationships with staff.

- The Young Adult Council met in the Easter holidays and discussed giving something back to the community. They subsequently helped out at the Maidstone Day Centre with cooking and serving food to vulnerable people.
- The Team met with the Adoptables Council and the Children WHO Care Council to look at three main areas including feeling safe in school, what makes school a nice place and how they are encouraged to be themselves in school.
- A range of activities took place over the Easter holidays including an Adoption Baking Day, a Children in Care activity day which included activities such as body zorbs, and an obstacle course at Betteshanger Park. An Easter Sensory event included nineteen young people and their wider families.
- The team has continued to present at University of Kent and Canterbury Christ Church University to share lived experiences and views to support their learning and understanding of what being in care means.
- A Participation Workshop took place in the Easter holidays at Whitstable Youth Hub to develop a short film called 'Listen Up'. This focused on the importance of hearing the voices of young people.
- Future events included the Kent Care Leavers Summer Event on 26 June 2024, a family picnic for adopted children and families on 6 July 2024 and the CPP Takeover Day on 30 July 2024.
- Full details for the CPP Takeover Day would be circulated.

**5. Verbal Update by the Cabinet Member**

5.1 Unaccompanied Asylum Seeking Children (UASC) Update

As of 31 May there had been 201 arrivals for that month, 872 during the year so far, and 66 children awaiting dispersal through the National Transfer Scheme. Dispersals had been happening in increased numbers over the last couple of months but still not at the pace that was needed. The largest proportion of arrivals were currently from Afghanistan, followed by Iran and most children were 16 and over. Reception centres continued to be put in place across Kent and KCC continued to press government for the National Transfer Scheme to work better. There was a comprehensive FAQ section on the KCC website about Reception Centres for unaccompanied asylum seeing children.

5.2 Visit from United Nations High Commissioner for Refugees

The United Nations High Commissioner for Refugees visited Millbank Children's Accommodation Centre and subsequently wrote to Sarah Hammond, Corporate Director CYPE, to commend how well the centre was run and how the children were cared for.

5.3 Graduate Recruitment Scheme for Social Workers

A social worker graduate recruitment scheme had been completed and 49 offers had been made across Kent. The process may be carried out again later in the year.

**6. Implementation of a Kinship Service based within Kent Fostering**

6.1 Ms Caroline Smith introduced the report and summarised the new service for kinship, based within Kent Fostering, which would provide the assessment and support functions for all kinship arrangements for children. The service was launched on 1 April 2024.

6.2 The following points were noted during consideration of the item:

- The aim of the service was to build within communities, as a first choice for children coming into care, kinship arrangements within the family as opposed to main stream foster care placements. There was a shortage of foster carers nationally and in Kent.
- Dedicated support from a team of social workers and social worker assistants would be provided to kinship carers to give them reassurance they can care for children within their own family.
- A therapeutic support offer would also be provided to kinship carers and an Adoption and Special Guardianship Fund could be applied for.
- Support such as parenting courses could be accessed through family hubs.
- There were about 900 children in Kent, that KCC was aware of, with a special guardianship order. Some children may have arrived from outside Kent and Special Guardianship Orders could be made in private proceedings.
- Depending on the age and circumstances, the young person was involved in the decision-making process and the assessment focused on their needs and wishes.

6.3 The Panel agreed to note the report.

**7. The Processes for children coming into the Country, Update on Ofsted Inspections of Children's Care Homes and UASC Reception Centres**

7.1 Mr Kevin Kasaven introduced the report which provided an overview of the progress made to increase KCC's capacity to accommodate and look after all unaccompanied asylum seeing children (UASC) arriving to Kent. Mr Kasaven said Ofsted had been invited to visit Millbank and Appledore Accommodation Centres and had indicated that there would be a positive registration for Appledore based on the current trajectory of improvements made to the site. Ofsted were offering to return to Millbank and Appledore in September and would review all the buildings under the same registration. Mr Kasaven said it was believed that the quality of age assessments was improving, and that it was positive that court applications challenging age assessments had not been received for some time.

7.2 The following points were noted during consideration of the item:

- More information on individuals could be accessed and shared through other countries within the EU where checks had already been made.
- The NHS was working with KCC to create a pathway to allocate NHS numbers within the first 48 hours of individuals arriving to ensure information was received by the Child Protection Information Sharing Service (CP-IS).
- The names of the accommodation units were being changed to celebrate refugees and would be named after refugees who had settled in the UK and contributed to communities. The importance of communicating the name changes to local residents was noted. The names of accommodation units would be changed once the registration process had been completed with Ofsted.

7.3 The Panel agreed to note the report.

From: Roger Gough – Leader of the Council

To: County Council – 12 September 2024

Subject: **Annual Report on Urgent Decisions taken by the Executive – 2023-24**

Classification: Unrestricted

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Summary: The Constitution requires that the Leader of the Council reports urgent Executive Decisions to County Council on an annual basis.

**Recommendation: The Council is asked to note the report.**

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## INTRODUCTION

1. The Constitution makes provision, under sections 12.32 and 12.33, for the use of urgency procedures as part of Executive decision-making, complying with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

2. In accordance with section 12.37 of the Constitution, this paper serves as the required annual report to Council providing details of when urgency procedures have been used. The purpose of this report is to supply a collated list of urgent decisions and draw Members' attention to those instances when urgency has been necessary. The period covered by the report is 7 July 2023 to 4 September 2024.

3. Detailed consideration of these decisions and the related areas of Council business is the responsibility of the Cabinet Committees and the Scrutiny Committee. The relevant Cabinet Committee will have considered these urgent decisions following their implementation, including receiving reports on the urgency and reasons why pre-decision consideration was not possible when applicable. The Scrutiny Committee is the appropriate forum for any detailed consideration or Scrutiny of any urgent or out of cycle decisions. Should further consideration of any of these issues be desired, Members are asked to liaise with Democratic Services and the relevant Committee Chairs to explore adding them to their work programmes.

4. Since 7 July 2023, 11 decisions were taken via the urgency procedures detailed in the Constitution and the Executive Arrangements Legislation during the timeframe covered by this Annual Report to Council. 5 of these decisions were semi-urgent and 6 were progressed via the full statutory urgency process allowing for

immediate implementation. Table 1 below shows the number of decisions that have been taken via the urgency procedure from June 2020 to 5 September 2024.

5. Table 1: Number of urgent and semi-urgent decisions taken since 2020

| | June 2020-July 2021 | 15 July 2021-1 July 2022 | 14 July 2022-6 July 2023 | 7 July 2023-4 September 2024 |
|---|---|---|---|---|
| Urgent | 4 | 6 | 3 | 6 |
| Semi-urgent | 4 | 8 | 7 | 5 |
| Covid urgent | 13 | N/A | N/A | N/A |
| Covid Semi-urgent | 2 | N/A | N/A | N/A |
| Total | 23 | 14 | 10 | 11 |

6. It should be noted that the timeframe for this Urgent Decision report covers 14 months rather than 12 as the case for the previous years, so the slight increase from 2022/23 should be considered in that context.

7. This report sets out the key information of each of those decisions taken between July 2023 to early September 2024; the decision-maker; the date of decision; a brief summary of the decision; the type of urgency process used and the reason for urgency.

8. The responsibility for determining whether urgency procedures are appropriate sits with the Decision-maker (Cabinet or Cabinet Member), providing that that relevant Senior Officer (commonly the Corporate Director for the relevant Directorate) confirms that the decision cannot be reasonably deferred, taking account of any relevant professional advice. The urgency legislation and constitutional arrangements also require that the use of urgency procedure be agreed by the Chair of the Scrutiny Committee – such agreement relates only to the urgency requirement, not the merits or otherwise of any decision. Taking account of the Officer and Non-Executive views noted above, the Decision-maker must be satisfied themselves that the use of urgency is correct at the point they make the decision.

<u>The key reasons for the use of urgency procedure</u>

9. In previous years, a common reason for the use of urgency procedure has been the limited timeframes in which KCC was required to respond to directives imposed by central Government or to enter into agreements. This has continued to apply but not as often, as work has been undertaken by KCC departments and the Executive to prepare decisions in advance when the potential requirements for these types of situations are first identified. Where early preparation is not possible, the urgency is a result of how the externally determined deadlines do not take account of the lengthy public notice periods required for normal Executive Decision-making.

10. As the detailed list of decisions sets out below outlines, a number of semi-urgent decisions related to Cabinet Budget Monitoring and Management – this refers to in year transfers between budget lines and similar budget variations as part of ongoing required financial management. These decisions were taken via the semi-urgent process because the Council was responding at pace to the financial challenge and the plans to address these at a budget management level were not finalised until fewer than four weeks prior to the relevant Cabinet meetings.

11. Some decisions involved the full urgency process because the requirement for the full Executive Member decision process (as per s12 of the Constitution) was identified late in the project or circumstances (including total financial impact) changed significantly very close to implementation deadlines. Examples of this include the sale at auction of a KCC property where the final sale value exceeded expected levels, moving the decision process from established Property Management delegations up to a Key Decision. Deferral was not viable in this case because of property sale completion and auction protocol requirements.

12. In another case, the Council was responding to a real-world urgent situation in relation to RAAC in school properties and had to take relevant steps, which involved Key Decision level authority, to put emergency responses in place to protect the wellbeing of relevant Kent residents.

13. Generally, deferral of implementation should be the starting point of consideration of how to manage decision timing challenges but where this is not viable or has significant negative consequences, the Executive may opt to use urgency to ensure progression.

14. The Executive, when required, uses two types of urgent decision permitted under the relevant legislation and detailed in the Constitution. These are;

    - the General Exception route, which is referred to in KCC documentation as 'semi-urgent' because they involve compliance with all normal decision-making processes, but the notice of the proposed decision will have been published on the list of Forthcoming Executive Decisions (FED) for more than 5 but fewer than 28 days; and
    - Cases of Special Urgency, referred to as Statutory Urgency Process or 'full urgency' in KCC. These decisions are subject to a process of requiring agreement by the decision-maker, the relevant senior officer and the Chair of the Scrutiny Committee that urgency is necessary, followed by consultation with relevant non-Executive Members where possible. Such decisions may be implemented immediately, without advance notice on the FED and they are not subject to call-in.

15. To clarify the terminology further, 'urgency' relates to the adherence to the lengthy timeframes set out in the relevant Executive Arrangements regulations. From a practical perspective, implementation of a decision with fewer than six weeks' notice requires some form of urgency process and a decision requiring implementation with fewer than two weeks' notice requires a fully urgent decision. While efforts are always made to provide long-term notice of all substantive Executive activity through effective planning and governance arrangements, it is

vital that the Council has the capacity and agility to respond to changing circumstances and fast-paced situations when necessary.

16. The list provided below for Members' information has been organised into urgent decisions (Full Statutory Urgency) followed by semi-urgent decisions.

17. The decisions to which this report refers have been implemented.

**Urgent Executive Decisions - 7 July 2023 to 4 September 2024:**

1. **23/00067 - Reinforced Autoclave Aerated Concrete (RAAC) in Schools**

Decision by the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services on 13 July 2023

**Urgency process:**
Statutory urgency – immediate implementation.

**Summary:**
In June 2023, through the course of relevant inspections and the consideration of new guidance by the DfE regarding the presence of Reinforced Autoclave Aerated Concrete (RAAC) in schools, a number of schools were flagged by Surveyors as constituting 'Red critical' status. The four schools impacted were closed with immediate effect, meaning, 1,130 pupils were unable to access face to face education. Emergency plans by KCC were initiated to minimise the period that the children were out of face to face education. KCC has responsibilities both as a Responsible Body in respect of maintaining the buildings of community, foundation and voluntary controlled schools and as the education authority responsible for ensuring every child resident in Kent can access a school place. Whilst legal provision is made for school sessions not being delivered in exceptional circumstances, such as an immediate health and safety risk requiring the school to close, it is expected the education function will be reinstated expeditiously. Failure to do so would open the school concerned and the maintaining authority to claims for failure to educate.

**Reason for Urgency:**
KCC was required to close a number of schools with immediate effect in order to carry out emergency works in accordance with guidance from the Institute of Structural Engineers and direction from the Department for Education (DfE). An urgent decision was required to both confirm the authority and requirement for strengthening works to be undertaken on the affected buildings; and authorise the draw down of up to £2.53m to fund the relevant works.

2. **23/00110 - UASC Accommodation**

Decision by the Cabinet Member for Integrated Children's Services on 21 December 2023

**Urgency process**
Statutory urgency – immediate implementation.

**Summary:**
Following a High Court judgment on 27 July 2023 and subsequent court orders, a Key decision was required to enable the Council to put in place the necessary arrangements to increase Ofsted regulated accommodation provision, to enter into necessary contractual agreements and operational arrangements to deliver the required services in line with the court orders, and to meet its statutory duties, including its Section 20 duties, in relation to all UAS children arriving in Kent. The decision confirmed the policy requirement and gave authority to direct the relevant KCC resources to support the policy objective to ensure sufficient accommodation and support was in place to meet legal requirements.

**Reason for Urgency:**
Due to the constantly changing situation with regards to various Court proceedings, the negotiations over funding, and the requirement to move at pace to secure additional UAS accommodation/ provision, it was not possible to take the decision via the Council's normal governance route. Had the decision been delayed, it would have impeded KCC's ability to comply with the legal requirements and put it at risk of breaching its duties.

**3. 23/00111 - Lower Thames Crossing – Side Agreement**

Decision by the Cabinet Member for Highways and Transport on 19 December 2023.

**Urgency process:**
Statutory urgency – immediate implementation

**Summary:**
The Development Consent Order (DCO) Application for the Lower Thames Crossing was submitted by National Highways to the Planning Inspectorate under Section 37(2) of the Planning Act (PA) 2008 on 31st October 2022 and accepted for Examination under Section 55 of the PA 2008 on 28th November 2022. The project constituted a Nationally Significant Infrastructure Project (NSIP) under Sections 14 and 22 of the Planning Act 2008 and would provide a second strategic road network dual carriageway crossing of the Thames estuary east of Greater London. As a host authority Kent County Council (KCC) has a statutory duty to participate in the Development Consent Order (DCO) process. Whilst National Highways is the scheme promoter and will deliver the project, KCC is required to enter into multiple contracts with the promoter to enable the works to progress and in order to secure

the requested requirements, KCC needed to enter into a Side Agreement with National Highways.

**Reason for Urgency:**
This decision needed to be made within the timescales of the Development Consent Order process which concluded on 20th December 2023. An initial draft Side Agreement was provided to KCC on 14 November and updated on 28th November 2023. The timetable did not allow sufficient time to take the decision via the Council's normal governance route due to the requirement by the Examining Authority for all signed legal agreement to be submitted by the 20th December.

**4. 23/00115 – Discharge to Assess**

Decision by the Leader of the Council on 18 December 2023

**Urgency process:**
Statutory urgency – immediate implementation.

**Summary:**
The discharge to assess service contract which was due to terminate on 31 December 2023 was commissioned by Kent County Council (KCC) and forms part of Discharge Pathway 1 Service, for people discharged from hospital who need support to recover at home. Whilst it had been agreed, in principle, between KCC and the Integrated Care Board that a new service model was required, more time was needed to undertake the appropriate governance and subsequent implementation. A decision to directly award the Discharge to Assess Service Contract to the incumbent provider (Hilton Nursing Partners) for up to nine months from 1 January 2024 to 30 September 2024 was required to ensure that the Council could maintain service provision at pace and allow sufficient time for the mobilisation of a new model.

**Reason for Urgency:**
Had the contract of terminated on 31 December 2023, this would have had a detrimental impact on those receiving the service and would have led to higher costs incurred as the gap in provision would have needed to be met through care home support. The gap in service provision would have also impacted on delayed hospital discharges. It was therefore necessary to put in place a short-term extension to allow time for the formalisation and mobilisation of the revised service model developed in partnership by KCC and the ICB. The timetable did not allow sufficient time to take the decision via the Council's normal governance route.

**5. 24/00050 – Auction Disposal**

Decision by the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services on 29 May 2024.

**Urgency process**
Statutory urgency – immediate implementation.

**Summary:**
The former Rosemary Centre, 189 High Road, Wilmington DA2 7DP had been approved for sale via delegated management of property portfolio, in accordance with the Asset Disposal Policy. Authority was in place to support the sale via auction of the property as the price was expected to fall within the delegated limits under the Property Management Protocol. The property went to auction on the 1 May 2024 and the price achieved was £1,274,000, which exceeded the limits of the £1m officer delegation. Due to the timescales involved in the property transaction with completion scheduled for 30 May 2024, urgent authority was required to proceed with the sale under auction terms.

**Reason for Urgency:**
Under competitive tension, as part of an auction sale, the property sold for a figure exceeding the £1m threshold and therefore required an urgent key decision to progress with the auction sale within the transaction timeframe.

## 6. 24/00078 - Disposal of land at intersection of M20 - M25

Decision by the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services on 27 August 2024

**Urgency process**
Statutory urgency – immediate implementation.

**Summary:**
The property was declared surplus in 2017 and was progressed as a property disposal in-line with the Council's adopted policy via an Option Agreement with Broomhill Development Ltd as a special purchaser due to then having an option on the adjacent land. Subsequent authority was given in 2020 to extend the option with revised commercial terms. The purchaser, Broomhill Developments (South) Limited served its Notice to 'exercise' its Option on 5 May 2024. Following complex negotiations, due diligence and s.123 compliance checks (including legal assurance), the anticipated consideration payable exceeded the Key Decision threshold. An urgent key decision was required to enable the transaction to complete on the 27 August 2024 in line with the contractual timescales associated with the sale under the terms and conditions of an Option Agreement dated 11 June 2020 between the council and the purchaser.

**Reason for Urgency:**

Under commercial negotiations with significant market improvements in the industrial land sector since the pandemic, the property option was finalised at a figure exceeding the £1m decision threshold and therefore an urgent key decision was needed to enable the transaction to complete on the 27 August 2024.

**Semi-Urgent Executive Decisions - 7 July 2023 to 5 September 2024**

**1.** 23/00090 - Finance Monitoring Report - budget adjustments

Decision by Cabinet on 5 October 2023

**Urgency:**
Semi-urgent decision

**Summary:**
To ensure the long-term financial viability of the Council, a number of actions requiring Cabinet approval needed to be made to bring the forecast overspend down to a balanced position.

**Reason for Urgency:**
The Council is moving at pace to deliver Kent's future which requires adjustments to revenue and capital budgets, transfers of funds and effectively represent a variation from the approved budget. Due to the pace at which the Council is delivering transformational plans, it was not possible to process a Key Decision in line with the normal governance route as the detail was not known in advance.

**2.** 23/00109 - Finance monitoring report 2023-24 - budget adjustment

Decision by Cabinet on 30 November 2023

**Urgency**
Semi-urgent decision

**Summary:**
To ensure the long-term financial viability of the Council, a number of actions requiring Cabinet approval needed to be made to bring the forecast overspend down to a balanced position.

**Reason for Urgency:**
The Council is moving at pace to deliver Kent's future which requires adjustments to revenue and capital budgets, transfers of funds and effectively represent a variation from the approved budget. Due to the pace at which the Council is delivering

transformational plans, it was not possible to process a Key Decision in line with the normal governance route as the detail was not known in advance.

3. 24/00009 - Fee Uplifts for Adult Social Care Providers for 2024/2025

Decision by Adult Social care Cabinet Committee on 13 March 2024

**Urgency:**
Semi-urgent decision

**Summary:**
In 2023/2024 KCC applied a differential uplift to fees paid to care providers delivering Adult Social Care services , however, in 2024/2025 KCC returned to a standard uplift for framework providers which sought to balance available funding, Consumer Price Index and provider pressures. The allocations were those which were affordable in the Council's agreed budget.

**Reason for Urgency:**
The fee uplifts need to be finalised by 7 March 2024 to enable them to be applied to the Council's Adult Social Care case management system in time for providers to be able to submit invoices for the revised rates from April 2024. In order to apply the required systems changes, the decision could not reasonably be deferred to the next meeting of the Adult Social Care Cabinet Committee.

4. **24/00021 - Finance Monitoring Report - budget adjustments**

Decision by Cabinet on 21 March 2024

**Urgency:**
Semi-urgent decision

**Summary:**
To ensure the long-term financial viability of the Council, a number of actions requiring Cabinet approval needed to be made to bring the forecast overspend down to a balanced position.

**Reason for Urgency:**
The Council is moving at pace to deliver Kent's future which requires adjustments to revenue and capital budgets, transfers of funds and effectively represent a variation from the approved budget. Due to the pace at which the Council is delivering transformational plans, it was not possible to process a Key Decision in line with the normal governance route as the detail was not known in advance.

5. 24/00054 – Finance Monitoring Report – Capital and revenue outturn budget adjustments

Decision by Cabinet on 26 June 2024

**Urgency:**
Semi-urgent decision

**Summary:**
To ensure the long-term financial viability of the Council, a number of actions requiring Cabinet approval needed to be made to bring the forecast overspend down to a balanced position.

**Reason for Urgency:**
The Council is moving at pace to deliver Kent's future which requires adjustments to revenue and capital budgets, transfers of funds and effectively represent a variation from the approved budget. Due to the pace at which the Council is delivering transformational plans, it was not possible to process a Key Decision in line with the normal governance route as the detail was not known in advance.

**RECOMMENDATON**

The Council is asked to note the report.

**Background Documents (listed in date order)**

Urgent Executive Decisions – FED entries Records of Decision and published Reports:

23/00067 - Reinforced Autoclave Aerated Concrete (RAAC) in Schools
23/00110 - UASC Accommodation
23/00111 - Lower Thames Crossing – Side Agreement
23/00115 – Discharge to Assess
24/00050 – Auction Disposal
24/00078 - Disposal of land at intersection of M20 - M25

Semi-Urgent Executive Decisions – FED entries Records of Decision and published Reports:

23/00090 - Finance Monitoring Report - budget adjustments
23/00109 - Finance monitoring report 2023-24 - budget adjustment
24/00009 - Fee Uplifts for Adult Social Care Providers for 2024/2025
24/00021 - Finance Monitoring Report - budget adjustments
24/00054 – Finance Monitoring Report – Capital and revenue outturn budget adjustments

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|---|---|
| From: | Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services<br>Interim Corporate Director - Finance |
| To: | County Council – 12 September 2024 |
| Subject: | Treasury Management Outturn 2023-24 |
| Classification: | Unrestricted |

**Summary:** This report provides an overview of Treasury Management activity in 2023-24 and developments in 2024-25.

**Recommendation:** The County Council is asked to note the report.

## 1. Introduction

1.1 This report covers Treasury Management activity in 2023-24 and developments in 2024-25 up to the date of this report.

1.2 The Council's Treasury Management Strategy for 2023-24 was approved by the County Council on 9 February 2023.

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

1.4 Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.5 The Council has nominated the Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. The Governance & Audit Committee reviewed this report at its meeting on 23 July 2024.

## 2. External context

2.1 **Economic background:** The following economic commentary has been provided by the Council's retained treasury advisor, Link Group.

## UK Economy

a) *Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.*

b) *Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.*

c) *UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.*

| | **UK** | **Eurozone** | **US** |
|---|---|---|---|
| **Bank Rate** | 5.25% | 4% | 5.25%-5.5% |
| **GDP** | -0.3%q/q Q4 (-0.2%y/y) | +0.0%q/q Q4 (0.1%y/y) | 2.0% Q1 Annualised |
| **Inflation** | 3.4%y/y (Feb) | 2.4%y/y (Mar) | 3.2%y/y (Feb) |
| **Unemployment Rate** | 3.9% (Jan) | 6.4% (Feb) | 3.9% (Feb) |

d) *The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".*

e) *Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.*

f) *But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.*

*g) Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.*

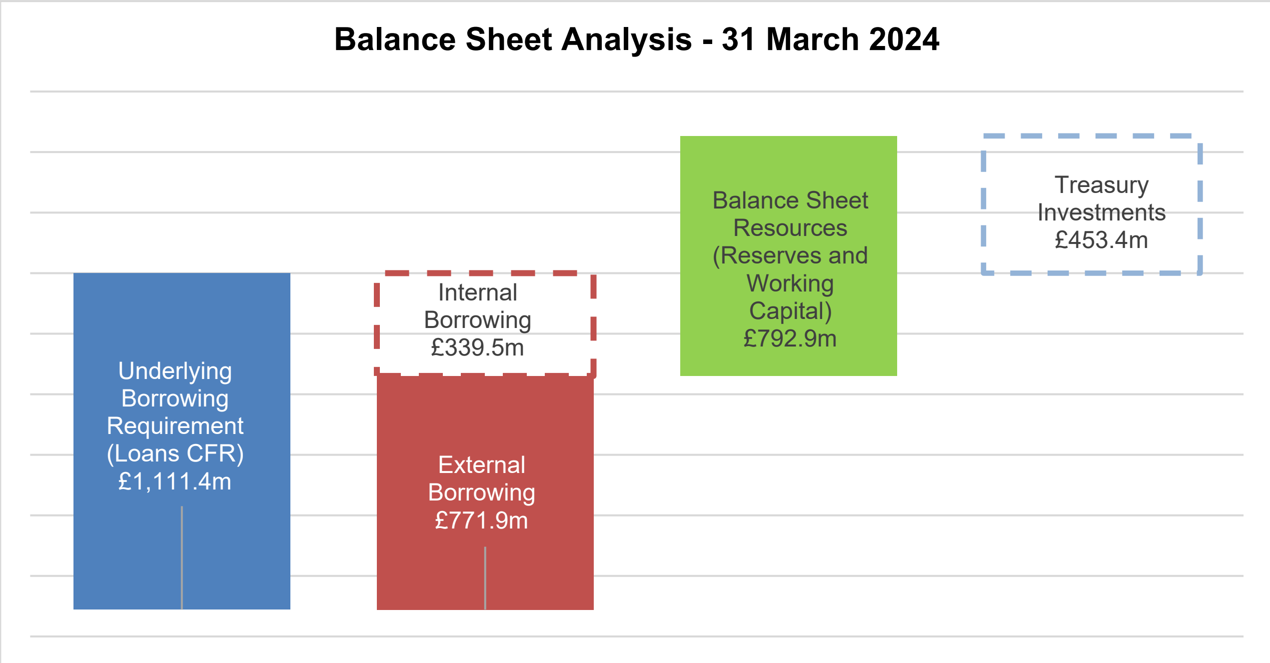
*h) From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.*

*i) As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.*

*j) Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.*

## 3. Local context

3.1 At 31 March 2024 the Council had borrowings of £771.9m and investments of £453.4m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are shown in the following table.




3.2 The Council followed its strategy to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. This strategy is regularly reviewed with the Council's treasury advisors taking account of capital spending plans and available cash resources.

3.3 The treasury management position on 31 March 2024 and the change during the year is shown in the following table.

| | 31-Mar-23 Balance £m | 2023-24 Movement £m | 31-Mar-24 Balance £m | 31-Mar-24 Average Rate % |
|---|---|---|---|---|
| Long-term borrowing | 802.5 | -30.6 | 771.9 | 4.39 |
| **Total borrowing** | **802.5** | **-30.6** | **771.9** | **4.39** |
| Long-term investments | 312.0 | -31.9 | 280.1 | 4.58 |
| Short-term investments | 45.7 | -1.3 | 44.4 | 4.83 |
| Cash and cash equivalents | 134.7 | -5.8 | 128.9 | 5.24 |
| **Total investments** | **492.4** | **-39.0** | **453.4** | **4.83** |
| **Net borrowing** | **310.1** | **8.4** | **318.5** | |

## 4 Borrowing Update

4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

## 5 Borrowing Strategy During the Period

5.1 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

5.2 At 31 March 2024 the Council held £771.9m of loans as part of its strategy for funding previous capital programmes. No net new borrowing was undertaken in the year and £30.6m of existing loans were allowed to mature without replacement.

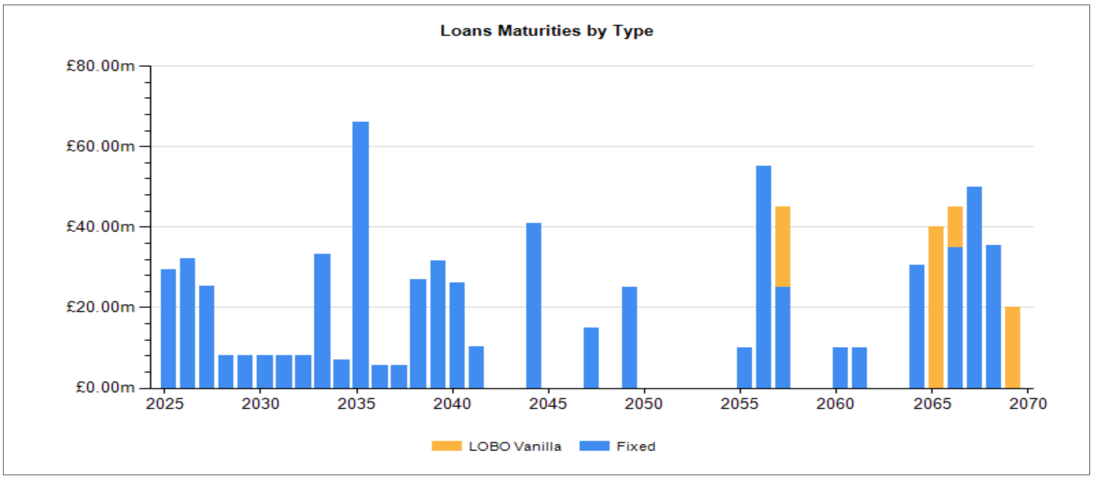
5.3 Interest rates rose over the year in both the long and short term, with rates at the end of March around 0.36% - 0.43% higher than those at the beginning of April. The PWLB 10-year maturity certainty rate stood at 4.78% at 31 March 2024, 20 years at 5.19% and 30 years at 5.21%.

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

5.5 The Council's borrowing activity in 2023-24 is as follows:

| | 31/03/2023 | 2023-24 | 31/03/2024 | 31/03/2024 | 31/03/2024 |
|---|---|---|---|---|---|
| | Balance | Movement | Balance | Average Rate | Value Weighted Average Life |
| | £m | £m | £m | % | yrs. |
| Public Works Loan Board | 484.0 | -27.7 | 456.3 | 4.41% | 14.90 |
| Banks (LOBO) | 90.0 | 0.0 | 90.0 | 4.15% | 39.88 |
| Banks (Fixed Term) | 216.1 | 0.0 | 216.1 | 4.54% | 38.23 |
| Streetlighting project | 12.4 | -2.9 | 9.5 | 2.55% | 14.59 |
| **Total borrowing** | **802.5** | **-30.6** | **771.9** | **4.39%** | **24.34** |

5.6 The maturity profile of the Council's outstanding debt at 31 March 2024 was as follows:




## 6 Treasury Investment Activity

6.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that represents balances that need to be invested until the cash is required for use in the course of business.

6.2 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balance ranged between £401.6m and £640.6m due to timing differences between income and expenditure.

6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.4 Bank Rate increased from 4.25% at the beginning of the year to 5.25% at the end of March 2024. Short-dated cash rates, which had ranged between 4.1% - 4.9% at the beginning of April, rose by around 1.1% for overnight/7-day maturities and 0.4% for 6-12 month maturities.

6.5 The Council continues to hold significant cash balances in money market funds as well as in bank call accounts which have same day availability. This liquid cash was diversified over several counterparties and money market funds to manage both credit and liquidity risks.

6.6 During the year the Council loaned £7.4m to the no use empty loans programme. At 31 March 2024, the Council had loans outstanding totalling £16.0m to the programme now achieving a return of 4.5% which is available to fund general services. A £28.5m net decrease in covered bonds in the year brings the total bond portfolio down to £88.2m. These instruments are negotiable and have the benefit of collateral cover.

6.7 The Council's investments during the year are summarised in the table below and a detailed schedule of investments as at 31 March 2024 is in Appendix 1.

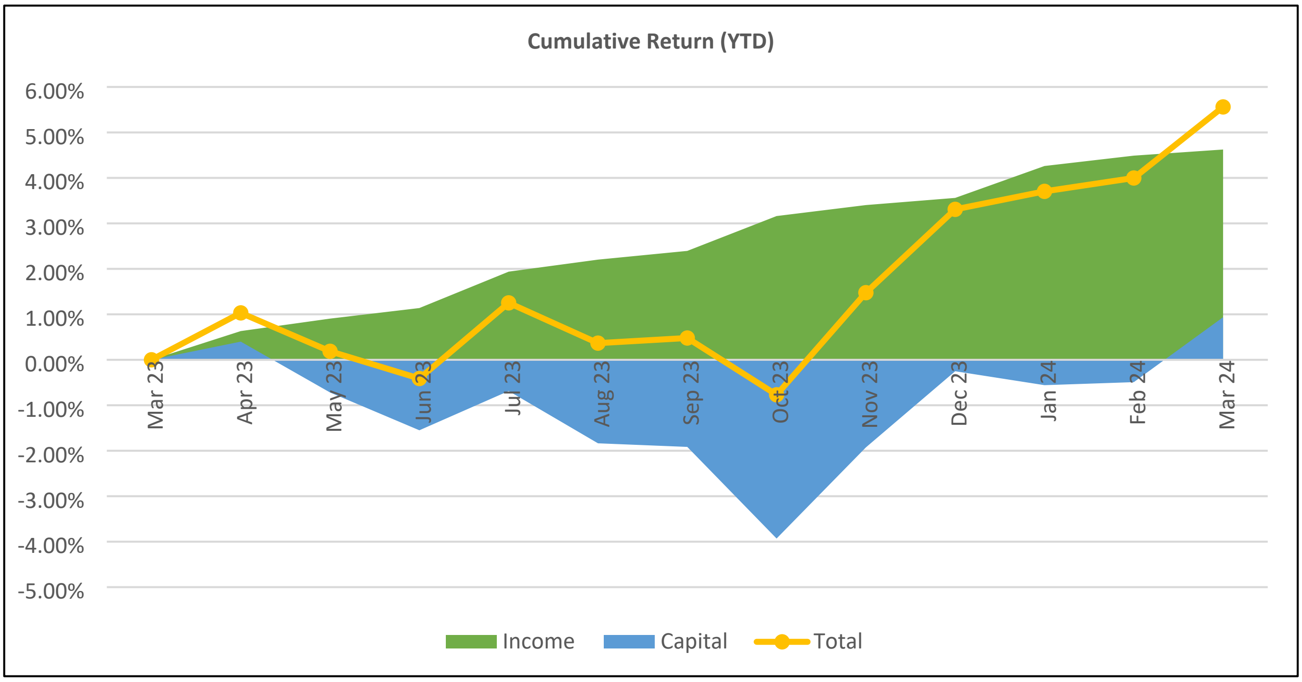
| | **31-Mar-23** | **2023-24** | **31-Mar-24** | **31-Mar-24** | **31-Mar-24** |
|---|---|---|---|---|---|
| | **Balance** | **Movement** | **Balance** | **Rate of Return** | **Average Credit Rating** |
| | **£m** | **£m** | **£m** | **%** | |
| Call Deposits (Banks) | 1.3 | 12.4 | 13.6 | 3.94 | A+ |
| Money Market Funds | 134.7 | -5.8 | 128.9 | 5.24 | AAA |
| Covered Bonds | 116.7 | -28.5 | 88.2 | 4.59 | AAA |
| DMADF Deposits (DMO) | 34.6 | -34.6 | 0.0 | 0.00 | |
| Treasury Bills (UK Government) | 9.8 | 21.0 | 30.8 | 5.22 | AA- |
| No Use Empty Loans | 22.0 | -6.0 | 16.0 | 4.50 | |
| Equity | 1.3 | 0.0 | 1.3 | | |
| **Internally Managed Cash** | **320.4** | **-41.6** | **278.8** | **4.95** | AA+ |
| **Strategic Pooled Funds** | **172.0** | **2.6** | **174.6** | **4.62** | |
| **Total** | **492.4** | **-39.0** | **453.4** | **4.83** | |

## 7 Externally managed investments

7.1 The Council is invested in equity, multi-asset and property funds. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.

7.2 Although expected returns are higher over the long term than comparable short term cash instruments, returns on pooled fund investments can be volatile from one year to the next, and therefore the Council only holds long term (strategic) cash balances in the strategic pooled funds' portfolio.

7.3 **Performance YTD**. The value of our holdings increased to £174.6m at the end of March 2024, showing an unrealised gain of £1.7m (0.94%) since the end of March 2023. The total return (comprised of both income and capital returns) on the pooled fund investments over the year since 31 March 2023 was £10.0m (5.56%), as shown in the table below.

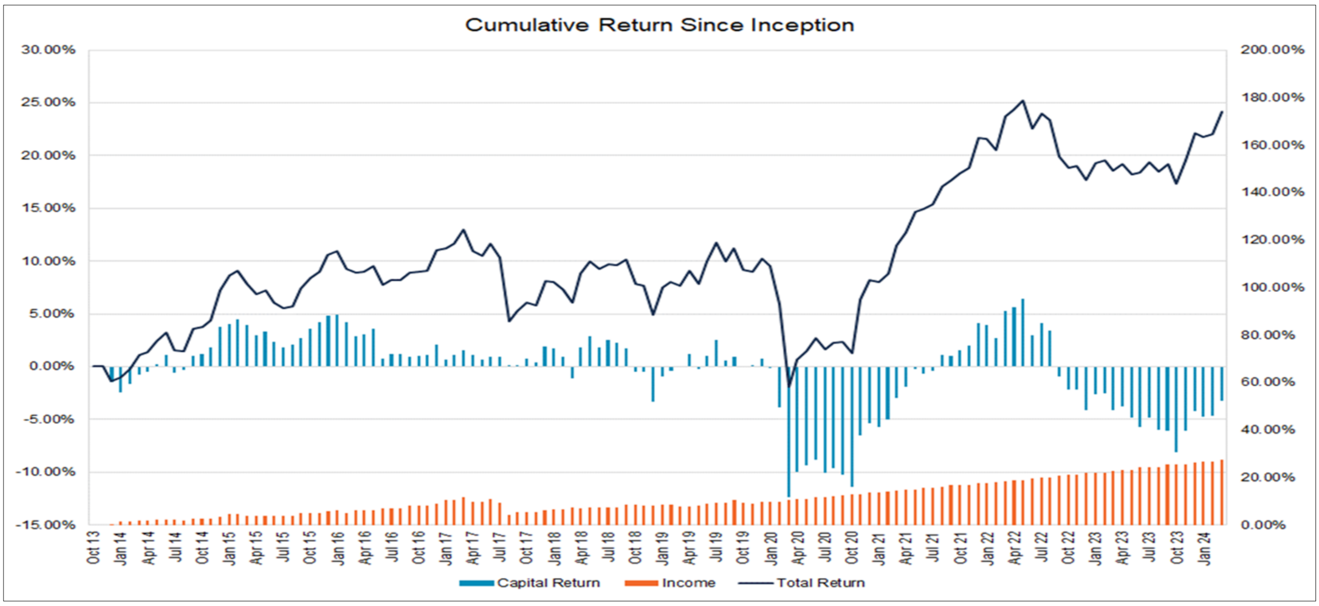



7.4 The market value of the pooled fund investments as at 31 March 2024 compared to the position as at 31 March 2023 is shown in the table below.

| | | 31-Mar-23 | 2023-24 | 31-Mar-24 | 31-Mar-24 | |
|---|---|---|---|---|---|---|
| **Investment Fund** | **Book cost** | **Market Value** | **Movement** | **Market Value** | **12 months return** | |
| | | | | | **Income** | **Total** |
| | **£m** | **£m** | **£m** | **£m** | **%** | **%** |
| Aegon (Kames) Diversified Monthly Income Fund | 20.0 | 17.7 | 1.0 | 18.7 | 5.79% | 10.61% |
| CCLA - Diversified Income Fund | 5.0 | 4.7 | 0.2 | 5.0 | 3.20% | 7.85% |
| CCLA – LAMIT Property Fund | 60.0 | 56.4 | -2.2 | 54.2 | 4.56% | 0.89% |
| Fidelity Global Multi Asset Income Fund | 25.0 | 22.7 | 0.3 | 23.0 | 4.32% | 3.74% |
| M&G Global Dividend Fund | 10.0 | 13.8 | 1.3 | 15.1 | 4.60% | 14.33% |
| Ninety-One (Investec) Diversified Income Fund | 10.0 | 9.1 | 0.0 | 9.1 | 4.15% | 3.76% |
| Pyrford Global Total Return Sterling Fund | 5.0 | 5.1 | 0.3 | 5.4 | 2.19% | 5.03% |
| Schroder Income Maximiser Fund | 25.0 | 20.4 | 0.1 | 20.5 | 6.05% | 6.47% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Threadneedle Global Equity Income Fund | 10.0 | 11.8 | 1.2 | 13.0 | 3.14% | 15.61% |
| Threadneedle UK Equity Income Fund | 10.0 | 10.3 | 0.4 | 10.7 | 3.77% | 7.84% |
| **Total Externally Managed Investments** | **180.0** | **172.0** | **2.6** | **174.6** | **4.62%** | **5.56%** |

7.5 **Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of March 2024 they had achieved a total income return of £49.4m, 27.37%, with a fall in the capital value of the portfolio of £5.9m, -3.25%. Total returns since inception have been far in excess of the returns available from cash and these instruments are an effective way of managing the Council’s longer term cash balances. The following chart tracks the returns earned on the pooled funds over the period from inception.




## 8 Investment benchmarking at 31 March 2024

8.1 The Council’s retained treasury advisor, Link Group monitors the risk and return of some 230 local authority investment portfolios. The metrics over the 12 months to 31 March 2024 extracted from their quarterly investment benchmarking, per the table below, show that the risk within the Kent internally managed funds having been consistent throughout the 12-month period is in line with that of other local authorities. The income return has risen reflecting increased rates payable on our cash investments.

| Internally managed investments | Weighted Average Risk Score | Weighted Average Risk Rating | Weighted Average Time to Maturity (days) | Weighted Average Rate of Return (%) |
|---|---|---|---|---|
| Kent - 31.03.2023 | 3.26 | AA | 315 | 3.93 |
| **Kent - 31.03.2024** | **1.14** | **AA+** | **207** | **4.95** |
| English Counties (17) | 2.12 | AA | 96 | 5.26 |
| Population Average (230) | 2.53 | AA | 56 | 5.17 |

## 9 Actual and forecast outturn

9.1 Outturn net debt costs are £5.53m lower than budget as yields from short-term and variable long-term cash investments have increased and MRP reduced.

## 10 Treasury Management Group

10.1 The Treasury Management group (TMG) is an informal, non-decision-making body whose role is to support the County Council in oversight and assurance of the treasury management strategy and implementation of it. The TMG last met on 4 June 2024, where it reviewed a copy of this report, alongside other matters. A summary of the meeting discussion is included at Appendix 3.

## 11 Compliance

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

## 12 Treasury Management Indicators

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

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

| Credit risk indicator | Actual 31/03/2024 | Minimum |
|---|---|---|
| Portfolio average credit rating | AA+ | AA- |

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

| **Liquidity risk indicator** | **Actual 31/03/2024** | **Minimum** |
|---|---|---|
| Total cash available within 3 months | £168.73m | £100m |

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

| **Interest rate risk indicator** | **Actual 31/03/2024** | **Limit** |
|---|---|---|
| One-year revenue impact of a 1% rise in interest rates | £2.62m | £10m |
| One-year revenue impact of a 1% fall in interest rates | -£2.62m | -£10m |

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

| | **Actual 31/03/2024** | **Upper limit** | **Lower limit** |
|---|---|---|---|
| Under 12 months | 2.73% | 100% | 0% |
| 12 months and within 5 years | 5.31% | 50% | 0% |
| 5 years and within 10 years | 6.52% | 50% | 0% |
| 10 years and within 20 years | 34.79% | 50% | 0% |
| 20 years and within 40 years | 25.96% | 50% | 0% |
| 40 years and longer | 24.68% | 50% | 0% |

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

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

| **Price risk indicator** | **Actual 2024/25** | **Limit 2025/26** | **Limit 2026/27** | **Limit No Fixed Date** |
|---|---|---|---|---|
| Limit on principal invested beyond year end | £150m | £100m | £50m | £250m |
| Actual as at 31 March 2024 | £53.00m | £32.06m | £7.00m | £191.85m |

## 13 Recommendation

County Council is asked to NOTE the report.

**Appendices**

Appendix 1 – Investments as at 31 March 2024
Appendix 2 – Glossary of Terms
Appendix 3 – TMG Meeting Notes, 4 June 2024

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**James Graham, CFA – Pension Fund and Treasury Investments Manager**

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**8 July 2024**

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# Investments as at 31 March 2024

## 1. Internally Managed Investments

### 1.1 Term deposits, Call accounts and Money Market Funds

| Instrument Type | Counterparty | Principal Amount £ | Interest Rate | End Date |
|---|---|---|---|---|
| Treasury Bills | DMO | 328,148 | 5.4100% | 08/04/24 |
| Treasury Bills | DMO | 1,463,948 | 5.2200% | 08/04/24 |
| Treasury Bills | DMO | 4,871,738 | 5.2800% | 20/05/24 |
| Treasury Bills | DMO | 4,876,320 | 5.2600% | 28/05/24 |
| Treasury Bills | DMO | 4,872,212 | 5.2600% | 03/06/24 |
| Treasury Bills | DMO | 4,873,041 | 5.2250% | 17/06/24 |
| Treasury Bills | DMO | 4,936,251 | 5.1800% | 24/06/24 |
| Treasury Bills | DMO | 4,546,918 | 5.1200% | 23/09/24 |
| **Total Treasury Bills** | | **30,768,576** | | |
| | | | | |
| **Total DMADF** | | **0** | | |
| Call Account | National Westminster Bank plc | 8,600,000 | 3.25% | |
| Call Account | Lloyds Bank plc | 5,000,000 | 5.14% | |
| **Total Bank Call Accounts** | | **13,600,000** | | |
| **No Use Empty Loans** | | **15,995,903** | 4.50% | |
| **Registered Provider** | **£5m loan facility – non utilisation fee** | | 0.40% | 16/06/24 |
| Money Market Funds | LGIM GBP Liquidity Class 4 | 19,998,053 | 5.2804% | |
| Money Market Funds | Aviva Investors GBP Liquidity Class 3 | 19,998,860 | 5.2460% | |
| Money Market Funds | Aberdeen GBP Liquidity Class L3 | 19,998,963 | 5.2728% | |
| Money Market Funds | Federated Hermes Short-Term Prime Class 3 | 14,998,224 | 5.2939% | |
| Money Market Funds | HSBC GBP Liquidity Class F | 13,926,043 | 5.1814% | |
| Money Market Funds | Northern Trust GBP Cash Class F | 19,992,368 | 5.1814% | |
| Money Market Funds | Deutsche Managed GBP LVNAV Platinum | 19,998,963 | 5.2457% | |
| **Total Money Market Funds** | | **128,911,475** | | |
| **Equity** | Kent PFI (Holdings) Ltd | **1,298,620** | | n/a |

### Bond Portfolio

| Bond Type | Issuer | Adjusted Principal £ | Coupon Rate | Maturity Date |
|---|---|---|---|---|
| Fixed Rate Covered Bond | Bank of Scotland - Bonds | 6,265,814 | 0.4259% | 20/12/24 |
| Fixed Rate Covered Bond | Bank of Scotland - Bonds | 4,124,283 | 1.7146% | 20/12/24 |
| Floating Rate Covered Bond | Bank Of Nova Scotia Bonds | 710,477 | 5.3160% | 26/01/2026 |
| Floating Rate Covered Bond | Bank Of Nova Scotia Bonds | 5,039,973 | 4.7743% | 14/03/2025 |
| Floating Rate Covered Bond | Bank Of Nova Scotia Bonds | 10,099,163 | 5.0928% | 22/06/2026 |
| Floating Rate Covered Bond | Bank Of Nova Scotia Bonds | 4,019,813 | 5.0457% | 14/03/2025 |
| Floating Rate Covered Bond | Canadian Imperial Bank of Commerce - Bonds | 5,067,751 | 4.7910% | 15/12/2025 |
| Floating Rate Covered | Leeds Building Society Bonds | 3,998,681 | 5.5798% | 15/05/2027 |

| | | | | |
|---|---|---|---|---|
| Bond | | | | |
| Floating Rate Covered Bond | Leeds Building Society Bonds | 3,003,290 | 5.5161% | 15/05/2027 |
| Floating Rate Covered Bond | National Australia Bank - Bonds | 5,068,477 | 4.7822% | 15/12/2025 |
| Floating Rate Covered Bond | National Australia Bank - Bonds | 10,098,799 | 4.4821% | 15/12/2025 |
| Floating Rate Covered Bond | Nationwide Building Society - Bonds | 500,972 | 5.6491% | 20/04/2026 |
| Floating Rate Covered Bond | Nationwide Building Society - Bonds | 5,404,682 | 5.7032% | 20/04/2026 |
| Floating Rate Covered Bond | Royal Bank of Canada - Bonds | 1,790,266 | 5.5577% | 03/10/2024 |
| Floating Rate Covered Bond | Royal Bank of Canada - Bonds | 5,014,635 | 4.8013% | 30/01/2025 |
| Floating Rate Covered Bond | Royal Bank of Canada - Bonds | 8,963,245 | 5.3210% | 03/10/2024 |
| Floating Rate Covered Bond | Royal Bank of Canada - Bonds | 4,044,210 | 5.1975% | 13/07/2026 |
| Floating Rate Covered Bond | Yorkshire Building Society - Bonds | 3,005,187 | 5.3537% | 18/01/2027 |
| Floating Rate Covered Bond | Yorkshire Building Society - Bonds | 2,002,374 | 5.3746% | 18/01/2027 |
| **Total Bonds** | | **88,222,093** | | |

| | |
|---|---|
| **Total Internally managed investments** | **278,796,667** |

## 2. Externally Managed Investments

| Investment Fund | Book Cost | Market Value at | 12 months return to | |
|---|---|---|---|---|
| | £ | 31-March-24 | 31-March-24 | |
| | | £ | Income | Total |
| Aegon (Kames) Diversified Monthly Income Fund | 20,000,000 | 18,708,495 | 4.56% | 0.89% |
| CCLA - Diversified Income Fund | 5,000,000 | 4,954,834 | 3.20% | 7.85% |
| CCLA - LAMIT Property Fund | 60,000,000 | 54,217,731 | 2.19% | 5.03% |
| Fidelity Global Multi Asset Income Fund | 25,038,637 | 22,955,549 | 4.32% | 3.74% |
| M&G Global Dividend Fund | 10,000,000 | 15,061,513 | 4.15% | 3.76% |
| Ninety-One (Investec) Diversified Income Fund | 10,000,000 | 9,104,426 | 5.79% | 10.61% |
| Pyrford Global Total Return Sterling Fund | 5,000,000 | 5,352,529 | 4.60% | 14.33% |
| Schroder Income Maximiser Fund | 25,000,000 | 20,471,717 | 6.05% | 6.47% |
| Threadneedle Global Equity Income Fund | 10,000,000 | 13,024,192 | 3.14% | 15.61% |
| Threadneedle UK Equity Income Fund | 10,000,000 | 10,703,312 | 3.77% | 7.84% |
| **Total External Investments** | **180,038,637** | **174,554,299** | **4.62%** | **5.56%** |

## 3. Total Investments

| | |
|---|---|
| **Total Investments** | **£453,350,966** |

# GLOSSARY

## Local Authority Treasury Management Terms

| | |
|---|---|
| Bond | A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets |
| Borrowing | Usually refers to the stock of outstanding loans owed and bonds issued. |
| CFR | Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP. |
| Capital gain or loss | An increase or decrease in the capital value of an investment, for example through movements in its market price. |
| Counterparty | The other party to a loan, investment or other contract. |
| Counterparty limit | The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk. |
| Covered bond | Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in. |
| CPI | Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee. |
| Deposit | A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets. |
| Diversified income fund | A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income. |
| Dividend | Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance. |
| DMADF | Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland. |
| DMO | Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments. |
| Equity | An investment which usually confers ownership and voting rights |
| Floating rate note (FRN) | Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA |
| FTSE | Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two |
| GDP | Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth. |
| Gilt | Bond issued by the UK Government, taking its name from the gilt-edged paper they were |

| | |
|---|---|
| | originally printed on. |
| Income return | Return on investment from dividends, interest and rent but excluding capital gains and losses. |
| IFRS | International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010 |
| LIBID | London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. |
| LIBOR | London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022. |
| LOBO | Lender's Option Borrower's option |
| MMF | Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds |
| Monetary Policy | Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing. |
| MPC | Monetary Policy Committee. Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%. |
| MRP | Minimum Revenue Provision – an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP. Not applicable in Scotland, but see Loans Fund |
| Pooled Fund | Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds'). |
| Prudential Code | Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code. The Code was update din December 2021 |
| PWLB | Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland. |
| Short-term | Usually means less than one year |
| SONIA | Based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors |
| Total return | The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. |
| Weighted | The weighted average time for principal repayment, that is, the average time it takes for every |

| | |
|---|---|
| average life (WAL) | dollar of principal to be repaid. The time weights are based on the principal payments, |

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**TMG 4 June 2024**

**Agenda**
1. Quarterly TMG Update – Q1 2024 (Standing Item)
2. Draft Treasury Outturn Report 2023-24 for Governance and Audit Cttee
3. Market and Regulatory Update (Link Group)
4. Strategy Suitability Check (Standing Item)
5. ESG in a Treasury Management Context
6. AOB (Standing Item)

**Attendance:**
Harry Rayner – MEM Rosalind Binks – MEM Paul Stepto – MEM Alister Brady - MEM
Nick Buckland – KCC James Graham – KCC Geoff Hall – KCC Sola Adeniji – KCC
David Wheelan – Link Group Chris Jones – Link Group

**Apologies:**
Charlie Simkins – MEM Antony Hook - MEM

**Discussion Summary:**

- Quarterly TMG Update and & Draft Treasury Outturn Report 2023-24 presented by JG, highlighting the key aspects of treasury activity in the prior quarter and for the last financial year as a whole respectively. Due to the increase in interest rates, it was observed that investment income was higher than forecast. The valuations of strategic pooled funds had recovered somewhat over 2023-24, although these were still below purchase cost as at 31 March 2024 (total returns, inclusive of income, had been positive since inception and over 2023-24).
- Responding to a question, officers confirmed that KCC does not lever a fee on Medway Council for the management of Medway-related debt on KCC's balance sheet but noted that all debt servicing (interest) costs were incurred by Medway and not KCC.
- Members discussed the potential impact of the expiration of the IFRS 9 statutory override and officers confirmed that the Council would be required to recognise unrealised gains and losses (including the cumulative position as at the date of expiration) from 2025-26.
- Link presented an update on market conditions and regulatory developments. The advisor had updated their forecast for interest rates following the latest meeting of the Bank of England's rate-setting Monetary Policy Committee. Link now expect rates to decline more gradually over the medium term to 3.00% by September 2026. Members noted that there was uncertainty in the forecast and a risk that rates do not decline as quickly or as far as currently expected by Link. Officers stated that they took this uncertainty into consideration when preparing the treasury management strategy.
- Officers recommended that no changes were made to the current treasury management strategy, which contain sufficient flexibility to manage the Council's treasury position for the year ahead.
- The Group considered the relevance of environmental, social and governance (ESG) factors to treasury management in a local government context. Link set out the

regulatory context and officers presented some indicative analysis evidencing which ESG initiatives the Council's strategic pooled fund investment managers and covered bond issuers had subscribed to.

**Actions Points:**

| Ref | Action | Status |
|---|---|---|
| 1 | Officers to send out ESG slides (as presented) to members. | Complete |
| 2 | Officers to meet with appointed fund managers to discuss how they manage ESG issues and to report findings to the TMG, including whether any of the current investments attracted a regulated sustainability label and whether the investment strategies adopted by the managers adopted any formal exclusion policies. | In progress |
| 3 | Officers to work with Link to update balance sheet analysis based on draft accounts for 2023-24. | Complete |
| 4 | Officers to incorporate interest rate sensitivity analysis into reporting to demonstrate impact of different interest rate environments on the Council's position. | In progress |

**From**: Cllr Rosalind Binks, Chairman – Governance and Audit Committee

**To**: County Council – 12 September 2024

**Subject**: Chairman's Report to the Council

**Classification**: Unrestricted

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**Recommendation:**

County Council is asked to note the report.

## 1. Introduction & Purpose of this report

1.1. The Chairman's Report from the Governance and Audit Committee to County Council was introduced as part of governance improvements driven by the Committee and the officers advising them.

1.2. The purpose of regular report is to highlight for Members the role and work of the Committee, to draw attention to some governance issues the Committee has considered and finally to highlight key themes that all Members should be sighted on.

## 2. Committee Purpose, Membership, Attendance & Training

2.1. The purpose of the Governance & Audit Committee is to provide independent and high-level focus on the adequacy of the Council's governance, risk, finance, and control arrangements.

2.2. The Committee membership is Cross-Party and includes one independent, non-elected and non-voting member appointed by the Committee. The Committee benefits greatly from the diverse knowledge and expertise that all Members and the independent Members bring to meetings.

2.3. Following a change of membership outlined below in 5.5 and approved by the Council, the Governance & Audit Committee will comprise 11 voting Members and up to 2 non-voting independent members. Current members are:

- Mrs R Binks (Chairman)
- Mr T Bond
- Mr A Brady
- Mr N Chard
- Mr P Cooper
- Mr M Hood
- Mr C Passmore (Vice Chairman)
- Mr O Richardson
- Mr S Webb

- Mr M Whiting
- Dr D Horne (Independent Member)
- Mrs C Black (Independent Member)

2.4. A review of the Committee and its activities by CIPFA was presented to the Committee in July 2022. Their comments and suggestions for development and improvement were discussed by Members and largely adopted.

2.5. The Committee agreed in 2022 that, given the nature of its work, Members of the Governance & Audit Committee, and indeed Members who wish to substitute at meetings, must have training to ensure that the Committee is fit for a changing and challenging environment. That includes both general and one-to-one talks from officers, auditors and CIPFA, as well as regular online updates and training materials from external bodies.

2.6. It should also be noted that the various Substitute Members have all participated fully in the training necessary to the meetings that they attend.

2.7. As Chairman of the Committee, I consider it is vital that the Committee retains its political neutrality and integrity. Views may be challenged but inappropriate behaviour towards any other person attending a meeting will not be permitted.

3. **Strengthening the Effectiveness of the Committee**

3.1. The 2022 review found that the Committee demonstrates features of good practice and recommended increasing the focus of the Committee to make an impact across the Council. The actions to deliver against this have included the following:

- Review of the Terms of Reference for the Governance and Audit Committee:
  Completed March 2023; updated February 2024.
  Committee details - Governance and Audit Committee (kent.gov.uk)

- Governance and Audit Committee Training Programme:
  Minimum training requirements for Members and substitutes of the Governance and Audit Committee - completed and ongoing.

- Independent Member:
  Reviewed July 2023; agreed extension of current independent co-opted Committee member for a further two years and recruitment of a second independent member for a four-year term. The second independent Member has been recruited and joined the Committee for the first time in the meeting in July.

- Lessons to be Learned from Other Authorities:
  Review July and November 2023 and a watching brief for learning opportunities that flow from the case study of other Authorities - recommended reading for ALL Members.

    - Lessons Learned paper
    - Best Value Interventions Update Nov 2023

- <u>Increased Briefings with Auditors:</u>
  Private meetings and briefings with Internal and External Auditors are now diarised on a regular basis.

4. **Activity of the Committee**

4,1 The Committee held 8 meetings during 2023.

4.2 As part of the Committee's work, Members considered the following:

- The Council's Annual Governance Statement and arrangements for its compilation
- The pre-audit Annual Statement of Accounts for 2022-23 and External Auditor's reports, including reports on Value for Money and Risk Assessment Review
- The Corporate Risk Register
- SEND Transport Review Management Response
- Internal Audit Follow Up of SEND Transport Lessons Learned Review
- Schools Audit Annual Report
- Internal Audit Annual Report, including a report on the Kent Pension Fund
- Performance of KCC wholly owned companies
- Treasury Management Policy and Annual Outturn Report as well as the mid-year update
- External Audit Governance Review
- Counter Fraud Plans and Update Reports including Covert Enforcement Techniques Activity
- Annual Customer Feedback Report

4.3. A subgroup of Committee Members participated with Officers in the update of the Financial Regulations and Scheme of Delegation and the review of the Council's Current Standing Orders (Spending the Council's Money). This gave Members a valuable insight into the operational processes within the organisation.

4.4 The Committee monitors audit plans and their ongoing progress as well as regularly reviewing KCC policies such as Risk Management Strategy, Anti-Money Laundering, Anti-Fraud and Corruption, Bribery and Whistle Blowing to ensure their continued relevance and accuracy.

4.5. The Internal Audit Annual Report 2022-23 highlighted the increase in the number of systems, processes or functions assigned a "Limited Assurance" (35% compared to 9% in 2019-20). The trend continued through the first half of 2023 with the Internal Audit Progress Report including, most notably, a Limited Assurance for Compliance with Financial Regulations. All Limited or No Assurance reports were considered by the Committee and questions put to the relevant Cabinet Members and Officers in attendance. Follow-up reviews were also held to monitor the progress of any proposed actions and current Internal Audit reports for the financial year 2023-24 are indicating a distinctly more positive trajectory.

4.6. Several audits had identified issues of non-compliance which indicated a need for a stronger financial 2nd line of defence within Directorates. The External Audit Report also outlined the need for a cultural change within Council and greater Governance training at all levels of the Council. This has led to a variety of actions to remind, instruct, and support Officers and Members in their collective and personal responsibilities within the Council, including a well-attended and successful Governance Week last November.

4.7. Following recommendations by auditors and consideration by the Committee, the governance and oversight of other KCC companies has also been enhanced by placing the Shareholder Board as a formal sub-committee of the Cabinet, which will meet in Q2 and Q4 of each financial year starting with the current financial year.

## 5. Focus on the Future & Actions for 2024

5,1. The Governance & Audit Committee continues to express great concern at the Council's direction of travel and the need for action on External Audit recommendations as well as completion of actions already agreed with Internal Audit. These actions affect financial Sustainability, Value for Money and Governance and all should be addressed with urgency.

5,2. Democratic Services have worked diligently to ensure that the necessary legal changes to the organisation are in place to enable the Council to formulate new ways of working. The groundwork for change is in place, decisions and actions must follow.

5.3. Auditors have continually referred to underlying issues such as the culture within the organisation, the quality and timeliness of decision-making, the delivery of promised savings and ensuring all activities are effective, efficient and compliant. The greatest risk to the Council is its future Financial Sustainability. Whilst there are many external factors that the Council cannot change, much can be achieved and improved by changing the culture in which the Council operates. That requires 'buy-in' at all levels of the organisation – Members and Officers. Following an External Audit report on this subject, the Committee still awaits the outcome of the Member Governance Working Group which will review the structure of the Administration of the Council and make recommendations on how this may be improved. If they are to continue in their current form, Cabinet Committees can and should act as a discussion forum ahead of major decisions, to ensure all potential options have been considered and risks and benefits have been challenged and realistically assessed. Poor and tardy decision-making is one common cause of Council failure.

5.4. Transformation always presents a risk but is particularly heightened this year. The Corporate Risk Register includes CR0045: maintaining effective governance and decision-making in a challenging financial and operational environment. There will be greater consideration by the Governance & Audit Committee of the Corporate Risk Register in the coming months and the expectation of timely notification of potential and actual changes in the Council's risk profile.

5.5. Internal Audit's current rolling audit plan has evolved to reflect the greatest financial risks facing the Council and these must be the focus for the Committee, as well as closer monitoring of the pressures on service delivery and resources.

5.6. Following recommendations from both Internal and External Auditors, the Committee recently proposed further changes to its membership. With approval from the Council, the following are now specifically excluded from Committee Membership:

- Current Cabinet and Deputy Cabinet Members, or those who have been Cabinet Members in the past 2 years.

Whilst acknowledging the valuable experience and knowledge that holders of those roles may have, the Committee must maintain and be seen to maintain clear independence from the Administration of the Council in its governance activities.

5.7. In the past year there have been several areas where Internal Audit findings reflected a particular need for improvement or change. These included Asset Control, Social Care Debt Recovery and Property Management. Management actions are now in place to improve these issues, but greater transparency is needed to ensure more effective scrutiny. The progress of management action plans to give greater assurance in these areas will be regularly considered by the Committee.

5.8. The Committee has received updates on over 40 actions to improve SEND transport and a recent Lessons Learned review reported cross-directorate co-operation has been strengthened with a Memorandum of Understanding and better working procedures. There is now a team dedicated to removing the backlog of complaints and the Committee will expect to see hard evidence of improvement in the coming months. Whilst appreciating that the strong growth in demand for SEND services is a nationwide issue, it is indisputable that Kent faces a considerably greater demand than many other councils and the department has already made substantial changes to both the assessment of need and the management of the service to ensure that the Council fulfils its statutory obligations and provides the service needed to Kent’s most vulnerable people in an equitable manner.

5.9. In many areas of the Council’s activities, Contract Management and Commissioning was found to need improvement. Urgent decisions should be minimised wherever possible and most particularly when commissioning. Work is ongoing to enhance the pre-decision process, with clearly defined procedures and responsibility for both internal and external advice as well as robust consideration of available options. Well-researched and timely decision-making is particularly crucial in the delivery of care services, where the bulk of the Council’s budget is spent. Once contracts are in place, proactive management and performance monitoring is vital to ensure control of spending. Contract Management and Procurement will play a vitally important role in enabling the Council to deliver the required budgeted savings and the Head of Commissioning Portfolio will attend the Committee’s meetings regularly in future.

5.10. Changing how the Council works also includes changing how it works with other parties. By sheer size of budget, the Council’s most important partners are undoubtedly those of the care services including the NHS. The increase in demand is relentless. Several new initiatives have been proposed with the aim of providing improved and more cost-effective services, but it is too early to determine if these will be successful and bring about the savings that are essential for the future of the Council.

5.11. It should not be forgotten that this enormous period of change places great pressure on the Council’s various IT systems and it is essential that adequate resources are in place to ensure both the ability to keep pace whilst maintaining security of data.

5.12. Despite a rising number of fraud and security risks, KCC’s Counter Fraud Team continue with their invaluable work. They and the various local and national agencies with whom they work provide a robust and reliable support not only to the Council but also to our colleagues in District Councils and ultimately the residents of Kent.

5.13. There have been many positive changes with Officers and Members working together to ensure better outcomes for the Council and Kent's residents. However, there is still evidence of some lack of challenge at committees. It is essential that Members maintain a good understanding of the issues brought before them, prepare for their meetings, and ask questions to ensure they understand fully what is being undertaken in their name. Democratic Services will ensure that training is strengthened for all Members next year after the elections.

5.14. In accordance with CIPFA good practice, the Committee will consider a review of its own effectiveness during the coming year. This is an essential factor in developing an effective and knowledgeable Committee for the future and we must ensure that all basic elements are in place for the Committee's membership and effectiveness following the 2025 elections.

## 6. Conclusion

There is no doubt that KCC has in the past few months undergone substantial changes both in its working practices and in its culture. There has been noticeable improvement in many areas, with both Officers and Members rising to the challenge. However, it is a work in progress. These changes are not just for the current financial environment, but how the Council should and must work for the future. The Council provides public services, and the public has the right to expect that those services are delivered equitably, within a reasonable time and are well-managed.

This Committee has a duty to provide assurance to residents that their County Council is meeting its statutory duties, complying with all relevant regulations and, to the best of its ability, ensuring value for public money. Unless there is a major change in Government funding of local authorities and the services they provide, the agreed Council budgets for this and future financial years will be extremely difficult to achieve, so it is the duty of the Governance & Audit Committee to raise succinct and timely comments to the Executive if proposed actions are not progressed or the expected results do not appear to be forthcoming.

The work of this Committee covers every aspect of the Council's activities. It would not be possible without the considerable support of Internal and External Auditors, Governance Law and Democracy, and the Finance Division.

On behalf of all the Committee members, I would like to thank them for their valuable input and assistance.

**Recommendation:**

County Council is asked to note to the report.

By: Rosalind Binks – Chair of Governance and Audit Committee
Ben Watts - General Counsel

To: County Council

Date: 12 September 2024

Subject: External Auditor's Annual Report and Value for Money Conclusions 2022/23

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Summary: The appended report provides the External Auditor's opinion on the Council's annual financial statements and provides a value for money conclusion. Review for assurance of this is the responsibility of the Governance & Audit Committee, however in line with relevant CIPFA recommendations, the Audit Opinion is now presented to Council for consideration and noting.

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## 1) Introduction

a) In February 2024, the Council's External Auditor (Grant Thornton UK LLP) issued their Annual Report. The report enables Grant Thornton to discharge their responsibilities as External Auditor in accordance with the Local Audit and Accountability Act 2014 (the Act) and the National Audit Office Code of Practice, this includes reporting on:

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

b) The Act also requires the External Auditor to issue an opinion each year as to whether the Council's Financial Statements give a fair view of the financial position of the Council and have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code.

## 2) Governance and Audit Committee's Responsibility

a) In accordance with CIPFA's Position Statement 2022, the Committee is responsible for considering the opinion and recommendations of External Audit and their implications for governance, risk management or control, and for monitoring management action in response to the issues raised by external audit.

b) The Governance and Audit (G&A) Committee received the report at their meeting on Thursday, 1st February 2024 and noted the report for assurance. Details of their consideration are available in the relevant meeting minutes. For reference and the reassurance of the Council, the G&A Committee monitors and considers the relevant activity arising from the opinion as part of its work programme and thus considers how the organisation responds to any audit opinion.

c) Throughout the year, the Committee checks on progress and a detailed update will be going to the November meeting of the Committee.

d) As part of improvements that the Council has made to our governance, last year this report was brought to the County Council for the first time, with the intention that it be brought annually thereafter. As with last year, the County Council will have the opportunity at the meeting on 12 September 2024 to hear from Mr Paul Dossett who is the lead auditor for Grant Thornton.

## 3) RECOMMENDATION

County Council is asked to note External Audit Annual Report 2022-23 (appended).

## 4) Appendices

Appendix: Grant Thornton's Audit Report 2022/23

## 5) Background Documents

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022 – https://www.cipfa.org/services/support-for-audit-committees

Agenda Item, External Audit Annual Report for 2022-23 – https://democracy.kent.gov.uk:9071/ieListDocuments.aspx?CId=144&MId=9239

## 6) Report Author and relevant Director

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Grant Thornton

# Interim Auditor's Annual Report on Kent County Council

2022/23

Page 55

January 2024

# Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

# Executive summary

## Value for money arrangements and key recommendation(s)

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 required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. There are a higher number of Recommendations under the specified criteria for 2022/23 than there were for 2021/22. The overall direction of travel is marginally downwards, and we therefore also make an additional overarching Key Recommendation on Page 8 of this report. Our key area of concern is financial sustainability – however this cannot be addressed unless the other cirtieria are improved at the same time. Increasing the pace of improvement is vital.



| Criteria | 2022/23 Risk assessment | 2022/23 Auditor judgement on arrangements | | 2021/22 Auditor judgement on arrangements | | Direction of travel |
|---|---|---|---|---|---|---|
| Financial sustainability | Significant weaknesses identified in 2021/22 and expected to still be present in 2022/23. | R | Significant weakness in arrangements for financial sustainability identified. Two Key Recommendations and three Improvement Recommendations made. | R | Significant weaknesses in arrangements identified. Two Key Recommendations and two Improvement Recommendations made. | ↓ |
| Governance | Significant weaknesses identified in 2021/22 and expected to still be present in 2022/23. | R | Significant weakness in arrangements for governance identified. Two Key Recommendations and one Improvement Recommendation made. | R | Significant weaknesses in arrangements identified. One Key Recommendation and one Improvement Recommendation made. | ↓ |
| Improving economy, efficiency and effectiveness | Significant weaknesses identified in 2021/22 and expected to still be present in 2022/23. | R | Significant weakness in arrangements for improving economy, efficiency and effectiveness identified. Two Key Recommendations and one Improvement Recommendation made. | R | Significant weaknesses in arrangements identified. Two Key Recommendations made. | ↓ |

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

# Executive summary (continued)



## Financial sustainability

There are significant weaknesses within the Council's arrangements for financial sustainability. The Council overspent against its budget by £44.24 million in 2022/23. The Council is currently forecast to overspend again against its budget for 2023/24 by £36 million, unless management action can reverse current trends in the remaining three-months of 2023/24.

The Council's Internal Audit service concluded that only limited assurance could be provided over the Council's approach to budget savings in 2022/23 - because savings plans were high risk and unsupported by business plans. Savings plans of £15.5 million for 2022/23 were not delivered – with most of the non-delivery being in the Adult Social Care and Health area. A governance review which we shared with the Governance and Audit Committee in October 2023 highlighted that the Council has a weak track record of prioritisation, including when it comes to making difficult decisions around finance. Furthermore, the management actions of £36 million currently put forward for balancing the 2023/24 budget seem to lack granularity. They include £21.3 million relating to "*subjective spend analysis*" from "*working with budget managers*".

Reserves are below the average for English County Councils and uncommitted elements are low relative to the level of overspend, savings plans and management actions that may be at risk. We note that as early as November 2022, the Council's Leader wrote jointly with another County Council Leader to the Prime Minister outlining that "*immediate help and a clear plan*" were needed to avoid the Council issuing a s114 notice "*within the next year or so*". This does show clear awareness of the Council's situation and a willingness to advocate for the County, but the County's issues are unlikely to be addressed by more government funding being made available.

Outside the Revenue Budget, we note that the Council started 2022/23 with a Dedicated Schools Grant deficit of £97.6 million. A safety valve improvement plan was agreed with the Department for Education on 16 March 2023. The Council forecasts that, with help of £140 million from central government, it will clear the deficit by 31 March 2028. However, it also estimates that it will miss the Special Educational Needs and Disability (SEND) spending reduction targets for 2023/24 and 2024/25. Furthermore, there is evidence to suggest that more needs to be done to address the root causes of demand for Education, Health and Care Plans (EHCPs) rather than just directing effort at reducing the costs of administering SEND provision once EHCPs are in place.

The Council's capital programme has been subjected to significant slippage – only 60% of the programme was delivered in 2022/23. Project management factors play a significant part in the reasons for slippage, although the Council does also have a policy of delaying capital works until funds other than from new borrowings can be matched to them. Basic needs works and modernization of assets are amongst the areas that have slipped – but the Council does have an approach towards managing the regulatory and legal risks that come with this.

The Council has been in long-running dispute with the Home Office about how the costs of asylum-seeker children arriving in Kent should be shared. On 21 December 2023, the High Court gave the Council and the Home Office one month to agree a workable solution. It is estimated that around £50 million of revenue costs per annum and £30 million of capital costs were under dispute at the time of writing this report. These have not, so far, been reflected within the Council's budgets which is a clear policy decision.

For 2022/23, we note two Key Recommendations and three Improvement Recommendations around financial sustainability. We will consider the robustness of proposals and reserves for the 2024/25 Revenue Budget and the 2024-27 High Level Financial Plan to determine whether statutory audit action is required. We would emphasize to members that the Council must set a balanced budget for 24/25 and must ensure that appropriate reserves are in place to support risks that may emerge in 24/25 and beyond. This responsibility extends to all members and not just the Leader and Cabinet.

# Executive summary (continued)

## Governance

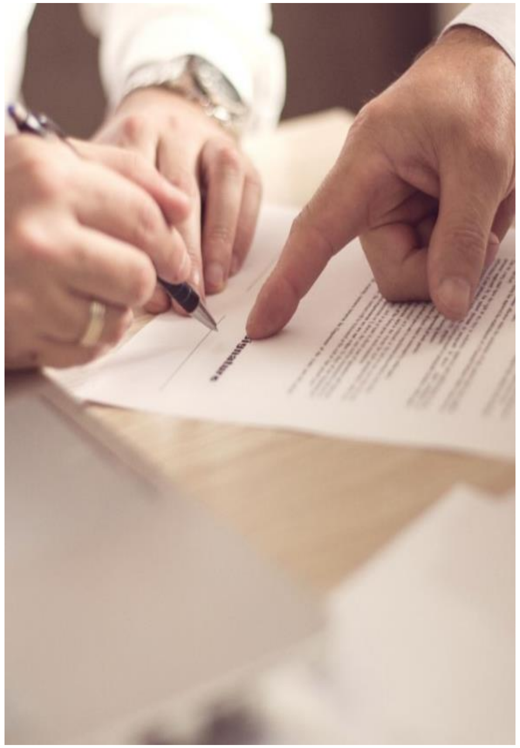
There were significant weaknesses in Kent County Council's arrangements for governance during 2022/23. We conducted a specific governance review over behaviour around decision-making between January and March 2023 and our findings were shared with the Governance and Audit Committee in October 2023. We made 22 recommendations, including around strategic arrangements for delivering priorities; effective challenge to and scrutiny of decisions; and the Council's structure, systems and behaviours. Nearly one year earlier, a CIPFA review had indicated in July 2022 that the Governance and Audit Committee was itself hampered by having too wide a remit; too cluttered an agenda; politicisation; and too much to do to be fully effective.



There have been some areas of improvement during 2022/23. The Council has programmes of work ongoing such as workshops to review member roles; comparisons with processes at other Local Authorities; a review of written governance processes; a member development survey; and training, including during "Governance Week" in November 2023. For process improvements to have the impact they are aimed at, it will be important that culture and behaviour and standards also keep pace with improvement. Furthermore, there remain areas where arrangements were not always "right first time" (for example, for SEND transport and service provision); and the number of areas where the Council is challenged to meet its core legal duties is rising. It is unfortunate that disagreements between Internal Audit and management/members have played out publicly in the Governance and Audit Committee at least twice in the last 18 months (Regional Growth Funds October 2022; and school transport procurement November 2023), which does not reflect well on the Council.

We note that for 2022/23, Financial Control was an area where Internal Audit could only provide Limited Assurance overall, because of the number of individual systems, processes or functions within the area that had only Limited Assurance. Whilst high level corporate risks are monitored on the Corporate Risk Register, good governance is the responsibility of all. There is evidence to suggest that financial regulations are not always widely understood across the Council. From our work for 2022/23, we raise two Key Recommendations and one Improvement Recommendation around governance.

Kent County Council faces serious financial challenges which will require strong collective effort; objective and impartial judgements; and mature decision-making to address. It was not clear, for 2022/23, that the firm governance and collective, shared culture of responsibility needed to drive this were in place.



# Executive summary (continued)

## Improving economy, efficiency and effectiveness

There were significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness in 2022/23, relating to SEND performance and to procurement. External regulators assessed that performance on SEND services was below expectations. Whilst positive steps were taken during 2022/23 to strengthen the strategic approach towards procurement, there were weaknesses in compliance rates with mandatory procurement and contract management procedures throughout the year.

High demand for services such as SEND and highways maintenance made it difficult for the Council to achieve "floor" standards for performance during 2022/23. However, there may be scope for wider use of benchmarking; comparisons with financial data; and clearer understanding of which management actions are effective, and which are not. For 2022/23, the Quarter 4 performance report showed a sharp deterioration in corporate performance overall compared to the last Quarter of 2021/22. The percentage of RED RAG rated indicators more than trebled between 2021/22 and 2022/23 and the number of deteriorating RAG ratings doubled. We raise two Key Recommendations and one Improvement Recommendation around arrangements for improving economy, efficiency and effectiveness.



## Direction of travel and summary of recommendations

Our Auditor's Annual Report for 2021/22 raised five Key Recommendations and three Improvement Recommendations. All five of the 2021/22 Key Recommendations also apply for 2022/23 and, for 2022/23, we additionally raise a new Key Recommendation around rates of implementing Internal Audit actions. We raise five Improvement Recommendations for 2022/23, compared to the three Improvement Recommendations for 2021/22. The overall direction of travel for 2022/23 is marginally downwards. We therefore include one new overarching Key Recommendation around required improvements across the whole organisation on Page 8 of this report.

We note that this Interim Auditor's Annual Report for 2022/23 chiefly reflects the position as it stood on 31 March 2023. The Council is carrying out ongoing work to improve and this work has continued since March 2023. Areas of ongoing work include Annual Governance Statement actions (including a Governance Week in November 2023); working through 116 actions for SEND performance; working through safety valve agreement actions with the Department for Education; moving towards introducing spending controls; and strengthening budget reporting arrangements and pension fund administration.

Financial sustainability remains a significant concern. On 31 March 2023, the Council estimated that it had available unallocated reserves of £101.5 million. However, the Council forecasts overspend for 2023/24 of £36 million and required savings and management actions of £97.4 million for 2024/25. We will consider the robustness of proposals and reserves for the 2024/25 Revenue Budget and the 2024-27 High Level Financial Plan when they are published to determine whether statutory audit action is required.

## Financial Statements opinion

We are nearing completion our audit of your financial statements and plan to issue an unqualified audit opinion following the Governance and Audit Committee meeting on 01 February 2024. Our findings are set out in further detail on pages 46 to 47.

**Acknowledgements**
We would like to take this opportunity to record our appreciation for the assistance provided by Council officers, Council members and external stakeholders with whom we have engaged during the course of our review.

# Executive summary (continued)

Key Recommendations:

1. The Council should strengthen its pace and tighten its corporate grip over progress with addressing Key Recommendations. A holistic approach should be taken towards improving financial sustainability, governance and performance across the board (Page 8).
2. Steps need to be taken by the Council to control expenditure……. We will consider the robustness of the Council's proposals and reserves for the 2024/25 Revenue Budget and the 2024-27 High Level Financial Plan to determine whether further statutory action is required (Page 19).
3. The Council should take a holistic approach towards managing SEND demand and SEND financial management ….. (and)…… focus on EHCP demand and approval processes…..if it is to have a lasting impact on returning SEND services to a sustainable footing (page 20).
4. Compliance with the Council's decision-making arrangements needs to be strengthened……… An action plan for implementing recommendations both from CIPFA and from our own 2023 review of governance should be adopted. (Page 30).
5. The Council should aim to maintain full implementation rates for Internal Audit findings and should complete its review of Internal Audit lessons learnt from the SEND transport re-procurement at poce (page 31).
6. The Council should liaise with its partners to determine and agree the improvements that will be made in SEND services…… careful, proactive consultation and engagement with schools, parents and other stakeholders will be necessary (Page 40).
7. Training around procurement strategy, policies and practice should be strengthened across the Council……. Opportunities for value for money through procurements and contract management should be maximised. VEAT notices should be used when required (page 41).



Improvement Recommendations:

1. Sensitivity analysis should be adopted for the budget for 2024/25 and the Council should also explore this for in-year financial monitoring (Page 21).
2. Kent County Council should reflect its share of the costs agreed with the Home Office for caring for unaccompanied asylum-seeker children in the budget for 2024/25 (Page 22).
3. Delays on capital projects should be reviewed for common factors. Project management (including through schools and contract partners) and specialist skills should be reviewed (Page 23).
4. Staff should be reminded that (of) the Officer's Code of Conduct states ……. The role of finance business partners in explaining regulations and promoting good practice should also be considered (Page 32).
5. The Council should consider whether there is scope for making more use of benchmarking and other data for services where demand is increasing, and/or performance is deteriorating, to assess performance (Page 42).

# Key recommendation

| | |
|---|---|
| **Key Recommendation 1** | The Council should strengthen its pace and tighten its corporate grip over progress with addressing Key Recommendations. A holistic approach should be taken towards improving financial sustainability, governance and performance across the board. |
| **Identified significant weakness in arrangements** | The overall direction of travel was marginally downwards in 2022/23, despite there being many separate programmes of work for improvement. |
| **Summary findings** | The number of Key Recommendations raised in Auditor's Annual Reports increased from 5 for 2021/22 to 6 for 2022/23 (Interim Auditor's Annual Report).<br><br>There has been work by the Council to achieve improvement – but the speed at which the work progressed was not sufficient to prevent a marginal downwards movement in 2022/23. |
| **Criteria impacted by the significant weakness** | Financial sustainability; Governance; Improving economy, efficiency and effectiveness |
| **Auditor judgement** | Pace of improvement and corporate grip over organisational performance overall were not sufficient to prevent marginal downwards movement during 2022/23. |
| **Management comments** | At the end of 2022/23, the Council introduced a Chief Executive, in part to recognise the need for a strengthened corporate grip. Management are implementing a range of actions through planned activity and the Annual Governance Statement actions that will tighten grip as recognised by all. A holistic and whole council approach is being adopted towards financial, operational and governance planning to ensure resources are prioritised accordingly. Tracking of internal and external audit recommendations will also be changed to improve visibility of response. |

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

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# Use of auditor's powers

## We bring the following matters to your attention:

| | 2022/23 |
|---|---|
| **Statutory recommendations**<br>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly. | We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.<br>We will consider the robustness of proposals and reserves for the 2024/25 Revenue Budget and the 2024-27 High Level Financial Plan when they are published to determine whether statutory audit action is required. |
| **Public Interest Report**<br>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view. | We did not issue a public interest report. |
| **Application to the Court**<br>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect. | We did not make an application to the Court. |
| **Advisory notice**<br>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:<br>• is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,<br>• is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or<br>• is about to enter an item of account, the entry of which is unlawful. | We did not issue any advisory notices. |
| **Judicial review**<br>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body. | We did not make an application for judicial review. |

# Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



### Financial sustainability

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

### Improving economy, efficiency and effectiveness

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

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 13 to 42.

**In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:**

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

# The current LG landscape

## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

# The current LG landscape (continued)

### Local context

Kent is located in the south-east of England. It is the closest English county to continental Europe. Kent shares borders with Essex across the estuary of the River Thames to the north; the French department of Pas-de-Calais across the English Channel to the south-east; East Sussex to the south-west; Surrey to the west; and Greater London to the north-west.

Kent County Council provides the upper tier of local government for the county and works with 12 District Councils and Medway Unitary Council.

Excluding the Medway Unitary boundaries, Kent has a land area of 1,368 square miles as well as approximately 350 miles of coastline. Kent is known as 'the garden of England' and Council data records that around 70% of the land covered by the County Council is undeveloped. The 2021 census showed that Kent had 648,393 households, the majority of which were one family households.

Kent County Council's geographic area is ranked within the least deprived 50% of upper-tier local authorities in England for 4 out of 5 summary measures on the Index of Deprivation. However, there are some areas within Kent that do fall within the 20% most deprived in England. Many of these are coastal.

Kent County Council is made up of 81 members (councillors) who are elected every 4 years. The next full election will take place in 2025. The ruling administration is currently Conservative. The Council is divided into 72 electoral divisions, which the Councillors have been elected to represent.

Kent County Council has a history of working well with its geographic partners, including not only the District Councils and Medway Unitary Council, but also the Police, Fire and Rescue and Health services; Job Centre +: and a range of voluntary and community organisations. The Council is a "Category 1 Responder Member" of the Kent Resilience Forum and in recent years, has had to work with partners within the local geography to manage flooding; coastal erosion; Brexit transition impacts on roads to and from Channel crossings; emergency plans for radiation events at Dungeness; and asylum seekers arriving on small boats across the English channel.

On 1 November 2022, the leader of Kent County Council joined with the thirteen other Council leaders from the Kent and Medway area in a letter to the Home Secretary urging that the Government refrain from continuing to allocate further adult asylum quotas to the county and cease procurement of further hotel accommodation in the area. The leaders asked that the government "*stop using the county as an easy fix for what is a national, strategic issue*". At the time of writing this report (January 2024), the Council was still in discussion with the Home Office around achieving a workable solution for managing the costs of supporting unaccompanied asylum-seeker children arriving across the Channel.

The overall effectiveness of Kent County Council's Children's Services (including for asylum-seeker children) was ranked by Ofsted as Outstanding in May 2022, but Council's latest Special Educational Needs and Disability (SEND) services inspection by Ofsted and the Care Quality Commission (published in November 2022) concluded that for SEND services, the Council had failed to make improvements required since 2019. Kent County Council is currently working through an Action Plan for SEND services which the Department for Education expects to be delivered by April 2024. Kent is a grammar school county. Overall demand for SEND services in Kent nevertheless remains very high.

# Financial sustainability

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### We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system

## Identifying financial pressure and achievable savings plans; and managing risks to financial resilience

Kent County Council is fully aware of the financial pressure it faces. However, the savings plans put forward to address that pressure are unlikely to prevent the Council from needing to make further difficult decisions around the services it can afford.

To some extent, the Council has itself already reflected that savings plans alone will not be enough to tackle financial pressure. In November 2022, the Council's Leader wrote jointly with another County Council Leader to the Prime Minister outlining that "*immediate help and a clear plan*" were needed to avoid the Council issuing a s114 notice "*within the next year or so*". However, as our Auditor's Annual Report for 2021/22 concluded, the issues that the Council faces are very unlikely to be resolved by more government funding being given to the Council.

Data from the Council indicates that key sources of financial pressure include service cost inflation; growing demand and changing market forces for Adult and Children's Social Care; and continued high demand for Special Educational Needs and Disability (SEND) support, including for transport.

The Council's budget for 2022/23 relied on the Council generating additional savings, income and grants of £37.9 million in one year and of £100.1 million over three years. The budget for 2023/24 relied on the Council generating additional savings, income and grants of £86.6 million in one year and of £154 million over three years. The issues the Council faces therefore appear to be becoming more acute.

Because of ongoing pressure, and because of failure to generate the additional resources planned for, the Council overspent against its budget by £44.24 million in 2022/23.

The Council is currently forecast to overspend again against its budget for 2023/24 by £36 million, unless management action can reverse current trends in the remaining three-months of 2023/24. Members need to recognise that some decisions around discretionary services will prove very unpopular with the public but do need to be made. Driving out material savings in high demand services is always possible but not a panacea in itself.

| | 2022/23 Actual | 2023/24 Forecast |
|---|---|---|
| **Net budget requirement after savings and additional income proposals** | £1,182.7 million | £1,310.9 million |
| **Planned savings, additional income and new grants factored into the annual net budget requirement** | £37.9 million | £86.6 million |
| **Actual/forecast over/(under) spend** | £24.24 million | £36 million |
| **Total savings and additional income requirements expected over a three-year period** | £100.1 million (2022–2025) | £154 million (2023–2026) |

# Financial sustainability (continued)

There are two main reasons why savings plans alone cannot replace difficult decision-making. Firstly, there may be weaknesses within the savings plans themselves; and secondly there are limited unallocated reserves available to cover any under-delivery. We consider each of these in turn. We also consider other factors around managing demand for SEND support that the Council needs to address.

We note that there are also pressures not even yet reflected within the Council's budget around the costs of supporting unaccompanied asylum-seeker children. As the cost of the Council's statutory duties for these children becomes clear, there is a risk that budget pressure will increase even further. It will be important that this is reflected within the budget risks assessment for 2024/25.

**Savings plans**



The Council's Internal Audit service concluded that only limited assurance could be provided over the Council's approach to budget savings in 2022/23 - because savings plans were high risk and unsupported by business plans.

2022/23 saw undelivered savings of £15.5 million and 2023/24 is forecast to see undelivered savings of £18.7 million. For 2022/23, some £12.2 million of the undelivered £15.5 million related to planned Adult Social Care and Health savings. Significant Adult Social Care and Health savings were still planned, nevertheless, for 2023/24 – with some £7.9 million policy savings and another £2.6 million efficiency and transformation savings earmarked for the Adult Social Care and Health directorate in 2023/24.

By November 2023, nearly all the 2023/24 Adult Social Care and Health savings (£8.6 million) were forecast not to be delivered by the end of the year. It is therefore likely to be for two-years running that the savings plans for this Directorate will not be achieved – suggesting that the plans first put in place for 2022/23 were overly optimistic. Other areas of slippage for 2023/24 savings plans include the Children, Young People and Education directorate and the Growth, Environment and Transport directorate. There is a risk that there was over optimism here too.

In November 2023, under the Council's budget recovery plan ('Securing Kent's Future'), management forecasted that new actions worth £36 million will eliminate net forecast overspends and balance the 2023/24 budget by 31 March 2024. However, Securing Kent's Future is a largely medium-term programme in nature. Initiatives within the programme surround reprofiling targets; using non framework providers; reducing non framework placements; and working with the NHS. These will take time to deliver and require skilled prioritisation.

At face value, the medium-term nature of the initiatives makes it seem unrealistic that an impact of £36 million can be achieved in just a small number of months before the end of 2023/24. Furthermore, a detailed analysis of the proposed management actions for 2023/24 shows that some £30 million are one-off in nature and some £21.3 million relate to "*subjective spend analysis*" which is described simply as involving finance staff "*working with budget managers to……. reduce the deficit*". Although there are spending controls being put in place, the actions as they were first drawn up lack detail and granularity in our view.

| | 2022/23 Actual | 2023/24 Forecast |
|---|---|---|
| Planned savings, additional income and new grants factored into the annual net budget requirement | £37.9 million | £86.6 million |
| Includes savings from transformation, efficiency, finance and policy changes | £25.6 million | £39.1 million |
| Undelivered savings from transformation, efficiency, finance and policy changes | £15.5 million | £18.7 million |
| Available unallocated reserves on 31 March 2023 | £101.5 million | |
| Forecast overspend for 2023/24 | | £36 million |
| Savings requirement for 2024/25 | | £48.6 million |
| Management Actions for 2024/25 | | £48.8 million |
| Total amounts at risk in 2023/24 and 2024/25 | | £133.4 million |

# Financial sustainability (continued)

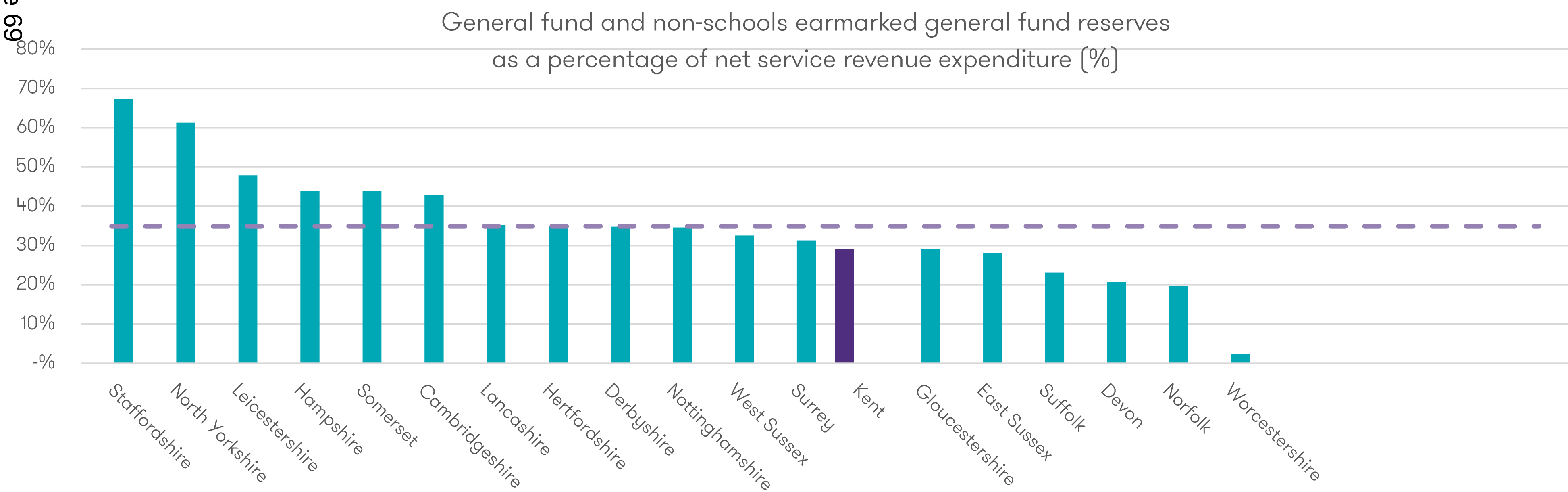
**Available Reserves**

As Figure 1 shows, Kent County Council's General Fund and Earmarked Reserves are below the average held by other County Councils in England. Furthermore, the Council estimates that more than two thirds of its General Fund and Earmarked Reserves are already committed and are not available to fund any shortfall in the revenue budget. The Council estimates that within its 31 March 2023 General Fund and Earmarked Reserves balance of £355.1 million, only some £101.5 million was available for shortfalls in the revenue budget. Early drafts of the 2024/25 revenue budget indicate that savings of some £48.6 million and management actions of £48.8 million will be needed to balance the budget that year. Given our concerns so far around the non-delivery of savings and the lack of granularity in management actions, and given the forecast overspend of £36 million for 2023/24, there seems little headroom for error in the available reserves balance of £101.5 million.

Our Auditor's Annual Report for 2021/22 made a Key Recommendation around the potential need to "withdraw or pare back" services. We repeat the Key Recommendation on page 19 of this report. We make an Improvement Recommendation around using sensitivity analysis on page 21 of this report.



**Figure 1**:**




** Data sourced directly from Council draft Statements of Accounts published on Council websites. As this data is taken from third parties, we cannot verify the accuracy or completeness of the information. Data is not available for all Councils due to some delays in publications.

# Financial sustainability (continued)

**Managing demand for SEND support**

Demand for SEND support has been rising in Kent since 2014 and we reported in the Auditor's Annual Reports both for 2020/21 and 2021/22 that there were significant weaknesses in the financial sustainability of the SEND service.

Kent County Council started 2022/23 with a £97.6 million Dedicated Schools Grant deficit. A safety valve improvement plan was agreed with the Department for Education on 16 March 2023 and, having received £56.3 million from the Department on 30 March 2023 and set aside from reserves an additional £17 million of its own, the Council did end 2022/23 having significantly reduced its deficit to £61.353 million. In this regard, Kent County Council was ahead of many peers whose deficits continued to grow during the year.



However, under the safety valve improvement plan, the Council is required to fully eliminate the deficit by 31 March 2028, making staged reductions in each of the years leading up to that date. The Council estimates that it will miss the reduction targets for 2023/24 and 2024/25 although it also estimates that it remains on track for full elimination by 31 March 2028. We note that the current statutory override arrangement means dedicated schools grant deficits are not included in the main revenue budget. This arrangement is due to end on 31 March 2026.

The Council has developed a comprehensive series of action plans for the next five years and these surround:

- Tackling placements: Centralised data collection; new dedicated advice; school-attended decision-making panels; and further training by the commissioning team;
- Building mainstream capacity: Trained workforce; and action plan to clear the historic backlog; and
- Increasing integration with the mainstream: Bespoke district level dashboard; inclusion champions; teacher training on mainstream core standards; termly network meetings; and localities pre consultation events.

These actions focus on reducing costs once pupils are in the SEND process rather than on tackling demand for SEND at the point where it first arises. The Council's own data shows that Education, Health and Care Plan (EHCP) referrals in Kent are well above the national average and it is perhaps this that the Council needs to consider if it is going to make a long-term difference.

We made a Key Recommendation around managing demand for SEND services in our Auditor's Annual Report for 2021/22. With referral rates remaining above the national average, we repeat the Key Recommendation on Page 20 of this report.

## Planning in accordance with strategic priorities and statutory duties

**Strategic Priorities**

Framing Kent's Future is the Council's top-level strategy for 2022-2026. The priorities within the strategy surround levelling-up the County; providing infrastructure for communities (digital, transport and social); achieving environmental step change; and delivering new models of care. During our value for money testing, we did not see any evidence of discretionary activity being prioritised over statutory duties or of the Council financing activities that were inconsistent with its strategic aims. However, a governance review which we shared with the Governance and Audit Committee in October 2023 highlighted that the Council has a weak track record of prioritisation when it comes to making difficult decisions, including around finance.

The governance review reported that Framing Kent's Future includes no prioritisation and no clear links to funding for each action proposed. The review noted that the Council needs to develop a "*whole system and outcome focused*" approach if its budget recovery is to be successful.

From the value for money testing carried out to support this report, we noted that the present approach towards rolling out spending controls shows elements of the Council delaying difficult financial decisions. Since September 2023, budget holders have been encouraged to differentiate between essential and non-essential spend. In December 2023, "Stop and Think" messages were used to reinforce messaging around limiting unnecessary spend. However, at the time of writing this report (January 2024), mandatory spending controls had not yet been introduced – despite there being a £36 million forecast overspend for 2023/24.

A Future Assets Review currently being carried out by the Council also shows some aspects of similar delay. The approach towards heritage assets has gone to public consultation and decisions have been progressed in relation to the community assets and office estate in line with the expectations of the Council Medium term financial plan. However, there are some areas such as the library network review which has been delayed despite the Council recognising the need for right-sized estate. To some extent, this also shows elements of difficult decisions being delayed.

# Financial sustainability (continued)

For the Council's plan to achieve an environmental step change, we note that in May 2023, Internal Audit reported that only Limited Assurance could be given on the Council's Net Zero Action Plan. Internal Audit reported that costs of delivering the plan had not been fully estimated; spend was not being monitored; and that the approach towards securing funding was inadequate. More importantly, Internal Audit also reported that the Council did not have a mechanism for ensuring that delivery of the plan was prioritised and, without a timetable for Actions, had no effective means of tracking progress.

Our governance review shared in October 2023 made 22 Recommendations aimed, amongst other things, at making sure the Council has a strategic plan for delivering its priorities, which is owned and understood by all Cabinet members and senior officers alike. Key Recommendation 4 on Page 30 of this report highlights the importance of the Council actioning the Recommendations from our governance review at pace.



**Statutory Duties**

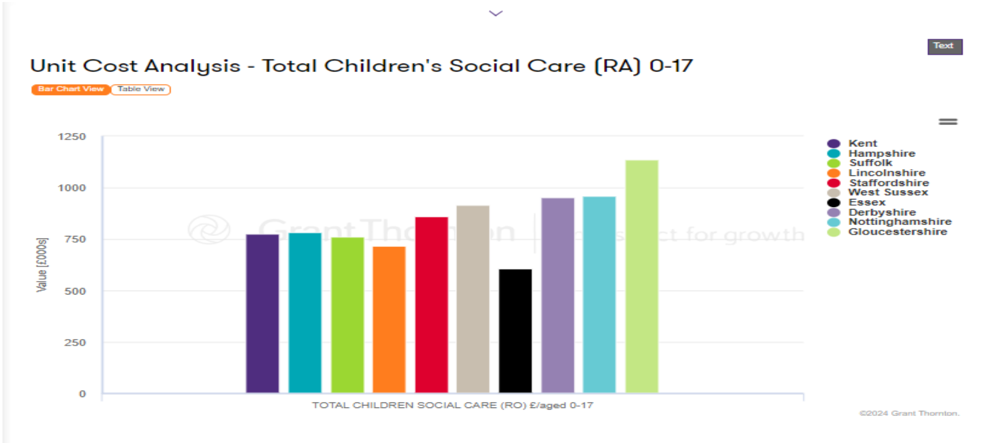
In July 2022, Kent County Council took a conscious decision not to comply with its statutory duties under the Children's Act 1989 in respect of looking after unaccompanied asylum-seeker children arriving in Kent. Estimates available now indicate that the annual revenue costs of looking after the additional children would have amounted to around £50 million per annum and the additional capital costs would have amounted to at least £30 million in total. Budget plans drawn up by the Council both for 2022/23 and for 2023/24 did not include any planning or allowance for these costs.

In July 2023, the UK High Court found that Kent County Council had acted unlawfully and ordered that the Council must take all possible steps to increase its capacity to accommodate and support all unaccompanied asylum-seeking children arriving in Kent - including but not limited to seeking and agreeing additional funding and other resources from Government; requesting assistance with placements from other local authorities; and/or lawfully redeploying existing resources within the County Council. On 21 December 2023, the High Court gave Kent County Council and the Home Office one month to agree a workable plan for sharing the costs of looking after affected children. We note that the Home Office does run a National Transfer Scheme (NTS) moving children who arrive in Kent to other parts of the country and that Kent County Council is no longer liable for children once they are re-located to other counties. However, Kent County Council alleged that delays within the NTS are unlawful (and add to Kent's costs). The High Court upheld this allegation in November 2023.

Because legal disputes were ongoing up until 21 December 2023, there were grounds for preparing and publishing budgets which excluded the incremental costs of unaccompanied asylum-seeker children if Kent lost its case. By the end of January 2024, however, workable solutions with the Home Office are required and we expect to see related amounts reflected in the budget for 2024/25, with context provided in budget risks documentation.

We note that in May 2022, Ofsted reported that the unaccompanied asylum-seeking children that Kent County Council does already take responsibility for are well cared for and our own benchmarking shows that the incremental Children's Social Care costs are relatively well absorbed (Figure 2). Nevertheless, reflecting the incremental costs agreed with the Home Office in the 2024/25 budget will ensure accountability for the costs and may help build influence over how and when those costs are incurred. We raise an Improvement Recommendation (Improvement Recommendation 2 on Page 22 of this report).

Figure 2: 2022/23 Revenue Account budget data provided by Councils to the Department for Levelling Up, Housing and Communities (DLUHC)



# Financial sustainability (continued)

### Ensuring the financial plan is consistent with other plans, including capital plans

Our value for money testing for 2022/23 did not identify any evidence of financial budget planning being inconsistent with workforce planning; treasury and investment planning; the capital programme; and other operational planning. However, we did identify a trend towards slippage in the capital programme after it had been approved each year.

Kent County Council has a high value ten-year capital programme, but funding is only recognised in the programme for projects that are expected to occur within the first five years. Furthermore, projects are only allowed to start once funding is directly matched to them – during 2022/23 that specifically meant new grants or capital receipts being matched to proposed capital projects as the Council has a 'No additional borrowings for capital' policy. Even basic need and modernisation works are pushed back as far as possible until funding other than from borrowings can be matched to them.

Each year, some degree of slippage or re-phasing occurs. Only 60% of the Council's capital programme for 2022/23 was delivered, although a more positive 73.4% delivery rate is forecast for 2023/24.

Legal and regulatory risks are well managed within the capital programme - for example, safe, warm and dry building works are prioritised when funding is identified. There are also arrangements in place to keep an effective pipeline of capital works under development for when funding does become available.

Nevertheless, significant areas of re-phasing and backlog in both 2022/23 and 2023/24 do include basic need commissioning; highways maintenance; and the modernisation of assets. However, from a review of reasons for slippage during 2022/23 and 2023/24, we note that high value single item causes of slippage often have more to do with project management after funds are made available rather than the initial funding itself:

- Lack of appropriate specialist skills in place to oversee technical work;
- Project management delays by schools on budget lines the Council has no direct control over;
- Planning permission, spatial checks, surveys and other legal check delays; and
- Inflation in contractor prices pushing projects outside their budget envelope.

Whilst inflation may be a factor beyond the Council's control, managing project lead times, recruiting the right skills at the right time and managing the timescales for agreeing contracts are areas where tighter focus may improve capital programme delivery. We raise an improvement recommendation that the Council considers these factors holistically (Improvement Recommendation 3, Page 23 of this report).

| | 2022/23 Actual | 2023/24 Forecast |
|---|---|---|
| Ten-year capital programme | £1,702.2 million | £1,624 million |
| Planned capital spend for year under review | £393.8 million | £399.5 million |
| Slippage recorded during year under review | £159.2 million | £112.1 million |
| % of the planned capital spend for year delivered – actual | 60% | 73.4% |

# Key recommendations

| | |
|---|---|
| Key Recommendation 2 | Steps need to be taken by the Council to control expenditure. This is necessary now to avoid the future s114 notice that the Council predicted to the Prime Minister. The Council will need to be realistic about the capacity available to support the delivery of savings. The administration will need to be able to communicate how and what is prioritised. Some very difficult decisions will need to be made by the ruling administration to reduce expenditure and in some cases withdraw or pare back existing services.<br><br>Going forward, savings and growth plans will require robust business cases. Management actions will also need to be supported by realistic planning. We will consider the robustness of the Council's proposals and reserves for the 2024/25 Revenue Budget and the 2024-27 High Level Financial Plan to determine whether further statutory action is required. |
| Identified significant weakness in arrangements | Gaps in the revenue budget that are unlikely to be bridged by savings plans alone. Insufficient reserves to sustainably close gaps. |
| Summary findings | History of overspend and undelivered savings plans. Future budget gaps unlikely to be sustainably bridged by reserves. |
| Criteria impacted by the significant weakness | Financial sustainability; Governance; Improving economy, efficiency and effectiveness |
| Auditor judgement | Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. |
| Management comments | The Council introduced spending controls in November 2023 and has strengthened them in January 2024. The process for considering growth and savings plans has been considerably strengthened and more information is available for Members to scrutinise at a granular level. Further work will be required in 2024 to improve the business cases for both savings and growth. We agree that this will involve Members needing to make difficult decisions on priorities. |

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Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

**The range of recommendations that external auditors can make is explained in Appendix B.**

# Key recommendations (continued)

| | |
|---|---|
| Key Recommendation 3 | The Council should take a holistic approach towards managing SEND demand and SEND financial management issues in Kent. This will involve the ruling administration making some difficult decisions.<br><br>Managing demand will be key to service recovery going forward. We note that EHCP referral requests in Kent remain well above the national average. In addition to the cost focused initiatives already in place, the Council will need to focus on EHCP demand and approval processes in the coming five years if it is to have a lasting impact on returning SEND services to a sustainable footing. |
| Identified significant weakness in arrangements | Continued high demand for service levels which are not financially sustainable. |
| Summary findings | The Council has a safety valve improvement plan in place but estimates that it will miss the reduction targets for 2023/24 and 2024/25. Although the Council does estimate that it remains on track for full elimination of the deficit by 31 March 2028, we note that EHCP referral rates remain well above the national average. |
| Criteria impacted by the significant weakness | Financial sustainability; Governance; Improving economy, efficiency and effectiveness |
| Auditor judgement | Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. |
| Management comments | The Council is adopting a holistic approach towards SEND demand and finances, as evidenced by the multi-disciplinary and multi-agency approach being adopted. The Council agrees that managing EHCP demand is important and is working with partners and stakeholders on this. However, the cost of placements (and complexity of packages) is currently a more important factor for overall financial impact, so we will also focus on this. |

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Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations (continued)

| | |
|---|---|
| Improvement Recommendation 1 | Sensitivity analysis should be adopted for the budget for 2024/25 and the Council should also explore this for in-year financial monitoring. |
| Improvement opportunity identified | Sensitivity analysis not previously included by the Council in medium term financial planning. |
| Summary findings | Management inform us that work is underway to use sensitivity analysis as part of budgeting for 2024/25. In view of overspends having been incurred two years running, we recommend that the Council also includes sensitivity analysis in forecast data used for in-year financial monitoring. |
| Criteria impacted | Financial sustainability |
| Auditor judgement | Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements. |
| Management comments | The Council has adopted a more sophisticated approach towards budget setting for 2024/25, particularly around estimating future demand (rather than just catching up with existing demand). It will build on this going forward, including exploring the potential benefits from expanding this approach into in-year financial monitoring. |

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Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations (continued)

| | |
|---|---|
| **Improvement Recommendation 2** | Kent County Council should reflect its share of the costs agreed with the Home Office for caring for unaccompanied asylum-seeker children in the budget for 2024/25. Budget risks documentation for 2024/25 should reflect the latest progress on agreeing arrangements with the Home Office and possible future developments. |
| **Improvement opportunity identified** | Improved accountability for the costs and strengthened influence over how and when those costs are incurred. |
| **Summary findings** | On 21 December 2023, the UK High Court gave Kent County Council and the Home Office one month to agree a workable solution for sharing the costs of unaccompanied asylum-seeker children arriving in Kent. Total incremental revenue costs (before sharing is agreed) are expected to amount to around £50 million per annum and total capital costs are expected to amount to around £30 million. These have not, so far, been included within Council budgets. |
| **Criteria impacted** | Financial sustainability |
| **Auditor judgement** | Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements. |
| **Management comments** | The Council will reflect the likelihood of any additional costs arising from working with the Home Office as part of the best way of supporting UASC, but starts from the presumption that the Council's overall net budget should be made whole (ie the Council should be no worse off). The rationale for this will be reflected in the budget risk assessment and this is the basis of discussions with the Home Office. |

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Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations (continued)

| | |
|---|---|
| Improvement Recommendation 3 | Delays on capital projects should be reviewed for common factors. Issues around project management (including through schools and contract partners) and specialist skills retention should be reviewed holistically. |
| Improvement opportunity identified | Scope for reducing slippage on the capital programme. |
| Summary findings | Only 60% of the Council's capital programme for 2022/23 was delivered. Lack of specialist skills, project management delays, pauses for funding and legal checks were among the causes. |
| Criteria impacted | Financial sustainability |
| Auditor judgement | Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements. |
| Management comments | The Council will review (i) its process for profiling the capital programme, to ensure there is a realistic plan in place to monitor against and (ii) the reasons behind project delays, to identify any common issues. |

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Governance

## We considered how the Council:

- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- approaches and carries out its annual budget setting process
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services
- approaches the pension fund



### Making properly informed decisions

Our Auditor's Annual Report for 2021/22 identified a significant weakness in Kent County Council's arrangements for decision-making. We noted that there had been an unconstitutional decision around SEND school transport re-procurement in 2021/22; that there was a history of informal governance arrangements being used; and that members and officers had reported feeling "unsafe" in meetings where decisions were discussed. We recommended that decision-making arrangements be strengthened; members and officers better understand their roles; and better practice in meetings be introduced. For school transport, we have also now established that members sit on appeals panels, which is unusual for Local Authorities.

Significant weaknesses in arrangements for decision-making continued during 2022/23. Following the concerns raised both in our Auditor's Annual Report for 2021/22 and in the Annual Governance Statement for 2021/22, we undertook a specific governance review to examine behaviours around decision-making between January and March 2023. Our findings were shared with the Governance and Audit Committee in October 2023 and identified:

- micro-aggressions (from members to officers) which were at risk of becoming normalised;
- some members having little interest in any information that might challenge their settled view, increasing the risk that mistakes could be made;
- reports to Cabinet sometimes being slanted to achieve a particular outcome;
- Freedom of Information having been inappropriately politicised by members; and
- some members using officers as an alternative route to get the answers they wanted, rather than using the correct decision-making process.

We noted earlier in this report that strategic arrangements for delivering priorities (including financial priorities) were found to be weak in our governance review. For effective challenge to and scrutiny of decisions, the governance review also included recommendations for better functioning of the Governance and Audit Committee and Scrutiny Committees.

# Governance (continued)

In July 2022, CIPFA finalised a report of its own on the effectiveness of the Governance and Audit Committee. Broadly, the review concluded that the Committee had too wide a remit; too cluttered an agenda; was too political; and was doing too much to be fully effective.

From our value for money testing for 2022/23, we have identified additional ongoing issues that the Council should consider:

- the Governance and Audit Committee met eight times during 2022/23 but the Corporate Risk Register was only reviewed by the Committee once in the year;
- all Chair and Vice Chair roles for the Governance and Audit Committee and all Scrutiny Committees and Sub Committees are held by members of the ruling administration;
- closely timed role holding between Cabinet and the Governance and Audit Committee risks members challenging their own decisions;
- as noted earlier in this report, decision-making on key matters is sometimes delayed both by officers and members; and
- officers responses to an Annual Governance Statement survey run by the Council indicated that some officers still feel members do not fully understand the more complicated aspects of governance; may not yet be fully familiarised with governance; have taken key decisions within the wrong timeframes; and sometimes inappropriately by-pass senior officers to liaise directly with their juniors.



Overall, we consider that arrangements for decision-making, including challenge and scrutiny of decision-making, still need to strengthen. Our Auditor's Annual Report for 2021/22 made a Key Recommendation around strengthening compliance. We repeat the Key Recommendation on Page 30 of this report. In total, our specific governance review made 22 additional recommendations around the Council's structure, systems and behaviours. Our Key Recommendation on Page 30 of this report notes that these, as well as recommendations raised by CIPFA need to be implemented at pace. Given the need to manage SEND and other school transport costs, we also recommend the Council consider the role of members on appeals panels.

## Monitoring and assessing risk and gaining assurance over internal control

**Internal Audit findings and the role of internal audit:**

Internal Audit concluded both for 2021/22 and for 2022/23 that overall, the Council had adequate arrangements in place in relation to corporate governance, risk management and internal control. For four years running, there has been a deterioration in the strength of that conclusion, but this to some extent reflects that Internal Audit has been asked to look at higher risk areas, year on year, for a better gage of where the Council's issues lie.

For 2019/20, Internal Audit provided Substantial Assurance on 47% of all systems it tested and only provided Limited Assurance on 9% of the systems it tested. For 2022/23, Internal Audit provided Substantial Assurance on just 26% of the systems it tested and provided Limited Assurance on 35% of the systems it tested. Whilst the trend in Assurance is clearly downwards, the Council is nevertheless being proactive in directing Internal Audit to shine a light on the areas where it knows it needs to improve.

| | 2022/23 | 2019/20 | Direction of Travel |
|---|---|---|---|
| **% of systems, processes or functions assigned: Limited Assurance** | 33% | 9% | ↑ |
| **% of systems, processes or functions assigned: Substantial Assurance** | 26% | 47% | ↓ |
| **Rate of full implementation of Internal Audit recommendations** | 50% | 62% | ↓ |

# Governance (continued)

We note that for 2022/23, Financial Control was one of the areas where Internal Audit could only provide Limited Assurance overall, because of the number of individual systems, processes or functions within the area that had only Limited Assurance. Limited Assurance was given on Budget Savings and Net Zero Action Planning systems (as already highlighted earlier in this report), but also on arrangements for individual contracts with care providers; data quality and managing the risk of overpayments for lifespan pathways; and compliance with financial regulations. Procurement, commissioning and partnerships was the other area where Internal Audit provided only Limited Assurance overall.

Our Auditor's Annual Report for 2021/22 stated that it is "*important that Actions from internal audit reports are taken seriously and addressed on a timely basis*". However, implementation rates for management actioning recommendations remain significantly lower than they were four years ago (50% in 2022/23 compared to 62% in 2019/20).



For 2022/23, one of Internal Audit's highest profile reports was a Lessons Learnt report on SEND transport procurement. The report was issued in September 2022, following a significant and well publicised February 2022 failure in SEND transport re-procurement. By November 2023, however, full follow-up had not yet been achieved, despite the Governance and Audit Committee having required it. A '*lack of enthusiasm*' from officers and directors involved in the procurement was highlighted to the Governance and Audit Committee as one of the reasons why Internal Audit findings had not been fully followed-up on. It is unfortunate that disagreements between Internal Audit and management have played out publicly in the Governance and Audit Committee at least twice in the last 18 months which does not reflect well on the Council.

The Internal Audit annual opinion for 2022/23 stated that directorates needed to improve their "second line of defence" i.e. reduce their dependency on Internal Auditors finding errors out that then require correction. The present experience of the SEND team perhaps highlights the importance of getting things right first time. The team is currently responding to recommendations from Internal Audit (Lessons Learnt on transport re-procurement); Ofsted and CQC (inspection of service performance standards); and the Department for Education (financial safety valve improvement requirements). This may in some measure be one of the drivers for delays in following-up on the Internal Audit findings.

We raised an Improvement Recommendation in our Auditor's Annual Report for 2021/22 around implementing Internal Audit Recommendations. With rates of implementation still being lower than they were four years ago and the key report on SEND transport needing follow-up, we now raise a Key Recommendation around the importance of implementation (Key Recommendation 5, Page 31).

**The Annual Governance Statement:**

The Annual Governance Statements both for 2022/23 and for 2021/22 outline actions identified by the Monitoring Officer as requiring improvement for governance to be fully effective. The Council has programmes of work ongoing to improve processes around the required actions. Steps already taken include workshops to review member roles; comparisons with processes at other Local Authorities; a review of written governance processes; a member development survey; and training, including during "Governance Week" in November 2023. For process improvements to have the impact they are aimed at, it will be important that culture and behaviour and standards also keep pace with improvement.

| | 2022/23 | 2021/22 |
|---|---|---|
| Annual Governance Statement – identified actions which have work ongoing to address | 24 | 13 |
| Head of International Audit opinion | Adequate | Adequate |
| Internal Audit assurance on compliance with financial regulations | Limited | NA |
| Ofsted inspection rating | Outstanding (May 2022 inspection) | Good (March 2017 inspection) |
| Incidents reported to the Information Commissioner's Office | 16 | ? |
| Annual Governance Statement – areas where the Council faces challenges meeting its duties | 5 (includes caring for children presenting in need in the area) | 3 (includes caring for children presenting in need in the area) |

# Governance (continued)

### Budgetary control

Despite there being significant weaknesses within arrangements for financial sustainability overall, the detailed mechanics of reporting on budget setting and budgetary control are an area where the Council has had success in introducing improvements.

Our Auditor's Annual Report for 2021/22 included an Improvement Recommendation that the Council include sensitivity analysis or scenario testing within future medium-term financial plans – so that the range of impacts on future reserves balances could be estimated. Management have informed us that this will be adopted when the budget for 2024/25 is prepared.



Throughout 2022/23, quarterly reports were presented to Cabinet on financial outturn. We note that the Quarter 4 (year-end outturn) report shared with Cabinet in June 2023 included an early assessment of outturn on the reserves and that the Quarter 1 report shared with Cabinet for 2023/24 (in October 2023) included an update on the reserves position.

Since October 2023, the Council has also adopted an arrangement for monthly reporting to Cabinet on the financial position. Given the trend two years running towards overspend, the Council should consider adopting sensitivity analysis for the in-year financial monitoring forecasts it shares with Cabinet as well as in the medium-term financial planning documents prepared alongside the budget at the start of a year.

Overall, though, the direction of travel around strengthening the mechanics for budgetary reporting has been positive. The more regular reporting should help to focus attention on key issues and may perhaps provide a platform for taking forward the other changes needed around decision-making and financial control.

### Standards and Behaviours

We outlined earlier in this report that the Council acted unlawfully when it breached its duty to look after unaccompanied asylum-seeker children in July 2022. At the time of writing this report, the Council and the Home Office have been given one month from 21 December 2023 to reach a workable solution for sharing the revenue and capital costs of looking after affected children. A workable solution should make legal compliance easier going forward. However, this is not the only area where the Council faces challenges in meeting its statutory duties. Furthermore, the number of additional areas of challenge as identified by the Monitoring Officer in the Annual Governance Statement rose from 2 to 4 between 2021/22 and 2022/23:

| Areas where the Council faces challenges in complying with statutory duties | 2022/23 | 2021/22 |
|---|---|---|
| Children presenting as in need within our area (includes unaccompanied asylum-seeker children arriving in Kent) | Yes | Yes |
| **Other areas:** | | |
| Deprivation of Liberty Safeguards | Yes | Yes |
| Services to Children and Young People with SEND | Yes | Yes |
| Compliance with timescales for Education, Health and Care Plans (EHCPs), Freedom of Information (FOI) and Subject Access Requests (SARs) | Yes | No |
| Use of unregistered placements for children | Yes | No |

# Governance (continued)

Increasing difficulty in complying with timescales for EHCPs, FOI Requests and SARs and the use of unregistered placements for children are perhaps a reflection of factors already discussed within this report – continued high demand for EHCPs; politicisation of the use of FOIs; and high demand with changing market pressures in the Children's Social Care sector. These areas being listed in the Annual Governance Statement shows that the Council is at least sited on them.

The Corporate Risk Register increased its risk rating for risks around maintaining governance in a challenging environment from 10 to 15 between July 2022 and May 2023, which reflects senior leadership awareness of the risks the Council faces. However, there are other indications that the Council may be increasingly challenged in covering its statutory basic duties at other levels within the organisation as well. For example:

- the policy of pushing back basic needs capital projects to avoid new borrowing risks compromising the Council's duties around safe, warm and dry buildings (currently mitigated by legal advice to prioritise basic need works first and by keeping an up-to-date capital projects pipeline); and

- Internal Audit's report on compliance with financial regulations in September 2023 highlighted a fundamental lack of knowledge of and understanding of financial regulations in the two directorates that Internal Audit sampled (Adult Social Care and Housing; and Growth, Environment and Transport).

For the Internal Audit report on compliance with financial regulations, we note that Internal Audit surveyed Service Managers, Heads of Service and Assistant Directors. 26 responses were received, and these identified that:

- 17 respondents (65%) were unfamiliar with the most recent Council financial regulations. 12 respondents either had not read the regulations or were not sure if they had read them and 5 respondents had utilised outdated versions;
- 13 respondents (50%) stated they were unsure of any financial management training offered via induction or on an ongoing basis; and
- 7 respondents (27%) stated that they were not completely sure of the overall purpose of the financial regulations.

At the time we completed our value for money testing for 2022/23, work was underway at the Council to strengthen central messaging to staff around the Council's financial regulations. However, Internal Audit had not yet concluded on how strong the prospects for overall improvement were.

For central messaging to be fully embedded on an ongoing basis, there may be a role to play for finance business partners working with service directors in the field. Ultimately, though, good governance should be the responsibility of all. Staff should be reminded that the Officer's Code of Conduct states that:

- The Council's financial regulations and anti-fraud and corruption strategy must be adhered to at all times; and
- Officers are expected, through agreed procedures and without fear of recrimination, to bring to the attention of management any irregularity in the provision of service.

We raise an Improvement Recommendation around this point (Improvement Recommendation 4, Page 32).

# Governance (continued)

### Governance over the Pension Fund

Kent County Council administers a high value pension fund which held net assets valued at £7,848 million on 31 March 2023 (31 March 2022: £7,697 million). Our Auditor's Annual Reports from previous years have reported how the Fund wrote-off an investment of around £237 million when trading was suspended for shares the Fund held in the Woodford Equity Income Fund during 2019/20. Capital distributions from liquidators to investors mean that final losses net of distributions were forecast in 2021/22 to be the lower figure of £63.7 million. A settlement is expected from the Link Group of Arrangements in the spring of 2024.



Following the initial losses, an independent review by Barnett Waddingham made 139 recommendations for improved governance over the Pension Fund. These included widening representation on the Superannuation Committee; ceasing dual role holding between the Superannuation Committee and the Pension Board; and sharpening processes around decision-making. The Council introduced a new Pension Fund Committee in response; prohibited dual membership of the Pension Fund Committee and the supporting Pension Board; and wrote decision-making arrangements for the Pension Fund Committee into the Constitution. In all, the Council spent £32.5 million on Pension Fund administration, governance and oversight during 2022/23.

In May 2023 Internal Audit reported that 116 of the Barnett Waddingham recommendations have now been implemented. Overall, Internal Audit provided an Adequate Assurance opinion over the Pension Fund in 2022/23, with good prospects for further improvement. However, the Internal Audit report did highlight that the Pension Board only met once in the 12 months to 31 January 2023 and that the key performance indicator reporting adopted by the Fund during 2022/23 does not have any comparators and is not benchmarked against other local authorities to assess how well the Kent's pension administration team is performing on a relative scale. The Internal Audit report also highlighted high risk recommendations around preventing Annual Benefit Statement and Annual Allowances breaches and, where they do occur, reporting them to the Pension Committee and Pension Board; and around data collection for McCloud data remedy.

Overall, the Council's response to prior year issues with the governance of the Pension Fund has been proactive. As with all other Internal Audit findings, it will be important that recommendations raised by Internal Audit in May 2023 are now actioned. Nevertheless, engaging Internal Audit to report to Cabinet on progress with Barnett Waddingham actions is itself a sign of positive attitude towards improvement.

# Key recommendations

| | |
|---|---|
| **Key Recommendation 4** | Compliance with the Council's decision-making arrangements needs to be strengthened. Members and officers should ensure they understand their roles and comply with the Council's governance arrangements. Issues and complaints raised with the Monitoring Officer should be addressed and feed into good practice training for the future.<br><br>The effectiveness of the scrutiny and challenge functions should be carefully considered. An action plan for implementing recommendations both from CIPFA and from our own 2023 review of governance should be adopted.<br><br>Given the need to focus on costs, the effectiveness of members roles on school transport appeals panels should also be considered. |
| **Identified significant weakness in arrangements** | Weaknesses in arrangements for decision-making, including in arrangements for strategic prioritisation and challenge and scrutiny. |
| **Summary findings** | Significant weaknesses identified by CIPFA and by our specific review of governance between January and March 2023 and by the Monitoring Officer in the Annual Governance Statement two years running. |
| **Criteria impacted by the significant weakness** | Financial sustainability; Governance; Improving economy, efficiency and effectiveness |
| **Auditor judgement** | Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. |
| **Management comments** | Detailed activity has already been delivered against this recommendation throughout 2023/24 with delivery continuing until Q1 2024/25. This includes training for Members, Governance Week and training for officers, introductory guides, simple explainers and information and the development of a new decision-making platform to integrate and automate decision-making arrangements. Work has also been undertaken in relation to the approach to governance within the Council and follow ups on the 2022/23 AGS Officer Survey. Reports will also be going to Standards and Scrutiny Committee during Q4 2023/24. Members have discussed the Annual Audit Opinion during 2023/24 for the first time and have established a Governance Working Party to work through the Member Specific elements of the External Audit Governance Report. |

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Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

# Key recommendations (continued)

| | |
|---|---|
| Key Recommendation 5 | The Council should aim to maintain full implementation rates for Internal Audit findings and should complete its review of Internal Audit lessons learnt from the SEND transport re-procurement at poce. |
| Identified significant weakness in arrangements | Delays in actioning findings from Internal Audit. |
| Summary findings | Implementation rates for management actioning Internal Audit recommendations remain significantly lower than they were four years ago (50% compared to 62%). One of Internal Audit's highest profile reports on SEND transport re-procurement was issued in September 2022 but has not yet been fully followed-up on. |
| Criteria impacted by the significant weakness | Financial sustainability; **Governance**; Improving economy, efficiency and effectiveness |
| Auditor judgement | Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. |
| Management comments | The Council will focus on improving Internal Audit findings implementation rates, including the SEND transport re-procurement lessons learned review. |

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The range of recommendations that external auditors can make is explained in Appendix B.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

# Improvement recommendations (continued)

| | |
|---|---|
| **Improvement Recommendation 4** | Staff should be reminded that the Officer's Code of Conduct states that:<br>• The Council's financial regulations and anti-fraud and corruption strategy must be adhered to at all times; and<br>• Officers are expected, through agreed procedures and without fear of recrimination, to bring to the attention of management any irregularity in the provision of service.<br>The role of finance business partners in explaining regulations and promoting good practice should also be considered. |
| **Improvement opportunity identified** | Heightened awareness of financial regulations. |
| **Summary findings** | An Internal Audit report on compliance with financial regulations in 2022/23 identified high rates of non-awareness of regulations amongst Service Managers, Heads of Service and Assistant Directors in two directorates sampled. |
| **Criteria impacted** | Governance |
| **Auditor judgement** | Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements. |
| **Management comments** | The Financial Regulations have been comprehensively reviewed and will be considered by Governance & Audit committee in February and recommended to Council in March. This will include an all-Member briefing to improve understanding and awareness of the Regulations. Following approval of the new Regulations, there will be a communication strategy to improve understanding and awareness amongst staff. |



Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness

### We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.



## Using and evaluating performance information

For Council operations, Kent County Council has an effective performance management framework in place and performance reports are shared with members on a quarterly basis. Trends and anomalies in performance are monitored by the Council's Chief Analyst and the Director of Strategy, Policy, Relationships and Corporate Assurance. In places, performance reports include benchmarking against national averages and south-east averages.  The Council monitors trends in performance over time.

For 2022/23, the Quarter 4 performance report showed a sharp deterioration in corporate performance compared to the last Quarter of 2021/22. The percentage of RED RAG rated indicators more than trebled between 2021/22 and 2022/23 and the number of deteriorating RAG ratings doubled.

| | 2022/23 Quarter 4 | 2021/22 Quarter 4 |
|---|---|---|
| Number of RED RAG rated corporate performance indicators | 12/37 | 3/33 |
| % of corporate performance indicators RAG rated RED | 32% | 9% |
| Number of indicators with deteriorating RAG rating | 11/37 | 5/33 |
| % of indicators with deteriorating RAG rating | 30% | 15% |

| | G | A | R | ⬆ | ➡ | ⬇ |
|---|---|---|---|---|---|---|
| Customer Services | 1 | | 2 | | 3 | |
| Governance and Law | | | 2 | | 2 | |
| Growth, Economic Development and Communities | 1 | | 1 | | 2 | |
| Environment and Transport | 2 | 2 | 2 | | 4 | 2 |
| Children, Young People and Education | 5 | 5 | 3 | 1 | 7 | 5 |
| Adult Social Care | 1 | 3 | 2 | | 4 | 2 |
| Public Health | 5 | | | 1 | 2 | 2 |
| TOTAL | 15 | 10 | 12 | 2 | 24 | 11 |

The Council understands the relationship between financial and other operational performance frameworks.

# Improving economy, efficiency and effectiveness (continued)

Our value for money testing considered the degree to which some services performed worse than others; Council performance in high-spend areas compared to peers and compared to the expectations of external regulators; and the completeness of information available for 'high demand' services.

**Degree to which some services perform worse than others**

Quarter 4 data for 2022/23 showed that Red RAG rated performance was fairly evenly distributed across the Council, with Public Health being the only directorate not to miss the 'floor' standard for any of its targets. The trend towards deterioration of target performance was most marked, however, in the Children, Young People and Education directorate.

The directorates with the highest rates of long term (one year or more) failure to reach 'floor standard' targets were the directorates for Customer Services; Governance and Law; and Children, Young People and Education. However, to some extent, the pressure affecting all three areas came from the Children, Young People and Education directorate.

For Customer Services, performance was impacted by the fact that the Customer Services directorate is still dealing with a backlog of complaints around the Children, Young People and Education directorate. For Governance and Law, over two thirds of Subject Access Requests that the directorate responds to relate to the Children, Young People and Education directorate. These are, in turn, very complex to respond to.

For the Children, Young People and Education directorate itself, we note that the indicators where the Council had failed to achieve 'floor standard' for one year or more surrounded the rate of EHCPs issued within 20 weeks and the percentage of foster placements which are in-house or with a relative or friend (not including unaccompanied asylum-seeker children). Our understanding, at the time of writing this report, is that officers are considering changing performance report formats so that greater emphasis is placed on tracking management actions – making it possible, for long term under-performing targets, to assess which actions are effective and which are not. This would be a positive development.

**Council performance in high spend areas compared to peers**

Using 2022/23 Revenue Account budget data published by the Department for Levelling Up, Housing and Communities, we compared key areas of spend for Kent County Council with its ten nearest statistical neighbours. For spend per head on adults needing learning disability support and for spend per head on central services (which include management costs), we noted that the Council's spend is significantly higher than that of its nearest neighbours (see Figures 3 and 4, Page 34).

The Council's performance data around Adult Social Care and Health is inconclusive about whether the relatively high spend represents value for money. The indicators are not aligned to draw out specific data for adults needing learning disability support and there is no benchmarking of the Adult Social Care and Health performance data against other Councils or against national data. However, we would note that the two Red RAG rated Quarter 4 indicators for Adult Social Care and Health did not specifically relate to adults needing learning disability support.**

For Central Services spend, given that the Council's spend was higher than all peers but four out of five of the Customer Services and Governance and Law indicators were RAG rated Red, the Council may wish to consider assessing movements in its key cost drivers for fuller sense checking of performance by central teams. These were also areas where there was no benchmarking included within the performance reports for performance against other Councils or national trends, although Cabinet discussions around performance did explore whether the targets the Council was assessing itself against may be higher than is usual in other parts of the country.

** Red RAG rated indicators for Adult Social Care and Health, Quarter 4, 2022/23:

1. Proportion of new care needs assessments delivered within 28 days.
2. Long term support needs of older people (65 and over) met by admission to residential and nursing care homes.

Source: Kent County Council Quarterly Performance Report, Quarter 4, 2022/23.

# Improving economy, efficiency and effectiveness (continued)

Figure 3: 2022/23 Revenue Account budget data provided by Councils to the DLUHC

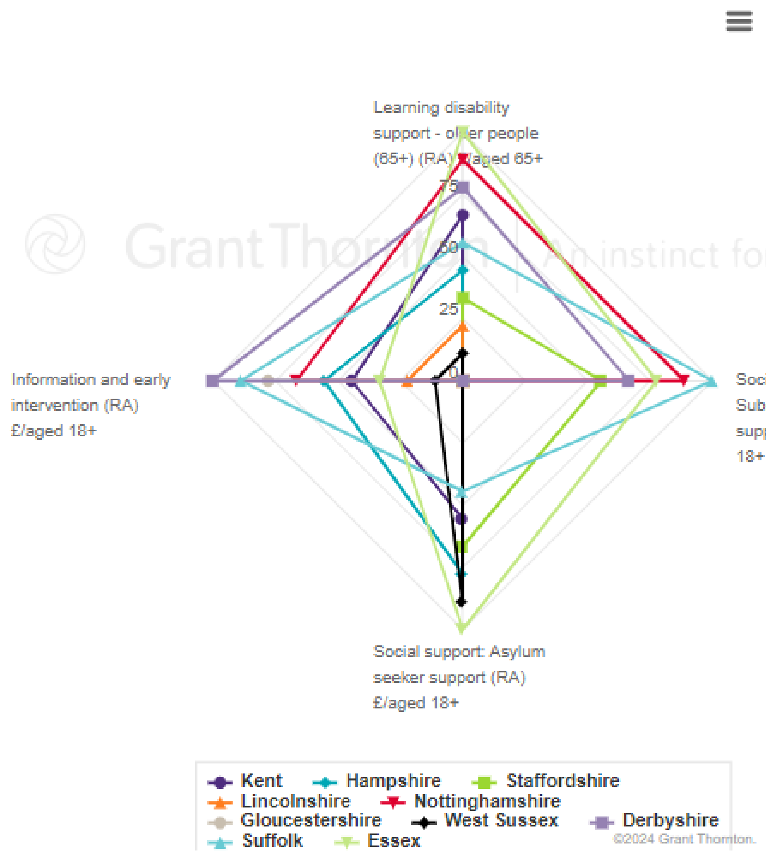
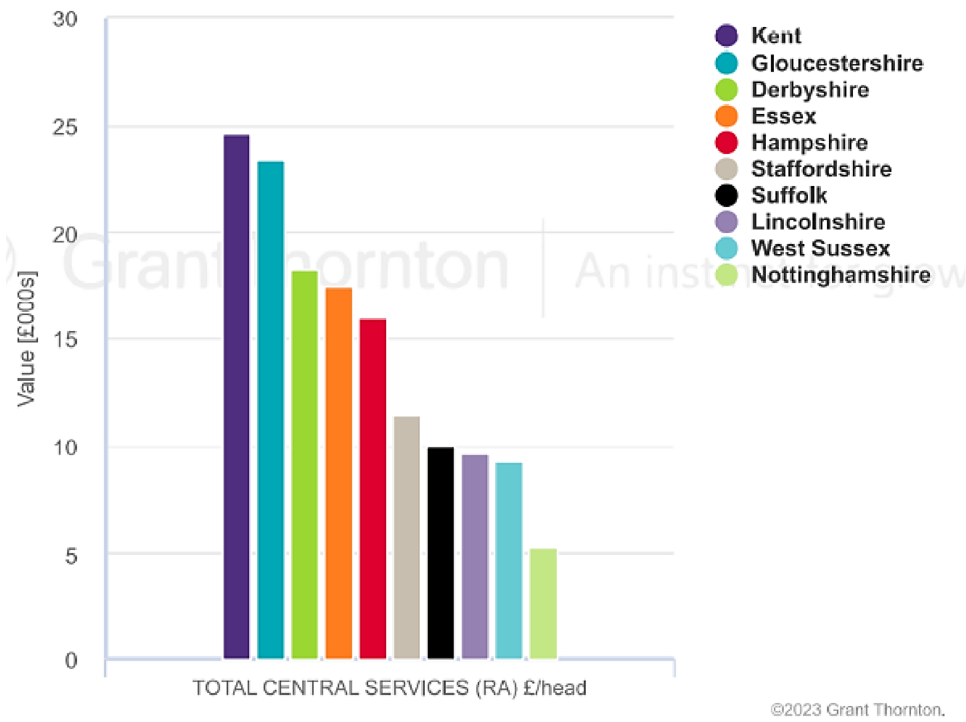



Figure 4: 2022/23 Revenue Account budget data provided by Councils to DLUHC

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# Improving economy, efficiency and effectiveness (continued)

**Council performance in high spend areas compared to the expectations of external regulators**

As we have already seen, the Council has a £61.3 million Dedicated Schools Grant deficit which the Department for Education expects it to close by 31 March 2028. Our Auditor's Annual Reports for 2020/21 and 2021/22 highlighted that it was high spend on SEND services, in particular through contracts with the private sector, that contributed to the original build-up of the deficit. Against the terms of a safety valve improvement plan agreed with the Department for Education though, the Council currently expects to overspend against its financial targets for 2023/24 and 2024/25.

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Contrary to higher spend leading to higher performance standards, external regulator findings are that performance standards in the SEND service fall significantly below expectations.

Significant weaknesses in SEND service performance were identified by Ofsted and the Care Quality Commission (CQC) in March 2019, September 2022 and November 2022. These were highlighted in our Auditor's Annual Reports both for 2020/21 and for 2021/22. Ofsted and CQC issued an Improvement Notice to the Council in March 2023 because of its ongoing failure to address the nine areas of concern they had highlighted.

We note that Kent County Council is now working through a 116-point Action Plan for SEND services that the Department for Education expects to be delivered by April 2024. Each Action has a Responsible Officer who reports monthly to a Partnership Delivery Group, providing evidence of impact from actions. There is a Strategic Improvement and Assurance Board in place that the Partnership Delivery Group can escalate concerns to. Tackling the continued high rates of EHCP referral already noted in this report may nevertheless also help with driving Actions through.

The Council's Commissioning Plan for Education Provision in Kent 2022-26 highlighted that the number of EHCPs increased in Kent by 13.2% between January 2020 and January 2021 whereas the rest of England increased by 10%. The requirement for special provision in Kent then grew by 16% between 2021 and 2022 compared to 9.9% nationally. Delivering the improvements that Ofsted and CQC require will be difficult to manage financially if proactive steps are not taken to manage demand as well.

**Significant weaknesses in Kent County Council SEND practice identified by Ofsted and CQC in March 2019 and September 2022**

1. A widely held concern of parents that the local area is not able, or in some cases not willing, to meet their children's needs.
2. A variable quality of provision and commitment to inclusion in schools, and the lack of willingness of some schools to accommodate children and young people with SEND.
3. That parents and carers have a limited role in reviewing and designing services for children and young people with SEND.
4. An inability of current joint commissioning arrangements to address known gaps and eliminate longstanding weaknesses in the services for children and young people with SEND.
5. Poor standards achieved, and progress made, by too many children and young people with SEND.
6. The inconsistent quality of the EHC process; a lack of up-to-date assessments and limited contributions from health and care professionals; and poor processes to check and review the quality of EHC plans.
7. Weak governance of SEND arrangements across the EHC system at strategic and operational level and an absence of robust action plans to address known weaknesses.
8. Unacceptable waiting times for children and young people to be seen by some health services, particularly CAMHS, tier two services, SALT, the wheelchair service, and ASD and ADHD assessment and review.
9. A lack of effective systems to review and improve outcomes for those children and young people whose progress to date has been limited by weaknesses in provision.

Our Auditor's Annual Report for 2021/22 raised a Key Recommendation around improving performance standards within the SEND service. With standards having remained below expectation in 2022/23, we repeat the Key Recommendation on Page 40 of this report.

We also note that two of the Council's own 2022/23 Children, Young People and Education directorate performance indicators relate to SEND services and both were RAG rated Red at the end of 2022/23:

- Percentage of EHCP's delivered within 20 weeks; and
- Percentage of pupils being place in independent schools or out of county special schools.

# Improving economy, efficiency and effectiveness (continued)

**Completeness of information available for 'high demand' services**

SEND services were not the only service to experience high demand and missed targets during 2022/23. Highways, Roads and Transport services also reported high demand and missed targets. These were considered in detail as part of our work.

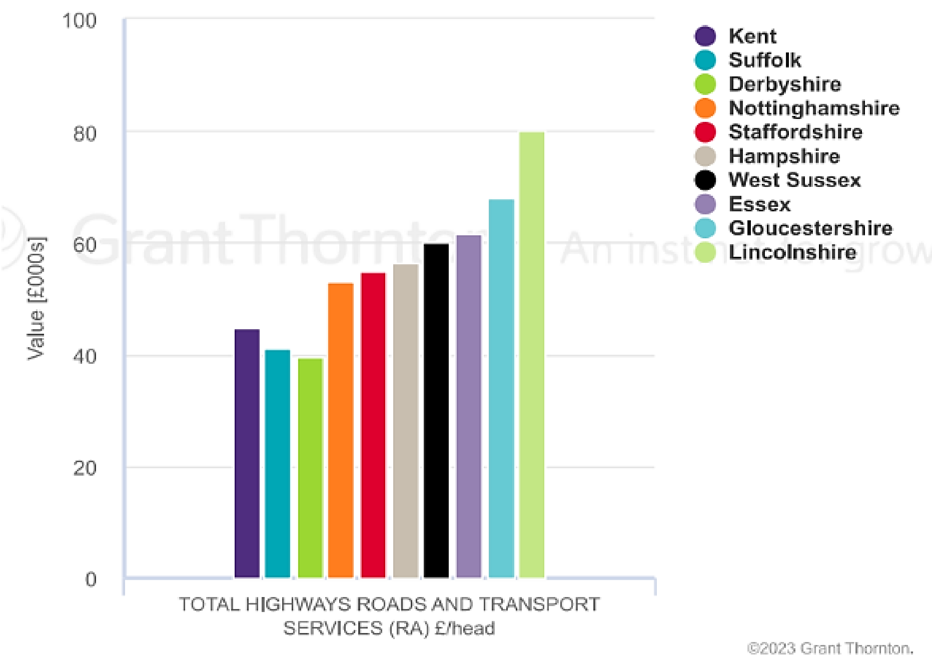
2022/23 Quarter 4 performance data shows that the Council missed its floor targets for the percentage of pothole repairs completed within 28 days in every quarter between June 2022 and March 2023. It also shows that the Council missed its floor targets for emergency highway incidents attended within two hours of notification in the Quarters ending December 2022 and March 2023. Data presented to Cabinet in the March 2023 performance report highlighted 'unprecedented demand' and pointed to very wet weather at the end of the year following on from backlogs caused by snow at the start of the year. The report referred to 'prolonged rain, snow and ice', all of which could reasonably be expected to have had an impact on demand levels. However, the report did not include any comparative data showing how Kent County Council's Highways performance (or any other Environment and Transport indicators) compared with other Councils. The bad weather conditions that the report cites would not have been confined to Kent alone.

We also note that comparative financial data was not considered in the evaluation of performance. Our own benchmarking showed that Kent County Council's spend on highways, roads and transport per head of the population is relatively low compared to statistical nearest neighbours.

SEND, EHCP and other early years data is relatively well benchmarked against national data trends in the Council's Quarter 4 performance report. The link between activity (demand) being higher than the rest of the country and performance being below target is clear. The Highways, Roads and Transport absence of national benchmarking shows that this is not a uniform approach to reporting though.

There may be scope for the Council to make more use of benchmarking and other data for services where demand is increasing, and/or performance is deteriorating, to assess performance. We raise an Improvement Recommendation around this point (Improvement Recommendation 5 on Page 42 of this report).

Figure 5: 2022/23 Revenue Account budget data provided by Councils to the DLUHC



# Improving economy, efficiency and effectiveness (continued)

## Partnership working

Kent County Council has effective arrangements in place for partnership working. The Council identifies its key partners as District Councils, Medway Unitary Council, the Police, Fire and Rescue and Health services; Job Centre +: and a range of voluntary and community organisations.

The Council is a "Category 1 Responder Member" of the Kent Resilience Forum and in recent years, has had to work with partners within the local geography to manage flooding; coastal erosion; Brexit transition impacts on roads to and from Channel crossings; and the need to maintain emergency plans for radiation events at Dungeness.



For 2022/23 issues around asylum seeker rates, the Council worked with its partners to champion what they see as the strategic interests of the local area. On 1 November 2022, the Leader of Kent County Council joined with thirteen other Council leaders from the Kent and Medway area in a letter to the Home Secretary urging that the Government refrain from continuing to allocate further adult asylum quotas to the county and cease procurement of further hotel accommodation in the county. This was a strong example of geographic partners working together to address common concerns.

Voluntary and Community organisations are seen as important economic partners and the Council actively sought in 2022/23 to build on the strategic relationship built-up during the Covid-19 pandemic. The Council engaged consultants to report in May 2022 on the effectiveness of its commissioning from the voluntary and community sector. The consultants identified good practice examples. Recommendations around making practice more consistent were shared with Cabinet for actioning.

## Procurement and contract management

### Strategy

Kent County Council spends around £1 billion per annum through commercially procured contracts and has a small central procurement team. During 2022/23, there was no formal Procurement Strategy in place, although officers inform us that the Council is now developing one. We are also aware that steps are underway to enhance the strategic use of the procurement team. There are plans to include procurement partners in the decisions on Children and Adult placements, for example. The intention will be to move away from just finding placements and towards finding placements that make commercial good sense.

### Compliance

Internal Audit's overall opinion for 2022/23 was that only Limited Assurance could be provided over 'Procurement, Commissioning and Partnerships' but a review of detailed findings shows that the key areas of weakness identified came from the procurement and contract management compliance rather than partnerships aspects of their testing:

| Audit area | Report number | Opinion |
|---|---|---|
| Procurement | CA07-2023 | Limited |
| Contract extensions | RB21-2023 | Limited |
| Individual contracts with care providers | RB03-2023 | Limited |

# Improving economy, efficiency and effectiveness (continued)

Issues reported by Internal Audit in their procurement and contract management findings for 2022/23 included inconsistencies in the use of the Council's contract management system; different approaches to the retention of procurement documentation; the absence of performance indicators on compliance with procurement and contract management procedures; limitations to the ability to monitor spend against specific contracts; weak procedures for purchases under £25,000; 40% of contract extensions not approved in line with the correct decision-making matrix; templates for contract extensions not always completed and contract extension risks were not always identified; and the contracts register not always being kept up to date. Internal Audit also reported an inconsistent approach to the completion of contract change notices; and an insufficient amount of time sometimes being allocated to properly consider an extension option versus re-procurement. It was also raised that there was no monitoring or reporting of which staff have completed and which have not completed contract management training across the Council.



For context, it is important to remember that in February 2022, Internal Audit also documented the 60 lessons that needed to be learnt from the failed SEND transport re-procurement. At the same time, when Internal Audit concluded that only Limited Assurance could be provided for 2022/23 over the Council's compliance with financial regulations, they noted that they had been unable to test the use of iProcurement software for raising orders because documentation was not made available to them; the Adult Social Care and Health directorate was using the Mosaic system instead of iProcurement to procure care packages; and for a sample of single source justifications examined, Voluntary Ex-Ante Transparency (VEAT) Notices had not always been obtained.

As part of our value for money testing for 2022/23, we tested the re-procurement of a high value (£50 million), multi-year highways maintenance contract. We found, similarly to Internal Audit, that although this was a single-source procurement, no VEAT notice had been issued. We also found, similarly to Internal Audit, that progress with decision-making around the contract extension had been slow, although covid-19 procurement backlogs; price volatility; and the need to take proper legal advice accounted for this.

.Since the end of 2022/23, steps have been taken by the Council to address Internal Audit's findings from the Procurement, Contract Extensions and Individual Care Contract reports. A new Commercial and Procurement Division was formally launched on 1 September 2023. Senior Officers in the Division have completed an extensive series of briefings to Directorate Management Teams across the Council outlining the key provisions in the Council's mandatory spending rules; and a sourcing support team has been formed to focus on the controls governing compliance. The Commercial and Procurement Division is also taking forward the development of performance measures to assess compliance with the Council's mandatory procurement. Training is planned and Internal Audit have reported that the Council's former Contract Management Review Group may be re-launched.

Despite the high volume of weaknesses identified by Internal Audit in their reports on procurement, contract extensions and individual care contracts, with so many initiatives now underway to strengthen the procurement and contract management functions, Internal Audit did conclude that the prospects for improvement in these areas are 'Good' to 'Very Good'. However, at the time of writing this report, Internal Audit had not yet followed-up on the prospects for improvement around financial management and, as previously noted in this report, had not yet been able to follow-up on all Lessons Learnt from the failed SEND Transport re-procurement.

Our Auditor's Annual Report for 2021/22 raised a Key Recommendation around procurement. We repeat the Key Recommendation on Page 41 of this report.

# Key recommendations

| | |
|---|---|
| Key Recommendation 6 | The Council should liaise with its partners to determine and agree the improvements that will be made in SEND services. An Action Plan with clear accountability and regular monitoring and reporting (is) required to ensure the findings and recommendations from Ofsted and CQC inspection reports are addressed and implemented. At the same time, looking to the longer term, strategies for managing demand and expectation will be critical if a financially sustainable service is to be secured. This will be a balancing act for the Council and careful, proactive consultation and engagement with schools, parents and other stakeholders will be necessary.<br>An effective strategy for managing demand may enhance Council performance against its own corporate key performance indicators (such as delivering EHCPs on time and managing numbers in the mainstream) as well as helping to meet external regulator requirements. |
| Identified significant weakness in arrangements | Poor operational performance in a service that is also showing significant weakness in financial performance. |
| Summary findings | External regulator findings are that performance standards in the SEND service fall significantly below expectations despite there being a £61.3 million deficit to clear on the service. Continued high rates of demand for the service make progress with improvement difficult. |
| Criteria impacted by the significant weakness | Financial sustainability; Governance; **Improving economy, efficiency and effectiveness** |
| Auditor judgement | Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. |
| Management comments | The Council already has a detailed improvement plan (the Accelerated Progress Plan) that is monitored and reported to the Strategic Improvement and Assurance Board (SIAB). This Board includes partners, and this is used to feedback to Ofsted and CQC. For as long as central Government requires us to use the mechanism, we will use it to determine and agree improvements. |



Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

# Key recommendations (continued)

| | |
|---|---|
| Key Recommendation 7 | Training around procurement strategy, policies and practice should be strengthened across the Council (for staff working in service lines as much as for staff working in the commissioning and procurement team) to ensure an understanding of and compliance with the procurement rules. Specialist support should be clearly signposted across the organisation. Staff commissioning and procuring complex services should recognise and plan early when they need that support (i.e. recognise risk) and know where to go to get the support once they recognise they need it.<br>Opportunities for value for money through procurement and contract management should be maximised. VEAT notices should be used when required. |
| Identified significant weakness in arrangements | Poor compliance with mandatory arrangements for procurement and contract management. |
| Summary findings | For 2022/23, Internal Audit recorded three Limited Assurance opinions on procurement and contract management; 60 lessons learnt on a SEND transport re-procurement; and procurement weakness in arrangements for compliance with financial regulations. Our own testing confirmed that VEAT notices are not always used when required and procurements can be slow. |
| Criteria impacted by the significant weakness | Financial sustainability; **Governance**; Improving economy, efficiency and effectiveness |
| Auditor judgement | Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements. |
| Management comments | The Council has rewritten its Contract Standing Orders [In KCC they're called "Spending The Council's Money" (SCM)], which sets out the responsibilities for anyone spending on behalf of KCC. It establishes a new requirement to maintain a pipeline of planned procurements, tiered to identify strategic importance based on the consideration of value, risk and complexity. All contracts valued above the threshold for the Public Contracts Regulations will be led by the corporate procurement function. A recent restructure drove the separation of commissioning and procurement functions, with a newly created centralised commercial team dedicated to providing greater commercial oversight and procurement support to ensure adherence to policies and procedures. |

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

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# Improvement recommendations (continued)

| | | |
|---|---|---|
| **Improvement Recommendation 5** | The Council should consider whether there is scope for making more use of benchmarking and other data for services where demand is increasing, and/or performance is deteriorating, to assess performance. | |
| **Improvement opportunity identified** | Potential for better informed assessment of performance. | |
| **Summary findings** | In some areas where demand for services is increasing and performance is deteriorating, performance reports for Quarter 4 of 2022/23 did not use benchmarking data to compare trends with other Councils and did not always make full comparison with financial trends. This may have meant that not all factors affecting performance were clear. | |
| **Criteria impacted** | Improving economy, efficiency and effectiveness | |
| **Auditor judgement** | Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements. | |
| **Management comments** | The Council will consider this as part of future budget setting considerations. | |



Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Follow-up of previous recommendations

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| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|---|---|---|---|---|
| 1 | Steps need to be taken by the Council to control expenditure. This is necessary now to avoid the future s114 notice that the Council predicted to the Prime Minister. The Council will need to be realistic about the capacity available to support the delivery of savings. The administration will need to be able to communicate how and what is prioritised. Some very difficult decisions will need to be made by the ruling administration to reduce expenditure and in some cases withdraw or pare back existing services. | Key | March 2023 | The Council overspent against its budget by £44.24 million in 2022/23. The Council is currently forecast to overspend again against its budget for 2023/24 by £36 million. Reserves are below the average for English County Councils and uncommitted elements are low relative to the level of overspend, savings plans and management actions that may be at risk. In November 2022, the Council's Leader wrote jointly with another County Council Leader to the Prime Minister outlining that "*immediate help and a clear plan*" were needed to avoid the Council issuing a s114 notice "*within the next year or so*". | No | We have re-raised a Key Recommendation to ensure that the Council is focused on delivering improvements. See Key Recommendation No. 2 |
| 2 | The Council should take a holistic approach towards managing SEND demand and SEND financial management issues in Kent. This will involve the ruling administration making some difficult decisions. | Key | March 2023 | A safety valve improvement plan was agreed with the Department for Education on 16 March 2023. However, the Council estimates that it will miss the SEND spending reduction targets for 2023/24 and 2024/25. EHCP referral rates remain above the national average. | Partial | We have re-raised a Key Recommendation to ensure that the Council is focused on delivering improvements. See Key Recommendation No. 3. |
| 3 | Compliance with the Council's decision-making arrangements needs to be strengthened. Members and officers should ensure they understand their roles and comply with the Council's governance arrangements. Issues and complaints raised with the Monitoring Officer during 2021-22 should be addressed and feed into good practice training for the future. | Key | March 2023 | There remain significant weaknesses in arrangements for decision-making. These are evidenced by a specific review of governance which we shared with the Governance and Audit Committee in October 2023; a CIPFA review in July 2022; and recommendations made by the Monitoring Officer in the Annual Governance Statement for 2022/23. | No | We have re-raised a Key Recommendation to ensure that the Council is focused on delivering improvements. See Key Recommendation No. 4. |

# Follow-up of previous recommendations (continued)

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|---|---|---|---|---|
| 4 | The Council should liaise with its partners to determine and agree the improvements that will be made in SEND services. An Action Plan with clear accountability and regular monitoring and reporting (is) required to ensure the findings and recommendations from Ofsted and CQC inspection reports are addressed and implemented. At the same time, looking to the longer term, strategies for managing demand and expectation will be critical if a financially sustainable service is to be secured. This will be a balancing act for the Council and careful, proactive consultation and engagement with schools, parents and other stakeholders will be necessary. | Key | March 2023 | The SEND service has not been subject to formal re-inspection since our last report. Rates of demand for EHCP, however, remain above the national average. | No | We have re-raised a Key Recommendation to ensure that the Council is focused on delivering improvements. See Key Recommendation No. 6. |
| 5 | Training around procurement strategy, policies and practice should be strengthened across the Council (for staff working in service lines as much as for staff working in the commissioning and procurement team) to ensure an understanding of and compliance with the procurement rules. Specialist support should be clearly signposted across the organisation. Staff commissioning and procuring complex services should recognise and plan early when they need that support (ie recognise risk) and know where to go to get the support once they recognise that they need it. | Key | March 2023 | Internal Audit reports show that there remain weaknesses within the Council's arrangements for procurement and contract management compliance. Our own test findings are consistent with Internal Audit findings. | No | We have re-raised a Key Recommendation to ensure that the Council is focused on delivering improvements. See Key Recommendation No. 7. |

# Follow-up of previous recommendations (continued)

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed by January 2024 | Further action? |
|---|---|---|---|---|---|---|
| 6 | The Council should consider capturing and reporting the additional costs of public health; safeguarding schooling; and counter terrorism related to Home Office asylum seeker sites. | Improvement | March 2023 | In July 2023, the High Court ruled that Kent County Council acted unlawfully by breaching its legal duty to look after unaccompanied asylum-seeker children. On 21 December 2023, the High Court ordered that the Council and the Home Office had one month to find a workable solution for sharing costs (£50 million revenue costs per annum and £30 million capital costs). | Partial | Yes. We raise a new Improvement Recommendation on Page 22 of this report that the Council's share of costs agreed with the Home Office is reflected in the Council's budget for 2024/25. |
| 7 | Sensitivity analysis scenario testing should be presented to Cabinet and published alongside the medium-term financial strategy for 2022-26 or with future medium-term financial plans. | Improvement | March 2023 | Management inform us that work is underway to use sensitivity analysis as part of budgeting for 2024/25. In view of overspends having been incurred two years running, we recommend that the Council also includes sensitivity analysis in forecast data used for in-year financial monitoring. | No | Yes Sensitivity analysis should be adopted for the budget for 2024/25 and the Council should also explore this for in-year financial monitoring. We raise a new Improvement Recommendation on Page 21 of this report |
| 8 | The Governance and Audit Committee should review Internal Audit issues 'In Progress' at each meeting and officers should be accountable for the pace of response to recommendations and for the implementation of recommendations. The number of issues in progress should be managed down, or, where this is not possible, the reason why should be understood. | Improvement | March 2023 | The rate of implementing Internal Audit recommendations remains lower than it was in 2019/20. Sixty Internal Audit lessons learnt from a September 2022 high-profile review of failed SEND transport procurement have not yet been fully followed up on. We have escalated issues around responding to Internal Audit to a Key Recommendation for 2022/23. | No | Yes We raise a new Key Recommendation to ensure that the Council is focused on delivering improvements. See Key Recommendation No. 5. |

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# Opinion on the financial statements

## Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

We plan to issue an unqualified opinion on the Council's financial statements following the Governance and Audit Committee on 01 February 2024

The full opinion will be included in the Council's Annual Report for 2022/23, which will be published on the Council's website.

Further information on our audit of the financial statements is set out overleaf.

# Opinion on the financial statements

## Timescale for the audit of the financial statements

- Our risk assessment and planning visit took place March 2023. The draft audit plan was presented and approved at the Governance and Audit Committee in September 2023.
- The Council provided draft financial statements for the single entity Council in line with the national timetable in July. The draft group accounts and associated working papers were provided to us in August.
- 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 the audit. The Council's corporate finance team engages well with the audit process and responds to our audit queries.
- There were however several challenges and headwinds that delayed the audit process as summarised below:
  - slow responses to some of our queries, particularly where it required information outside of finance;
  - annual leave over the summer holidays that reduced the resources available in the Council's finance team to respond to queries;
  - the reconciliation issue in your school's cash balance;
  - material prior period adjustment (PPA) in your property, plant and equipment balance, grants disclosure note and senior officer's remuneration disclosure note. Material prior period adjustments involves additional work for both management and the audit team. We are required to consult with our internal technical team on all PPA's for major local audits;
  - a control issue was identified in the general ledger where journals were being posted by a user other than the person who prepared the journal. This led to additional lines of enquiries and testing to gain the required assurances;
  - the Council took the decision to update the Annual Governance Statement (AGS) for new information that became available during the audit process. This means that the AGS is due to be finalised on the 01 February 2024; and
  - an audit team member we planned to have on the audit becoming unavailable



As a result, we plan to issue an unqualified opinion following the Governance and Audit Committee on the 01 February 2024. This is not in line with the national deadline of 30 November 2023.

## Findings from the audit of the financial statements

Our audit did not result in any adjustments to the financial statements that impact the net reporting position of the Council or the Group. We did identify several presentation and disclosure misstatements that management have adjusted for. Our audit also identified several control issues and we raised associated recommendations to management to improve the control environment. More detailed findings are set out in our Audit Findings Report, which was presented to the Council's Governance and Audit Committee on November 2023 and an updated report will be provided to the Governance and Audit Committee in February 2024. Requests for the Audit Findings Report should be directed to the Council.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

This work is not yet complete.

# Appendices

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# Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

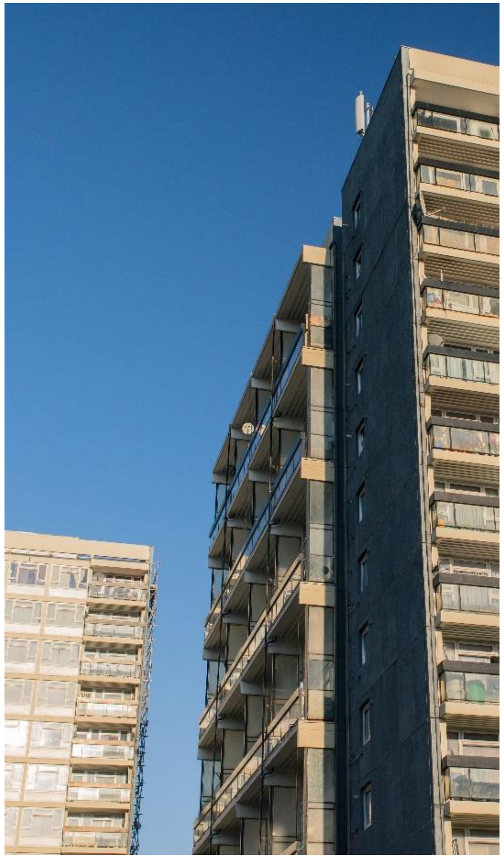


All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B: An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

| Type of recommendation | Background | Raised within this report | Page reference(s) |
|---|---|---|---|
| Statutory | Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. | No<br><br>However, we will consider the robustness of proposals and reserves for the 2024/25 Revenue Budget and the 2024-27 High Level Financial Plan to determine whether further statutory action is required. | 6, 7, 19 |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'Key Recommendations'. | Yes | 8, 19, 20, 30, 31, 40, 41 |
| Improvement | These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements. | Yes | 21, 22, 23, 32, 42 |

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|---|---|
| By: | Joel Cook – Democratic Services Manager |
| To: | County Council – 12 September 2024 |
| Subject: | Request for Extended Leave of Absence |
| Classification: | Unrestricted |

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**Introduction**

1. Under Section 85 (1) of the Local Government Act 1972, if a Member of a local authority fails throughout a period of six consecutive months from the date of his/her last attendance to attend any meeting of the Authority or as a representative of the Authority on an outside body, s/he shall unless the failure was due to some reason approved by the Authority before the expiry of that period cease to be a Member of the Authority.

2. This requirement can be waived and the time limit extended if any failure to attend was due to a reason approved by the Authority in advance of the six month period expiring.

**Request for Extended Leave**

3. Following a discussion with the Leader of the Council, Ms Becki Bruneau is asking the County Council to consider a request for extended leave because of ill-health, including ongoing cancer treatment.

4. Ms Bruneau has not been able to attend any Council or Committee meetings since 21 March 2024. The Council can only consider approval of any reasons for non-attendance before the end of relevant six month period, which will be 21 September 2024. As the next County Council election is due to take place in May 2025, it is requested the extension be approved up until the date following the election.

**Recommendation**

In accordance with Section 85 (1) of the Local Government Act 1972 the County Council is asked to consider Ms Bruneau's request for extended leave to 2 May 2025 on the grounds of ill health.

**Report Author**
Joel Cook – Democratic Services Manager
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# Motion for Time Limited Debate – Protecting Kent from hostile election interference

Proposer: Mr Antony Hook

Seconder: Mr Chris Passmore

## Council notes:

1. It is well documented that states hostile to the UK and other democratic countries have in recent years sought to interfere with democratic processes in the UK and many other western countries.

2. These efforts have often been sponsored by or organised by autocratic regimes such as Russia and China and frequently involve the promotion of false information and abuse of candidates and campaigners, often using false social media accounts (sometimes to dox, bully or harass candidates and campaigners) or attempts to hack into the computer systems of elected officials and institutions.

3. There is also some domestically produced false information and deliberately unreliable sources.

4. The aim of these hostile actors is not simply to influence election outcomes in favour of candidates or parties who will be sympathetic to autocratic regimes but to spread general mistrust of elections and elected institutions with a view to undermining those institutions and our democratic society in the long-term

5. This problem has become more acute since the barbaric Russian invasion of Ukraine in February 2022 which Kent County Council has wholeheartedly condemned and shown solidarity with the people of Ukraine.

6. Members of Kent County Council have noticed the organised use of fake social media accounts in the recent general election, which may have foreign or domestic origins.

7. Recent work within Kent County Council to improve members' and staff's awareness of hacking and other IT threats and ability to avoid falling victim to such threats.

8. In May 2025, there are significant local elections in England including the Kent County Council election, twenty other county council elections, nine unitary authority elections, one new combined county authority election and two new mayoral elections, the Scilly Isles Council election and the City of London Corporation elections.

## Council believes:

1. Democracy requires elections based on healthy competition of ideas and candidates using communications based on true information.

2. All of us who care about democracy have a responsibility to do what we can to resist efforts to spread false information and undermine public faith in the basic concept of democracy and elected institutions.

3. We should not complacently assume that hostile actors will only be active in this regard during national elections.

4. As part of their agenda to undermine democracy by sowing mistrust it is possible that hostile actors will try to spread false information, use hacking, false accounts and other nefarious acts in relation to any public elections including local and large area elections.

**Council requests the administration to:**

1. Continue work to improve the council's resilience against hacking and other cyber threats through appropriate training for members and staff and any other steps that can reasonably be taken.

2. Arrange for appropriate officers to work on developing communications to help people in Kent to be discerning between reliable and false information sources.

3. Appropriately involve members in this work while ensuring the party-political neutrality of any public or internal council communications.

4. Communicate with other local councils in the UK, organs of local government outside the UK who we have good relationships with, and the national government to share best practice and ideas about how to deal with this issue.

## Motion for Time Limited Debate – Adult Social Care Charging Policy

Proposer: Ms Jackie Meade

Seconder Mr Richard Streatfeild, MBE

**Background Information – Provided by the Labour and Liberal Democrat Groups**

The decision (now approved) changes KCC's ASCH Charging Policy – it stops disregarding the higher or enhanced rates of Attendance Allowance (AA), Personal Independent Payment (PIP) and Disability Living Allowance (DLA) when calculating a person's contribution towards the cost of their care and support.

More individuals in receipt of care who receive a higher rate of these benefits will have more income taken into account in their financial assessment which has meant they will pay up to 400% more for their care and support than they do currently. Examples given to the scrutiny committee are below.

KCC provides adult social care services to 16,394 residents. Approximately, 15,806 of these people receive chargeable social care services, this includes providing services like residential care and support and care in a person's own home or in the community.

The decision affects 3784 of the most vulnerable of these adults. Those who receive the higher rates of PIP, DLA and AA are living with severe disability, are terminally ill, or have such chronic health conditions that they require the highest level of care.

The decision is expected to raise an additional £2.6m in income in 2024-2025, and £3.4m in a full financial year.

**Motion**:

County Council resolves to:

- Express concern about the impact on vulnerable people of increased charges resulting from the Adult Social Care Charging.
- Recommend that the Executive explores whether the potential multi-year spending settlement anticipated for later this year would remove the need to make savings in this area, which may allow for reconsideration of the Policy.

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