

14 MAR 2007

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Kevin Harlock
County Commercial Services Officer
Kent County Council
Gibson Drive
Kings Hill
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13 March 2007

Dear Kevin,

We were engaged by Kent County Council to perform a review of Kent Passenger Services, and in particular to look at how the operation is costed and the treatment of overheads for support services such as finance, HR and IT. There were three key elements to our review:

- 1. A review of the current method for calculating the cost of the Passenger Transport Operation that would be used in any tender submission. This included a review of four recent tender submissions, selected at random, to check that this method has been followed when calculating the price of the bid.**

We reviewed the method for calculating the cost included in tender submissions. We are content that the method of calculation of the bid price does include relevant variable costs of the service (for example, cost of the vehicle, fuel and driver's salary costs) along with an element to cover the department's annual overheads. We are also content that the sample of four tenders that we reviewed for the period December 2004 to June 2006 had used this method to calculate the tender price.

Further, we reviewed the method for calculating the annual cost of the vehicle, as charged by Kent Fleet, from which Passenger Transport Services lease all of their vehicles. We are satisfied that this cost is based on the actual cost of the vehicle spread over the life of that vehicle on a straight line basis, together with a reasonable contribution to overhead. Kent Fleet breaks even each year or makes a small surplus, as does Passenger Transport Services.

We reviewed the service's budgeted annual overheads for 2005/06 and 2006/07, which include premises costs, staff costs and administration costs. The budget also includes allocations for central overheads relating to services provided by the County Council and for services provided by the Commercial Services directorate's support teams. For 2005/06 and 2006/07 we concluded that the allocation for central overheads used in the service's budget was in line with Kent County Council's budgeted allocation for Passenger Transport Services.

2. A review of how overheads are charged to the service and whether the basis for this is in accordance with recognised practice, for example, that set out in the Best Value Accounting Code of Practice (BVACOP).

We reviewed the schedule of Passenger Transport Services' budgeted overheads for 2006/07, and noted that all overheads which are directly incurred are allocated in full.

We reviewed the method of apportionment of central overheads (both the Commercial Services directorate's overheads and central Kent County Council overheads) to Passenger Transport. These include the provision of IT services, HR services, management time and financial support.

We were satisfied that the method of apportionment was fair and in accordance with BVACOP guidelines.

3. Interviews with key staff within the bus operating service and the Authority's support services to establish the services that they receive / provide and a comparison of how this compares to the actual costs charged to the service.

We interviewed Chris West and Darren Honey within the Management Accounting Team (MAT) of Kent County Council, and established that this team provides minimal services to the Commercial Services Directorate, given that the latter operates as a relatively independent unit. This is reflected in the low overhead cost for the Directorate, which covers only the provision of internal audit, use of IT systems and the personnel function.

We interviewed Val Moon and John McCoy within the Commercial Services directorate to establish the services provided by the MAT to the directorate. We were satisfied that this was consistent with the description of services provided as discussed with the MAT.

Through this interview, we also established the services provided centrally by the Commercial Services Directorate to Passenger Transport Services, which, for the most part, involved financial support. We were satisfied that these were consistent with the description of services provided to Passenger Services, as established through interview with Jo Ryder, Business Manager of Passenger Services.

We were also satisfied that the costs of services provided, as included in the overheads for each area, appeared reasonable.

Conclusion

From this review, we are satisfied that:

- Passenger Transport Services receives a fair allocation of central overheads for the support services it receives from Kent County Council and the Commercial Services Directorate;
- the method used for calculating prices to be included in tender submissions by the Service include an element to cover a proportion of those central overheads; and
- the method used for calculating prices to be included in tender submissions also includes an element for relevant variable costs.

As required by ISA 920 we provide no opinion, attestation or other form of assurance with respect to our Services or the information upon which our Services are based. We have not audited or

otherwise verified the information supplied to us in connection with this engagement, from whatever source, except as specified in our Engagement Letter. The procedures we have performed do not constitute an examination in accordance with generally accepted auditing standards.

Yours sincerely,



Janet Eilbeck
Partner
PricewaterhouseCoopers LLP

3 October 2007

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Dear Mr Parkinson

Kent Top Temps Ltd

I refer to my letter of 9 July 2007 in response to the concerns you have raised about Kent County Council creating a company in competition with the private sector.

I have now undertaken some further research into this matter.

Kent County Council has relied on the trading provisions contained in the Local Government Act 2003. The Act allows certain councils in certain circumstances to "do for a commercial purpose anything which they are authorised to do for carrying out their ordinary functions". I have taken legal advice on the matter and have concluded that the Council is acting within its legal powers to provide amongst other things temporary staff to itself and externally. In your original letter to PriceWaterhouseCoopers you referred to other areas, for example, travel arrangements and garage services and it would appear to me that the 2003 legislation does in fact permit a Council to provide such services on a commercial basis subject to the compliance with the conditions set out in the legislation. There are restrictions on the exercise of statutory powers by local authorities set out in administrative law based on the legal concept of reasonableness which could result in the Council acting unlawfully should it, for example, seek to distort the market. In my view, based on the evidence currently before me the limited amount of work undertaken for organisations outside the Council in 2006/07 is not, in the legal sense, unreasonable.

When trading on a commercial basis Councils have, by law, to recover the costs of any accommodation, goods, services, staff or any other thing that it supplies to a company in pursuance of any arrangement to facilitate the exercise of the statutory power. Councils should not distort markets through the operation of inappropriate subsidies to trading companies. Although I am not appointed to audit the accounts of Kent Top Temps Ltd or that of the County Council for 2006/07 (my appointment is for 2007/08 onwards) with the agreement of the previous auditors I have enquired into the arrangements to ascertain if costs for services provided by the Council during 2006/07 are born by Kent Top Temps.

I have examined the arrangements for recharges made by Kent County Council and its operating division Kent Commercial Services to the company in relation to financial year 2006/07. From the information provided to me I have concluded that the recharges are in accordance with appropriate allocation principles set out in the professional guidance issued by the Chartered Institute of Public Finance and Accountancy.

If Kent Top Temps Ltd should lose money it runs the same risks as any other company and its creditors at such a time would bear losses which would include the loan shown in the published accounts from the County Council.

In conclusion I would point out that an elector can inspect the accounts and associated records of a council and may lodge a formal objection to the annual accounts on the grounds the Council expenditure is unlawful or if the elector believes that the activities of the council should be subject to a report in the public interest.

As PriceWaterhouseCoopers have completed the 2006/07 audit that opportunity to object has now passed. I will be undertaking the audit for 2007/08 in during the summer of next year and if you are of the view that the Council has acted unlawfully you will have an opportunity to inspect the accounts and lodge an objection with me at that time.

Yours sincerely

Darren Wells
District Auditor

cc Mr G Wild KCC
Mr K Harlock KCS