Auditor's Annual Report on Kent County Council

2020/21

May 2022

Contents

We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority 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) in 2020 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

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

Our review included consideration of arrangements for the Strategic Plan, the Pension Fund, Transformation, Innovation & Cultural Change, and Covid-19.

Criteria	Risk assessment	Conclusion
Financial sustainability	Significant weakness identified	One area of significant weaknesses in arrangements identified. One Key Recommendation and four Improvement Recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but three Improvement Recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but two Improvement Recommendation made.

Financial sustainability

Overall, the Council has effective arrangements for managing financial sustainability, although we identified one area of significant weaknesses in 2020-21 arrangements for sustainable management of SEND and EHCP services. One Key Recommendation has been raised. There are effective arrangements for identifying and planning for financial pressure and managing risks to financial resilience in the medium term, although we have also noted four GREEN Priority rated Improvement Recommendations in addition to our Key Recommendations.

Further details can be seen on pages 8-20 of this report.

Governance

The Council had a comprehensive system of Governance in place during 2020-21, however we note that actions around informal governance at the Council and weaknesses in decision-making processes within the Pension Fund have been raised two years running by other auditors and consultants. We have raised an AMBER Priority rated Improvement Recommendation around informal governance arrangements and an AMBER Priority rated Improvement Recommendation around Pension Fund arrangements. We also noted one GREEN Priority rated Recommendation around the Strategic Risk Register.

Further details can be seen on pages 21-29 of this report.

Improving economy, efficiency and effectiveness

Kent County Council had effective arrangements in 2020-21 for monitoring performance, evaluating services, working with partners and commissioning and procurement. For 2020-21, we noted two GREEN rated Improvement Recommendations. We also note that the Strategic Reset Programme may bring wider changes to the current arrangements in future years.

Further details can be seen on pages 30-35 of this report.

Opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 13 December following the Governance and Audit Committee meeting on 30 November 2021. Our findings are set out in further detail on page 38.

Key recommendation

The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their audit of arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Authority We have defined these recommendations as 'Key Recommendations'.

Our work identified one significant weakness and this report includes one RED Priority Key Recommendation in connection with that weakness (pages 15 and 16).

As shown on page 6 of this report, we have also noted nine Improvement Recommendations throughout this report. Two are rated as AMBER Priority; and seven are rated as GREEN Priority.

Key Recommendation Priority: RED See pages 15 and 16 for more details and Management Response	The January 2022 draft High Needs financial recovery plan should be finalized and implemented. Effective measures should be put in place to ensure its delivery. Consideration should be given to closer working between the Finance and Children and Young People and Education colleagues and to reflecting the new Ambition Statements within Corporate KPIs. The Council should consider how (and which) other reserves balances could be utilized to close the deficit, should that ever be required by the Secretary of State.

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

Improvement recommendations

Priority	VfM Criteria and reference	Recommendation
Amber – medium	**Governance** **Improvement Recommendation 6 – page 28**	**Actions should be taken around information governance and decision-making** **1. Review of formal governance to increase controls as decision stage** **2. Creation of a mechanism for recording officer decisions taken under delegation** **3. Review of Informal Governance Structures and composition** **4. Review of Officer Decision-Making under delegation** **5. New approval processes and guidance ahead of decision** **6. Consequences for non-compliance**
Amber – medium	**Governance** Improvement recommendation 7 – page 29	Barnett Waddingham Pension Fund Governance recommendations should be tiered or ranked to help with prioritisation and cross checked against Internal Audit recommendations from 2019 and 2021 to ensure completeness of response. It will be essential then that recommendations are implemented promptly.
Green – low or best practice	**Financial sustainability** Improvement Recommendation 1 – page 17	Consideration should be given to introducing a central PMO function for strengthening savings plans oversight.
Green – low or best practice	**Financial sustainability** Improvement Recommendation 2 – page 18	The Council should consider whether there is scope for strengthening oversight and challenge as Summary Business Cases are developed by Directorates for Transformation Savings which will be included within the Medium Term Financial Plan.
Green – low or best practice	Financial sustainability Improvement Recommendation 3 – page 19	Steps should continue to manage and reduce the trend towards year on year slippage in the Capital Programme.
Green – low or best practice	**Financial sustainability** Improvement Recommendation 4 – page 20	Budget documents should show a clear distinction between the cost of proposed statutory and discretionary services.
Green – low or best practice	**Governance** Improvement Recommendation 5 – page 27	The Corporate Risk Register shows Summary Profiles which for most but not all risks are supported by more detailed analysis. Gaps in detailed analysis should be filled or explained.
Green – low or best practice	**Improving the 3 e's** Improvement Recommendation 8 – page 34	The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and pandemic.
Green – low or best practice	**Improving the 3 e's** Improvement Recommendation 9 – page 35	The Council should consider inventorising partnerships so that legal status and commitments can be easily checked.

Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities 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 Authorities 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) 3, requires us to assess arrangements under three areas:

Financial Sustainability

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

Improving economy, efficiency and effectiveness

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

Our commentary on each of these three areas, is set out on pages 8 to 35 of this report and includes consideration of arrangements to deliver the Strategic Plan, manage the Pension Fund, and achieve Transformation, Innovation and Cultural Change. Our commentary on arrangements to manage the response to Covid-19 are on pages 36-37 of this report.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into 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
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Identifying and Planning for Financial Pressures

Kent County Council has a strong track record for identifying financial pressure and building that pressure into robust medium term financial planning. The Council delivered a small net surplus on its revenue budget in each of the last 20 years up to 2019-20, a reflection on the robustness of the annual processes for identifying the budget and then controlling it. Even before the outbreak of the Covid-19 pandemic though, 2020-21 had been anticipated as a difficult year. Council officer's 2019 High Level Budget and MTFP Timetable and papers to Cabinet in January 2020 show that forecasting and scenario planning for the medium term were carried out by the Council but for the 13th February 2020 County Council meeting, a one year only Revenue Budget was presented (for £1,063M), noting that because the government settlement was only for one year, it was "not possible to produce a meaningful medium term financial plan". In just over one month later, the Covid-19 pandemic broke out in the UK and Council's February assessment came in some lights to seem prophetic.

Like all Local Authorities, in the wake of the pandemic, Kent County Council experienced a series of rapid fluctuations as new responsibilities and costs fell upon the Council; commercial income streams contracted; and government one-off funding packages were announced. The Council had been due to launch a new 5 Year Strategic Plan in the Spring of 2020. This was delayed and instead an Interim Strategic Plan was developed to allow a window for responding to the changes occurring. On 2nd September 2020, an Amended 2020-21 Revenue Budget of £1,100M was published by the Council. This took account all expected Covid-19 impacts that could be identified at the time of writing the Amended Budget and included commentary on the Medium-Term Outlook. The Statement of Accounts for 2020-21 showed that by the year end, the final Net Cost of Services for the year was £1,129M, whilst Outturn Reports for 2020-21 showed that on Business As Usual (non-Covid) activities, the Council ended the year with a small underspend of £0.78M.

Overall, the experience of 2020-21 shows that Kent County Council has processes in place to identify and plan for financial pressure that are not only robust but also agile. In this respect, the Council's performance is strong.

Financial sustainability

Savings Plans

In February 2021, Kent County Council published its Revenue and Budget Plans for 2021-22, together with its assessment of the Medium-Term Outlook for 2022-23 and 2023-24. To balance the budget for 2021-22, the Council identified an in-year Savings and Income requirement of £61.75M. Within that requirement, the Council identified that £22.2M would be drawn down from Reserves and some £13.8M would be generated through Transformation Savings, with the balance being generated from Efficiency, Finance and Policy savings. The Medium-Term Outlook was based around a number of potential scenarios, all of which factored-in spending growth and funding forecasts but none of which assumed any further savings after 2021-22. For 2022-23, the scenarios showed a potential budget deficit of between £19.9M and £120.2M. For 2023-24, the scenarios showed a budget gap that might be somewhere in a range of between a surplus of £26.3M and a deficit of £54.6M.

At the Council, directorates and service lines lead on developing and managing most Savings plans, including Transformation savings plans. There is, however, a centralized monitoring and reporting function within Finance. The Finance Monitoring Reports for September 2021 included a standalone report on 2021-22 Forecast Savings Outturn against Target. For the 2021-22 savings target of £39.4M, £30.0M was forecast to be achieved, with some £10M of savings showing as slipping into future years due to “timing issues”.

From review of the Savings Plans published in February 2021 and delivered/ tracked in 2021-22, it is seen that the Council has strong monitoring controls. The Council uses realistic economic and demographic assumptions for budget planning and, for monitoring, can distinguish routine budget variances from savings slippage and, where there is slippage, can distinguish between timing differences and genuine non-achievability. As previously noted, though, the actual savings are identified and delivered by service lines and there is relatively little central project management of savings plans as they progress.

For Transformation Savings, directorates are required to prepare Summary Business Cases which go through an extensive internal challenge process with the Corporate Management Team (CMT) and the Corporate Board before they are approved for inclusion within the MTFP. Within the £13.8M Transformation savings proposed for 2021-22, we tested the Summary Business Cases for £7.7M relating to Adult Social Care (ASC). From our review of the Business Cases, we found that £6.5M of the planned savings related to service redesign for which a PWC diagnostic had not yet been completed and for which risk and mitigations were therefore not yet formally identified. The remaining £1.2M related to planned rationalisation of in-house services for which a future public consultation was still required and for which the total savings potential could not, at the time of writing, be identified.

There are processes in place within the Council for re-phasing planned savings to future years and as already noted, there is reporting functionality which can distinguish between timing issues and genuine unachievability. Nevertheless, the absence of a central Project Management Office (PMO) function for checking Summary Business Cases and the clear tendency towards slippage in 2021-22, indicate that there may be scope for strengthening oversight when savings plans are first developed. Two Improvement Recommendations have been noted about these points **(Improvement Recommendations 1 and 2, pages 17 and 18)**.

Financial sustainability

Supporting the Sustainable Delivery of Services

Supporting the sustainable delivery of services for children and young people with Special Educational Needs and Disability (SEND) and supporting the sustainable delivery of Education Health and Care Plans (EHCPs)

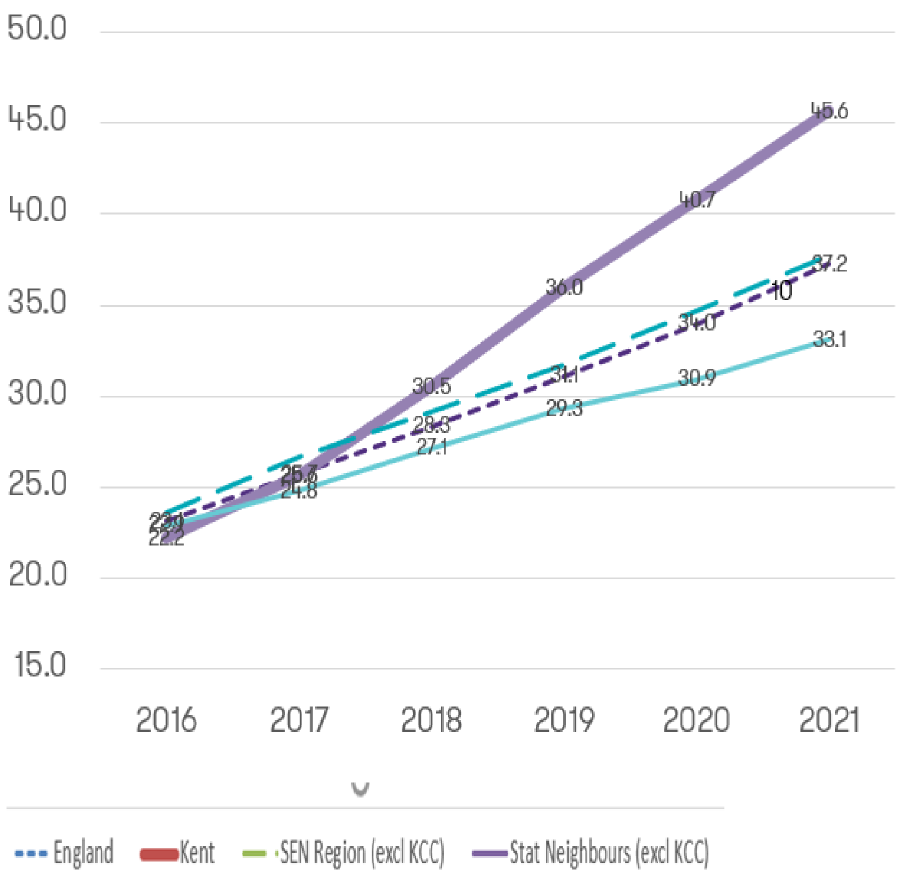
In February 2020, Kent County Council identified its main Revenue Budget risk for 2020-21 as the risk that demand for supporting children and young people with Special Educational Needs and Disability (SEND) would rise by more than the combined value of the High Needs block of income within the Dedicated Schools Grant for 2020-21 and the approved transfers into High Needs from the Main Schools grant block agreed for that year.

In February 2019, this same risk had been identified by the Council for the 2019-20 Revenue Budget. In July 2019, the risk had been discussed in detail by the Council's Scrutiny Committee – with the Committee flagging that overspends on SEND had been accumulating since 2017-18, mainly driven by an increasing number of children referring for Education Health and Care Plans (EHCPs) and lack of parental confidence in SEND offerings within mainstream, local schools.

Funding deficits for SEND has been a growing national issue for more than one year and there are other Local Authorities across England reporting similar risks. Kent County Council's Scrutiny Committee noted in July 2019 that "a three-legged approach" was being used to manage SEND budget risks: Lobbying for legislative change; transferring funds from the Main Schools' budget to the High Needs budget year on year; and changing local processes to achieve savings. However, in the ensuing period to the end of 2020-21, Kent's overspending on "High Needs" increased rather than decreased. On 1st April 2020, the overall accumulated deficit on the Dedicated Schools Grant (DSG) was £21.5M. By 31 March 2021, the overall accumulated deficit on the DSG was £51.049M.

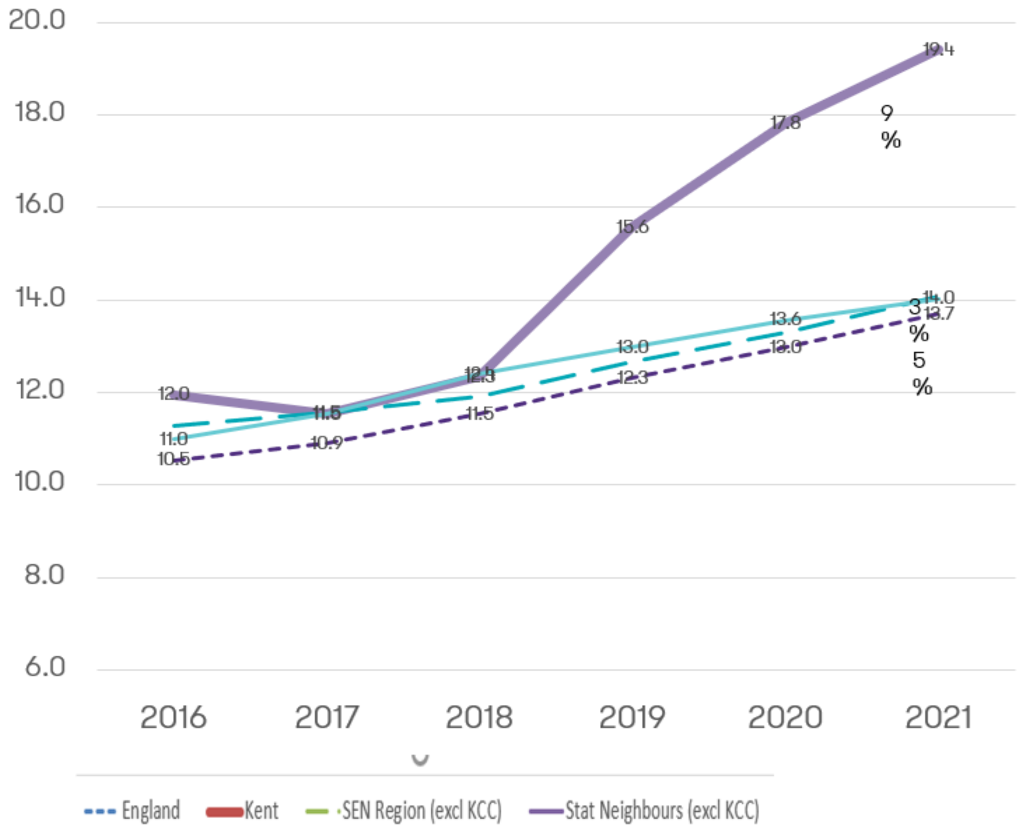
The Council's own analysis forecast in November 2021 showed that by 31 March 2022, the accumulated deficit on the High Needs Budget was expected to reach £102M and, at current rates of progression, would reach £496M by 31 March 2026. The Council's own benchmarking in November 2021 isolated that the biggest drivers behind this acceleration were the steep rise in number of EHCP referrals since 2018 and the trend towards placing referrals in special and independent schools instead of using a mainstream top up solution. For both factors, as Figures 1 and 2 show, the gap between Kent and other Authorities had been growing steadily since as long as 2018.

Figure 1: Kent County Council Benchmarking Data, November 2021 - Total number of EHCPs (0-25 year-olds) per 1000 of 0-18 population



Financial sustainability

Figure 2: Placement of children with EHCP in Specialist Provision per 1,000 of the 2 - 18 population – Kent County Council Benchmarking Data, November 2021



For context, we note that a Joint OFSTED and Care Quality Commission (CQC) audit in March 2019 reported significant weaknesses in SEND services provided by Kent. In response, the Council worked with CCG counterparts to strengthen service provision and governance arrangements with partners. This included:

- Creating a new shared governance arrangement with CCGs, including a SEND Improvement Board;
- Setting up a new SEND division within the Children Young People and Education Directorate and create two new senior posts;
- Agreeing a Memorandum of Understanding with the Kent Parent And Carers Together Group (PACT);
- Consulting extensively with key stakeholder groups, including the Kent Head Teachers Association and the Kent Special Educational Needs Trust;
- Holding joint commissioning workshops;
- Creating a Written Statement of Actions in August 2019, supporting the SEND Strategy for 2019-22 and detailing five workstreams to address the weaknesses reported on by OFSTED and CQC; and
- Developing Corporate Key Performance Indicators (KPIs) measuring the Council's effectiveness at responding to Actions from OFSTED and CQC recommendations.

The workstreams developed in 2019 included Actions to improve the quality of EHCPs and close gaps in service provision. However, the Council's benchmarking shows that by 2020-21, nearly 60% of the in-year High Needs expenditure was spent in Special and Independent Schools – where costs are between two-and-a-half and five times higher per pupil than a mainstream top up solution would be.

At the time of conducting our value for money review, in January 2022, Kent County Council was in the process of developing a financial recovery plan for SEND services. The plan will include re-modelling processes and drawing on good practice examples from other Authorities.

The draft modelling shared with us indicates that the in-year High Needs deficits could be eliminated by 2025-26 and that the accumulated deficit on the High Needs budget could be limited to £170M by 31 March 2026. To support this, the SEND Strategy for 2021-24 is being re-issued, with clear statements around the Council's intention to promote local school solutions and to bring service delivery in line national average and statistical neighbours.

Financial sustainability

Our own benchmarking of Attainment data published by the Department for Education in 2021 shows that despite its high rate of EHCP referrals, Kent performs well for Attainment when compared with statistical nearest neighbours. Furthermore, a statutory override provision is in place until 31 March 2023. There is at present no requirement for Local Authorities to repay Dedicated Schools Grant deficits from the General Fund until at least the end of 2022-23, making it possible until 31 March 2023 to balance the budget without needing substantial savings which would otherwise be required to close the Dedicated Schools Grant deficit.

Budget Monitoring reports and updates on the Written Statement of Actions were provided to Members throughout 2020-21. Nevertheless, given the Council's awareness of High Needs Revenue Budget risks flagged well before the start of 2020-21, we note that there would have been scope for starting the financial benchmarking reported to Cabinet Members in November 2021 earlier. In this respect, we consider that there was a significant weakness in 2020-21 arrangements to safeguard the sustainable delivery of services and we make a Key Recommendation.

Authorities are required to report three-year High Needs recovery plans where their deficits exceeded 1% of the Dedicated Schools Grant, which has been the case for Kent since 2019-20. The trend towards increasing reliance on special and independent school solutions in the intervening years increased costs not only within the High Needs budget but on other budget lines as well. SEN Transport, for example, is forecast to rise to £41.8M by the end of 2021-22 compared to £30.2M in 2018-19 and dating back further. In this regard, we consider that there was a significant weakness in the timeliness of arrangements to ensure that SEND and EHCP services were sustainable.

Nationally, Councils across England have been reported growing deficits in funding for SEND for a several years, which is why the statutory override provision was introduced. However, as Kent County Council has itself identified, local policies in Kent exacerbated the impact for this Council. Going forward, it will now be critical that the draft financial recovery plan is finalized and implemented and that effective measures are put in place to ensure its delivery. Consideration should be given to strengthening the way that Finance Business Partners work with Children and Young People and Education colleagues, and to reflecting new "Ambition Statements" within Corporate Key Performance Indicators (KPIs). As there is no guarantee that statutory override around funding the Dedicated Schools Grant deficit will be extended after 31 March 2023, the financial recovery plan will also need to consider how (and which) other reserves balances can be utilized to close the deficit, should that be required in future. A Key Recommendation has been raised around these points (Key Recommendation, pages 15 to 16).

As part of financial recovery, there may be scope for Kent County Council revisiting how it applies the principles of the Children and Families Act 2014 in relation to eligibility for an EHCP, and for funding attached to EHCPs once eligibility has been established. The Council's own data shows in the breakdown of spend in the High Needs Block, that financial recovery will require shifting spending from Specialist provision and Independent Special schools to greater inclusion for children with EHCPs in mainstream schools. Smooth transition to new arrangements around processing EHCP applications and then supporting children with EHCPs differently will depend on stakeholder (schools and parents) satisfaction. Early engagement with schools and parents may help manage expectations. Our VFM audit for 2021-22 will include detailed follow-up on EHCP funding criteria and the Council's work with schools and parents to shift the focus from the specialist provision and independent and non-maintained special schools to, where possible, mainstream school-based solutions.

Financial sustainability

Supporting the Sustainable Delivery of Other Services

As noted earlier in this report, for 2020-21, Kent County Council recorded a small underspend on Business-As-Usual activities. The "Earmarked reserve to support future year's budget" was increased from £6.8M to £28.4M between 1 April 2020 and 31 March 2021. For 2021-22, overall, a net drawdown from reserves of £5.2M was planned to balance the budget. However, we note that by September 2021, a forecast 2021-22 overspend of £18.7M was anticipated even after allowing for the planned drawdown from reserves.

Steps taken to streamline the way that Earmarked Reserves are accounted for are discussed at page 14 of our report. The effect is likely to include clearer processes going forward around planning to use reserves for balancing business-as-usual budgets. In light of our comments around steps that may be needed to plan for funding the High Needs deficit if statutory override ends on 31 March 2023, steps to increase discipline around other drawdowns from reserves are timely.

Financial planning consistency with other operational planning

Workforce Planning

During our audit, we saw clear links between Kent County Council's financial planning and other operational planning. The Workforce Planning in the period under our review was embedded within The People Strategy 2017 – 22 and Revenue Budget documents prepared in February 2021 for 2021-22 flagged an intention to increase the balance on a "Workforce Transformation Reserve".

Capital Planning

As our Audit Findings Report for 2020-21 noted, our audit procedures for 2020-21 included assessing and benchmarking Kent County Council's total debt as a percentage of Capital Financing Requirement (85%) and its' Minimum Revenue Provision as a percentage of the Opening Capital Financing Requirement (more than 4.6%). Both assessments indicate that the Council takes, overall, a prudent approach towards funding its' Capital Programme.

As part of its' work to manage the revenue implications of decisions taken around Capital and Investments/ Borrowings, a Capital Officers Group was created by the Council in January 2020 as a sub-group of the CMT, reporting to CMT and to the Corporate Management Board. The Capital Programme has shown significant slippage in recent periods – some £175.4M of planned capital expenditure for 2020-21 was rephased to later periods and September 2021 data forecast a further capital underspend in 2021-22 of £103.4M. Going forward, the Council's aim is to improve oversight of feasibility and time phasing and funding of projects approved for inclusion within the Capital Programme, and to mitigate the risk of optimism bias when projects are approved for inclusion within the Programme. The role of the Capital Officers Group will be to allow for more accurate timeline forecasting; better budgeting; and sharper focus on the revenue implications of any new borrowing to fund the Capital Programme. Reducing the amount of slippage will strengthen financial planning and we have noted an Improvement Recommendation around this point (**Improvement Recommendation 3, page 19**).

The Budget documents published in February 2020 for 2020-21 included clear references to how the budget tied back to Strategic Priorities (as the 5 Year Strategic Plan was in the process of being refreshed when the budget was published). The Budget documents published in February 2021 for 2021-22 included similar references to the Interim Strategic Plan which had been issued by the Council in the wake of the Covid-19 pandemic. We note however that that the documents did not draw a clear distinction between statutory and discretionary services. As the focus on making savings increases in coming years, disclosing how these two are distinguished may add context.

At the time of writing this report, an initiative was underway to introduce new "Outcomes Based Budgeting" processes that are more closely tied financial and non-financial data in the budget setting and monitoring process. This may be an appropriate point at which to capture data around statutory and discretionary budget lines and we have noted an Improvement Recommendation around this point **(Improvement Recommendation 4, page 20)**.

Financial sustainability

Managing Risks to Financial Resilience

The Statement of Accounts for 2020-21 shows that on 31 March 2021, Kent County Council reserves included £37M of General Fund Reserves and £360M of Earmarked Reserves, which in turn included "Earmarked reserve to support future years budget" of £28,.4M and £4.8M of "Other" reserves. As previously noted, the Council's 2021-22 Budget assumed that to balance, a net drawdown from reserves of £5.2M would be required. Forecasts shared with Cabinet in December 2021 indicated that in fact the drawdown from reserves for 2021-22 may prove higher – an overspend of £18.7M against the balanced budget was forecast. The Council's Budget risks register for 2022-23 noted the risk that "*overspend against the revenue budget in 2021-22 (will be) required to be met from reserves leading to a reduction in our financial resilience*".

The Council recognises that continuing to plan for drawdowns from reserves to balance in-year budgets could erode financial resilience. At the end of 2020-21, the Council undertook a detailed review of all earmarked reserves - 87 different line items of earmarked reserve were flagged for closing or merging or transferring back to the General Fund so that they could be more directly monitored. We note that budget documents for 2022-23 published in February 2022 include clear statements that "*any drawdown from general reserves either as part of addressing the 2021-22 overspend or to cover variances from the draft 2022-23 plan would require general reserves to be replenished back up to 5% level at the earliest opportunity, even if this requires delivery of additional savings from the proposed amounts identified for 2023-24 and 2024-25*".

The streamlining of earmarked reserves to aid tighter control over drawdowns, and the introduction of the Capital Officer's Group, and the plans around Outcomes Based Budgeting all indicate a process of innovation and cultural change designed to help manage risks to financial resilience in the medium term. Similarly, iincome from uncertain streams (company dividends and New Homes Bonus) was included within the base budget for 2020-21 and previous years but, with a sharper focus on resilience emerging, these were not included within base budgets for 2021-22.

Conclusion

The Council has effective arrangements for identifying and planning for financial pressure and is taking clear steps to manage risks to financial resilience in the medium term, although there is scope for strengthening central PMO oversight of savings plans. We note that there were significant weaknesses in 2020-21 arrangements for sustainable management of SEND and EHCP services, although we are aware that benchmarking to support a recovery plan. One Key Recommendation and four Improvement Recommendations have been raised around these points.

Key recommendation

Financial Sustainability

Key Recommendation Priority: RED	The January 2022 draft High Needs financial recovery plan should be finalized and implemented. Effective measures should be put in place to ensure its delivery. Consideration should be given to closer working between the Finance and Children and Young People and Education colleagues and to reflecting the new Ambition Statements within Corporate KPIs. The Council should consider how (and which) other reserves balances could be utilized to close the deficit, should that ever be required by the Secretary of State.
Why/impact	The High Needs Accumulated Deficit at the end of 2019-20 was £29.7M. The draft Action Plan in January 2022 to contain the future Accumulated Deficit at £170M by 31 March 2026 indicates significant weakness in the timeliness of steps taken to safeguard the sustainability of services. There is no guarantee that statutory override around funding the deficit will be extended after 31 March 2023.
Auditor judgement	Strong benchmarking data was used by the Council in November 2021 to make the case for change. There has been an awareness of Budget Risk since 2019 and there may have been scope for addressing issues around EHCP referral rates and dependency on special and independent schools earlier.

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

Key recommendation

Financial Sustainability

Summary findings	Recovery plan should be finalised and implemented – with support from Finance Business Partners and Corporate KPIs.
Management comment	Two years have elapsed since the conditions outlined in this report. A substantial amount of work and progress has occurred in the last 2 years in some areas, and we note the negative impact of Covid on progress in others. However, it is fully acknowledged that the process of reducing and then recovering from the DSG deficit created by the High Needs Block overspend is one of the highest County Council priorities. Closer working between the Finance and CYPE colleagues has already since been introduced. The role and responsibility of schools in contributing towards closing the deficit is also key in terms of the scope and purpose of the High Needs Funding Block. It should be reflected that having a stronger emphasis/focus on the SEND service within 'financial business partnering' will not in itself reduce the number of requests for independent and special schools or changes in EHCP assessment/review practices, which are a key factor in the funding pressures being experienced currently Since the period covered by the report, the Government has announced that Kent is included in the Safety Valve grant programme. This will involve negotiations with the DfE by the Head of Paid Service and Corporate Directors of Finance and CYPE in the period between May and September 2022 on financial support in a grant from DfE for the historic HNB deficit. As part of that process the DfE will sign off and approve the Council's Deficit Recovery Plan as a condition of Safety Valve Grant.

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

Improvement recommendation

Financial Sustainability

Improvement Recommendation 1 Priority: GREEN	Consideration should be given to introducing a central PMO function for strengthening savings plans oversight.
Why/impact	There are processes in place within the Council for re-phasing planned savings to future years and, as already noted, there is reporting functionality which can distinguish between timing issues and genuine unachievability. Nevertheless, the clear tendency towards slippage in 2021-22 indicates that there may be scope for strengthening oversight when savings plans are first developed.
Auditor judgement	Slippage in 2021-22 indicates that there may be scope for strengthening oversight when savings plans are first developed.
Summary findings	Potential scope for strengthening oversight of savings plans and reporting on savings.
Management comment	Progress on the delivery of savings is now reported as part of the quarterly finance monitoring report to Cabinet. It is part of the overall financial monitoring of the council's budget, with the relevant services required to provide the details of progress against plan and oversight and challenge from finance. Whilst it is acknowledged this was not the case in 2020-21, it is not considered necessary to have a specific PMO now to co-ordinate the savings monitoring as the business as usual arrangements now in place are considered sufficient. It should be noted that separating out the delivery of savings from other variances is not always straightforward.

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

Improvement recommendation

Financial Sustainability

Improvement Recommendation 2 Priority: GREEN	The Council should consider whether there is scope for strengthening oversight and challenge as Summary Business Cases are developed by Directorates for Transformation Savings which will be included within the Medium Term Financial Plan.
Why/impact	In February 2021, Kent County Council identified a Savings and Income Requirement for 2021-22 of £39.4M. By September 2021, the Council was forecasting that only £30M of this would be achieved in 2021-22. For the Adult Social Care directorate alone, our testing found that £7.7M of Transformation Savings had related to Summary Business Cases which explicitly stated either that they were “indicative” or that it was “too early” to know their full savings potential. There is no central PMO oversight of directorate-led savings and there may be scope for strengthening the challenge process.
Auditor judgement	The Revenue Budget for 2021-22 contained Savings and Income plans which were not necessarily achievable within the timescales the Budget covered.
Summary findings	“Indicative” and “early” Transformation Savings plans were included within the Revenue Budget for 2021-22. The plans were directorate-led and there is no central PMO function overseeing directorate-led savings. There may be scope for strengthening challenge or oversight in this area.
Management comment	The arrangements for reviewing and challenging the business cases for transformation type savings have been strengthened, including those identified as part of the Council’s Strategic Reset Programme (SRP). There is a dedicated finance resource supporting the SRP undertaking the financial analysis and assessment working with the main finance team including the finance business partners to ensure the robustness of the business cases before they are considered and approved by the SRP Board.

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

Improvement recommendation

Financial Sustainability

Improvement Recommendation 3 Priority: GREEN	Steps should continue to manage and reduce the trend towards year on year slippage in the Capital Programme.
Why/impact	The Capital Programme has shown significant slippage in recent periods. Going forward, the Council's aim is to improve oversight of feasibility and time phasing and funding of projects approved for inclusion within the Capital Programme, and to mitigate the risk of optimism bias when projects are approved for inclusion within the Programme.
Auditor judgement	Reducing the amount of slippage will strengthen financial planning.
Summary findings	Some £175.4M of planned capital expenditure for 2020-21 was rephased to later periods and September 2021 data forecast a further capital underspend in 2021-22 of £103.4M.
Management comment	A 10 year capital programme has been approved by county council and implemented to enable more longer term planning and profiling of the capital programme which will help reduce slippage. In addition, a feasibility fund has been established to enable project estimates and timings to be more realistic which should also reduce slippage. A comprehensive capital reporting system is in development with implementation planned during 2022-23 which will provide improved, timely management information which will help identify any issues earlier.

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

Improvement recommendation

Financial Sustainability

Improvement Recommendation 4 Priority: GREEN	Budget documents should show a clear distinction between the cost of proposed statutory and discretionary services.
Why/impact	Distinction may enhance discussions around savings plans going forward.
Auditor judgement	We note that at the time of writing this report, an initiative was underway to introduce new "Outcomes Based Budgeting" processes that more closely tied financial and non-financial data in the budget setting and monitoring process. This may be when stat/ disc split can be made clearer as well.
Summary findings	We note that at the time of writing this report, an initiative was underway to introduce new "Outcomes Based Budgeting" processes that more closely tied financial and non-financial data in the budget setting and monitoring process. This may be when stat/ disc split can be made clearer as well.
Management comment	There is an established process to identify spending on statutory and discretionary services which is assessed as required, as part of the service prioritisation budget considerations. However, the distinction between statutory and discretionary services is considered to be too simplistic as a basis for decision making regarding savings as the level of statutory service provision can be variable and there are discretionary services that play a key part in demand management for statutory provision. There is a robust system for identifying spending demands which distinguishes between unavoidable spending and spending choices which is considered more appropriate.

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

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

Risk Registers Within the Council:

Kent County Council has strong processes in place for monitoring and assessing risk. Risk registers and dashboards are maintained by directorates and divisions and there is a central Corporate Risk Team which engages with service lines on a quarterly basis to help directorates decide which risks to escalate/ de-escalate to the Corporate Risk Register. Directorates are provided with risk monitoring software and the Council has a Risk Management Policy, Strategy and Toolkit which was refreshed in February 2021 to align with latest Treasury Orange Book best practice and to reflect the latest risk landscape.

The Corporate Risk Register is informally reviewed on a regular basis by the CMT and the Corporate Board. Ordinarily, the Corporate Risk Register is reviewed once per annum (normally December) by Cabinet and twice per annum by the Governance and Audit Committee – with relevant sections also being reviewed at least once per annum by the Cabinet Sub-Committees as well. We note that High Needs funding, considered at pages 9 to 12 of this report, appeared as a RED RAG rated risk on copies of the Corporate Risk Register that we reviewed both for December 2020 and December 2021.

The Corporate Risk Register shows Summary Profiles for around 25 top risks at any one time. The Summary Profiles show RAG ratings, Risk Title, Current Risk, Target Risk and Direction of Travel. For most live risks, papers to Cabinet reviewed during our audit also showed Source & Cause; Consequence; Owner; Responsible Cabinet Member; Current and Residual Likelihood and Impacts; and detailed lists of Controls and Control Owners. For the risk registers we reviewed, there were some instances of Summary Profiles not being supported by this more detailed analysis and an Improvement Recommendation has been noted that gaps should be filled or explained **(Improvement Recommendation 5, page 27).**

For 2020-21, in the wake of the Covid-19 pandemic, processes for reporting risk to Cabinet and Those Charged with Governance were significantly increased. A revised and expanded Corporate Risk Register was presented to Cabinet in June 2020. A Winter Risks Update was presented to Cabinet in September 2020 – outlining not only Covid-19 risks but also the County-specific risks of the Brexit transition period ending and risks around Winter Weather and Winter Influenza. An additional Covid-19 risks update was also provided to the Cabinet in March 2021. The approach to risk reporting is therefore proactive and agile.

Internal Audit Services Within the Council:

The Council has an effective Internal Audit Service. An external Quality Assessment reported in April 2021 that the service's standard "generally conforms" with Public Sector Internal Audit Standards. We note that even in the wake of Covid-19, the Head of Internal Audit (HIA) had provided enough audit coverage of the Council's core systems to be able to provide Adequate Assurance over the Council's corporate governance, risk management and internal control arrangements. The HIA's Annual Report included assessments of the internal audit service itself against key performance indicators agreed with the Council for the service. The Internal Audit team has a commercial aspect and provides internal audit services for a variety of other public and voluntary sector organisations in Kent, including Kent County Council's subsidiaries.

Governance

Resourcing has been an issue for Kent's Internal Audit team. The Internal Audit and Counter Fraud Plan for 2020-21 showed 2,936 man-days needed to deliver the 2020-21 County Council programme of work and a 200-day shortfall against this requirement. Temporary staffing solutions were used in 2020-21 but we note that for 2021-22, a restructuring exercise is now ongoing within the Internal Audit Service – including creating and filling new posts and upskilling the team. At the time of writing our report, the team consisted of 28 staff and recent recruitments were felt to have bridged the gaps identified for 2020-21. Wider trends in the UK labour market point to ongoing skills shortage in the wider economy and retaining skilled audit staff may prove just as important as recruiting them. We will revisit adequacy of resourcing Internal Audit as part of our VFM work for 2021-22

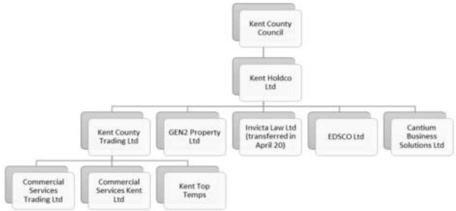
Monitoring and Assessing Risk in Companies

As Figure 3 shows, Kent County Council has interests in companies that are classified as subsidiaries or joint ventures and for which the Council prepares Group Accounts. Assets and liabilities and commitments within the companies were not material to the Kent County Council Group in 2020-21, both when considered individually or collectively. The financial risk the companies might have exposed the Group to in 2020-21 could have been considered limited in this regard. In view of the long series of Local Government Best Value and Public Interest reports in recent years around Local Authorities operating through subsidiaries, though, the effectiveness of the Council's risk management and governance processes for the companies is still an area we have considered.

In October 2020, Kent County Council's Annual Governance Statement for 2019-20 listed "Review of Company Governance and Audit Arrangements" as an Identified Action for 2020-21. In March 2021, the Council delineated oversight responsibilities – strengthening and clarifying responsibilities for the Holding Company to ensure that Annual Governance Statement returns are made; the Council's Policy and Resources Committee to oversee governance and commissioning and to pre consider key decisions; and the Council's Governance and Audit Committee to continue with financial performance, scrutiny and assurance oversight. Kent County Council remains mindful of lessons learnt from other Authorities operating through subsidiaries – and the Governance and Audit Committee received details of reports in the public domain in both January and April 2021.

Figure 3: Subsidiaries and Joint Ventures disclosed in the Kent County Council Statement of Accounts for 2020-21

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



Governance

Detailed risk management and governance processes for Kent companies in place for 2020-21 included:

- Holding Company providing the Audit and Risk Committee function for all the other subsidiaries. The Kent County Council's Director of Risk sitting as a Member of the Holding Company Audit and Risk Committee;
- The Council currently providing Internal Audit services to all the companies and retaining rights of access to Internal Audit findings if another provider is engaged;
- All subsidiaries being required to prepare Annual Governance Statements for the Holding Company;
- Monthly financial returns from the companies to the Council's s151 Officer to review outturn against budget; and
- Quarterly meetings of a Kent County Council Shareholder Board to consider the performance of the companies and determine decisions required under reserved matters.

No specific concerns around the companies have been identified for our 2020-21 audit. However, we note that most were opened as trading companies, for commercial gain and that the operating environment is changing. As indicated later in this report, commissioning through companies may increase under the Council's Strategic Reset Programme if savings can be achieved. On the other hand, as Kent emerges from the Covid-19 pandemic and Brexit transition and labour and supply markets start to change, companies may become less profitable and the Council may start to explore alternative delivery models.

Our audit for 2021-22 will consider in detail the performance of the companies after the pandemic; corporate risks to the Council and ongoing risk and governance management; and the effectiveness of commissioning through companies under the Strategic Reset Programme.

<u>Internal Audit of Schools</u>

Kent County Council commissions Maintained Schools compliance audits from the wholly owned subsidiary EDSECO. The Council's Governance and Audit Committee receives an annual report from the Council's Director of Children, Young People and Education summarizing the Schools Financial Services (SFS) compliance programme and other activities to enable the s151 Officer to certify that there is a system of audit for schools giving adequate assurance over financial management standards.

The report for 2019-20 was received by the Council's Governance and Audit Committee in January 2021, although it noted that the Department for Education had accepted reduced data collection activities in the light of Covid-19. The deadline for 2020-21 compliance statements was delayed by the Department for Education until the end of March 2022 to reflect the impact of Covid-19. At the time of writing our report, the Council's Governance and Audit Committee had not yet received an update on the SFS compliance programme for 2020-21.

Whilst the delay to reporting for 2020-21 is not out of line with Departmental requirements for that year, it does mean that for the second year running, audit assurance has either been based on less data and/ or delayed. As schools emerge from the pandemic, the Governance and Audit Committee may wish to consider the completeness of assurance it receives on Schools. Under existing arrangements, only one report per annum is received - periodic updates are not provided to the Committee through the year. Given that there has been two years of disruption, this is something the Committee may wish to explore going forward.

Governance

Budget Setting Process and Budgetary Control

The process of setting the Budget for 2020-21 followed a detailed formal timetable that started with information gathering as early as May 2019. Multiple rounds of consultation were included within the timetable (for example, resident consultations were held in September 2019) and refreshes were factored in for Savings Plans to be put forward and challenged; Pay Bargaining; Capital Discussions; Strategic Planning updates; the Final Settlement from Government; and Scrutiny. As previously noted in this report, the Budget was re-issued in September 2020 to reflect the impacts of Covid-19 – showing that the process could be adapted as Government requirements and circumstances changed.

Budgetary control through the year at Kent County Council is primarily driven at directorate level. There is a monthly process for corporate directors and their finance business partners to review variances within the directorates and report to the relevant Cabinet Member for discussion at the Cabinet Members Meeting (and from there, at Cabinet). In 2020-21, Cabinet received copies of monthly Budget Monitor reports three times in 2020-21 (September, December and March) and received the 2020-21 Budget Outturn report in June 2021. The budget monitor reports were supported by comprehensive information packs – including at various times, for example, reports on Treasury management, Council Tax and NNDR, Schools Delegated Budgets, Treasury and Capital Outturn reports, and Savings Progress Against Targets.

Making properly informed decisions

Making decisions within the Council:

The Council's Constitution requires that all decisions either with a minimum value of £1M or affecting more than one service line are required to be made by Cabinet – meaning discussions around those decisions will be in the public domain. Cabinet discharges the Leader's Executive functions and is supported by five Cabinet Committees, which make recommendations for the individual service lines they cover. CMT is the most senior officer group within the Council. The Council's website includes the Constitution and a clear structure chart of the senior management team.

The Annual Governance Statements for both 2019-20 and 2020-21 referred to there also being, within the Council, "informal" governance arrangements. The informal arrangements principally comprise a Cabinet Members Group meeting on a monthly basis and the Corporate Management Board (Cabinet Members and CMT) meeting also meeting on a monthly basis. Neither the Cabinet Members Group not the Corporate Management Board have decision-making powers under the Council's Constitution and their meetings are not recorded publicly. Findings from across our work indicate, however, that these groups do play a role in discussion leading up to decision. In periods of rapid response (such as pandemic), this increases the risk of non statutory decision making. The risk is also increased where officers and Cabinet Members with delegated decision-making powers attend the informal meetings, as does happen.

The Annual Governance Statement for 2019-20 made two recommendations around decision making:

1. Review of formal governance to increase controls at …. decision stage to ensure mandatory compliance with governance; and
2. Creation of a mechanism for recording officer decisions taken under delegation for scrutiny by members.

The Annual Governance Statement for 2020-21 noted that these Actions had so far not been implemented. The Statement noted that during 2020-21, the Monitoring Officer had had to " intervene and seek remedial actions from Officers where decisions were at risk of not being taken lawfully, reasonably and proportionately" and made a series of new recommendations:

1. Review of Informal Governance Structures and composition and support for Informal Member Groups;
2. Review of Officer Decision-Making under delegation;
3. New approval processes and guidance ahead of decision-making; and
4. Consequences for non-compliance.

During our audit we were not informed of any instances of non-statutory decision making. The requirement that all decisions at or above £1M are made through Cabinet provides significant protection to the Council's processes. Nevertheless, as Annual Governance Statements have raised decision-making processes as areas for improvement two years running, it is important that the identified Actions are implemented. We have noted an Improvement Recommendation around this point **(Improvement Recommendation 6, page 28).**

Governance

<u>Making decisions within the Pension Fund:</u>

Kent County Council administers a high value, high performing Pension Fund. The gross Fair Value of the Fund's assets was £2,679.6M on 31 March 2019; £2,483.7M on 31 March 2020; and £3,211.7M on 31 March 2021. For the Pension, the Superannuation Fund Committee exercises the powers and duties of the Kent County Council (KCC) in relation to its functions as the Administering Authority. The Superannuation Fund Committee is responsible for setting investment strategy, appointing professional fund managers, managing risk and carrying out regular reviews and monitoring of investments.

Kent County Council's Internal Audit Section conducts risk-based audits on the management of risk in the Pension Fund. Governance arrangements also include a Local Pension Board, which assists the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme. The Board met twice in 2020-21 and considered the Pension Fund's Business Plan, Risk Register and Internal and External Audit findings.

During 2019-20, the Fund had written-off or potentially lost an investment around £237M when trading was suspended for shares the Fund held in the Woodford Equity Income Fund. Information about Woodford had been in the public domain in the run up to trading being suspended and the Fund's Superannuation Committee had been in the process of starting to sell shares when trading was suspended. Capital distributions from liquidators to investors started as early as January 2020 and the Pension Fund anticipates that final losses net of distributions received will be valued at around £60M.

Internal Audit undertook a Lessons Learnt review on Pension Fund Governance. In December 2019 Internal Audit reported 14 Key Issues, including around there having been no independent investment advice on Woodford investments, despite the "unwritten convention" that such advice should be taken. The report concluded that, in December 2019, Pension Fund controls were ineffective and that only limited assurance could be given. However, the report also noted that prospects for improvement were "GOOD" and set out a 16 Point set of Action Plans.

During 2020-21, Internal Audit conducted a follow-up review of the Action Plan implementation. The Council also engaged Barnett Waddingham to conduct an independent review of Pension Fund Governance. The Internal Audit follow-up was published in January 2021 and noted that 1 recommendation from 2019 had been implemented in full but that the implementation of other recommendations had been delayed while Barnett Waddingham conducted their review.

Barnet Waddingham's external review of Pension Fund Governance commenced on 23rd October 2020 and was scheduled to conclude by the end of 2020-21. Timescales for the review were delayed during the Covid-19 pandemic and Barnett Waddingham issued their final report in October 2021. Barnet Waddingham's review covered areas of the original Internal Audit recommendations, although it did not explicitly track them. In total, 108 recommendations were made in the final report from Barnett Waddingham. Whilst the report recognized that many would be "quick to implement", we note that recommendations 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 engagements since 2019 of two Internal Audit reviews and an external Barnett Waddingham review of Pension Fund governance show that the Council has a clear appetite to address weaknesses which may have affected the timing of decision-making around Woodford investments in 2019. To fully benefit from the reviews, it will be essential now that the recommendations made by Barnett Waddingham are implemented. Given the number of recommendations, tiering or ranking them will help with prioritization. Formally cross checking for completeness with Internal Audit recommendations in 2019 and 2021 will ensure completeness of responses. An improvement recommendation has been raised (**Improvement Recommendation 7, page 29**) around this point and we will revisit progress as part of our VFM audit for 2021-22.

Governance

Monitoring and ensuring appropriate standards

The Code of Corporate Governance for Members is included within Kent County Council's Constitution. The Kent Code for staff is included within employee's conditions of service. The Council has a comprehensive suite of policies and guides around anti-fraud, anti-bribery, gifts and hospitality, declarations of interest and whistle-blowing. The external auditor Audit Findings Report for 2020-21 did note two instances of the Council not being informed about interests. The instances involved one Councilor and one member of the CMT. Neither instance was seen as having any bearing on the wider control environment. During our review of ani-fraud policies, we noted some minor instances of documents on the Council's website not being latest versions. However, we are aware that a series of the anti-fraud and bribery policies were updated in January 2022, and we anticipate that the website will also be updated in due course.

The Governance and Audit Committee met three times during 2020-21 (July 2020, October 2020 and January 2021) and considered a broad range of reports and risks. We note that papers to the Committee shortly after the end of 2020-21 flagged planned training programmes for members and planned updates to the Committee's Terms of Reference and role with respect to companies. We will consider this further for 2021-22.

Conclusion

The Council had a comprehensive system in place during 2020-21 for monitoring and assessing risk through its own risk registers and it had an effective in-house Internal Audit function. Comprehensive processes for budget setting; budgetary control; and maintaining Standards were also in place. Internal Audit skills retention and resourcing; governance over the strategic focus and commercial role of companies; and the completeness of assurance over financial control at maintained schools are all areas we will review in more detail in 2021-22.

Whilst we saw no evidence of non-statutory decision-making in 2020-21, we noted that Actions around informal governance at the Council and weaknesses in decision-making processes within the Pension Fund have been raised two years running by other auditors and consultants. We have recommended that these Actions are implemented and we will revisit decision-making in 2021-22.

Improvement recommendation

Governance

Improvement Recommendation 5 Priority: GREEN	The Corporate Risk Register shows Summary Profiles which for most but not all risks are supported by more detailed analysis. Gaps in detailed analysis should be filled or explained.
Why/impact	The Corporate Risk Register shows Summary Profiles for around 25 top risks at any one time. The Summary Profiles show RAG ratings, Risk Title, Current Risk, Target Risk and Direction of Travel. For most live risks, papers to Cabinet reviewed during our audit also showed Source & cause; Consequence; Owner; Responsible Cabinet Member; Current and Residual Likelihood and Impacts; and detailed lists of Controls and Control Owners. For the risk registers we reviewed, there were some instances of Summary Profiles not being supported by this more detailed analysis.
Auditor judgement	Sound processes for monitoring and reporting on risk are in place but where there are gaps in detailed analysis, reasons are not always made clear.
Summary findings	Corporate Risk Register reporting to Cabinet is not always consistent in presentation. Some Summary Profiles are supported by detailed analysis and others are not.
Management comment	The corporate risk registers are regularly reviewed and updated. Whilst the detailed analysis that supports the summary profiles may not have been completed in every case in 2020-21, the process and approach has been developed since then and services are expected to provide the detailed analysis that the summary profiles are based on, which are also reviewed and updated regularly.

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

Improvement recommendation

Governance

Improvement Recommendation 6 Priority: AMBER	Actions should be taken around informal governance and decision-making: 1. Review of formal governance to increase controls at decision stage; 2. Creation of a mechanism for recording officer decisions taken under delegation; 3. Review of Informal Governance Structures and composition; 4. Review of Officer Decision-Making under delegation; 5. New approval processes and guidance ahead of decision-making; and 6. Consequences for non-compliance.
Why/impact	Annual Governance Statements have raised decision-making processes as areas for improvement two years running, it is important that the identified Actions are implemented.
Auditor judgement	Although we did not observe and were not informed of any instances of non-statutory decision-making during our audit, there remains an increased risk that non-statutory decision making could occur under current arrangements.
Summary findings	Processes around informal governance and decision making should be documented, inventoried and formalised.
Management comment	This takes no account of the context or the fact that the actions identified and the steps to be taken are all things that are in current planned activity and have been identified by the statutory officers through the AGS. These are iterative things – they aren't simply once and done and this can be seen through 2021-22 and 2022-23. We are very honest in our AGS and wouldn't want to see this activity drive a more restricted approach to our AGS.

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

Improvement recommendation

Governance

Improvement Recommendation 7 **Priority: AMBER**	Barnett Waddingham Pension Fund Governance recommendations should be tiered or ranked to help with prioritisation and cross checked against Internal Audit recommendations from 2019 and 2021 to ensure completeness of response. It will be essential then that recommendations are implemented promptly.
Why/impact	Actions to improve governance over decision-making within the Pension Fund were reported by Internal Audit in 2019. Internal Audit reported again in January 2021 and Barnett Waddingham made recommendations in October 2021.
Auditor judgement	The engagement since 2019 of two Internal Audit reviews and an external Barnett Waddingham review of Pension Fund governance shows a clear appetite to address weaknesses which may have affected the timing of decision-making around Woodford investments in 2019. To fully benefit from the reviews, it will be essential now that the recommendations made by Barnett Waddingham are implemented and, for completeness, cross-checked against Internal Audit recommendations.
Summary findings	Open Actions around decision-making in the Pension Fund should be implemented at the earliest opportunity.
Management comment	A number of recommendations considered the highest priority have already been implemented. The new Head of Pensions and Treasury is overseeing the implementation of the remaining recommendations and a dedicated fixed term post has been appointed to deliver the actions necessary.

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, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

Kent County Council has strong processes in place for monitoring and assessing performance. Performance dashboards are maintained at directorate level. Corporate Key Performance Indicators (KPIs) are set by Cabinet and CMT in liaison with the Performance team and directorates and the Chief Analyst. Corporate KPIs are agreed annually and agreed with the CMT and the Corporate Management Board and then reported against in Quarterly Performance Reports to Cabinet.

The Quarterly Performance Reports show around 35 Indicators, categorized across Customer Services, Economic Development & Communities, Environment and Transport, Children, Young People and Education, Adult Social Care and Public Health. For each indicator, the reports show:

- RAG rating for current performance;
- Current, Target and Previous Performance,
- Direction of travel,
- Narrative and text showing basis of supporting evidence.

The Council has an in-house Chief Analyst and the indicators are supported by comprehensive benchmarking. As well as being presented to Cabinet four times in 2020-21, the Quarterly Performance Reports (QPRs) were discussed at CMT and at Cabinet Members Meeting groups and at Corporate Management Board meetings during the year. The Chief Analyst presented at CMT meetings to facilitate detailed discussion around benchmark data.

Performance Indicators in the QPRs are operationally focused and designed to flag where operational standards are falling behind target. For the four 2020-21 Quarterly Reports, there were three to four RED RAG rated KPIs in each report – with the indicator for *"% of EHCPs issued within 20 weeks – rolling 12 months"* being RED RAG rated in all four quarters. Observations around the need to revisit arrangements around EHCPs, and therefore associated Corporate KPIs, have been noted earlier in this report.

For 2020-21, there was no direct link between financial data supporting budgets and monthly budget monitoring and the performance data supporting Quarterly Corporate KPI reporting. Nor did Internal Audit have any direct oversight of performance indicator reporting. At the time of writing this report, a project to more closely integrate financial and performance data for "Outcomes Based Budgeting" was being developed. We will revisit progress with this project as part of our value for money audit in 2021-22.

Improving economy, efficiency and effectiveness

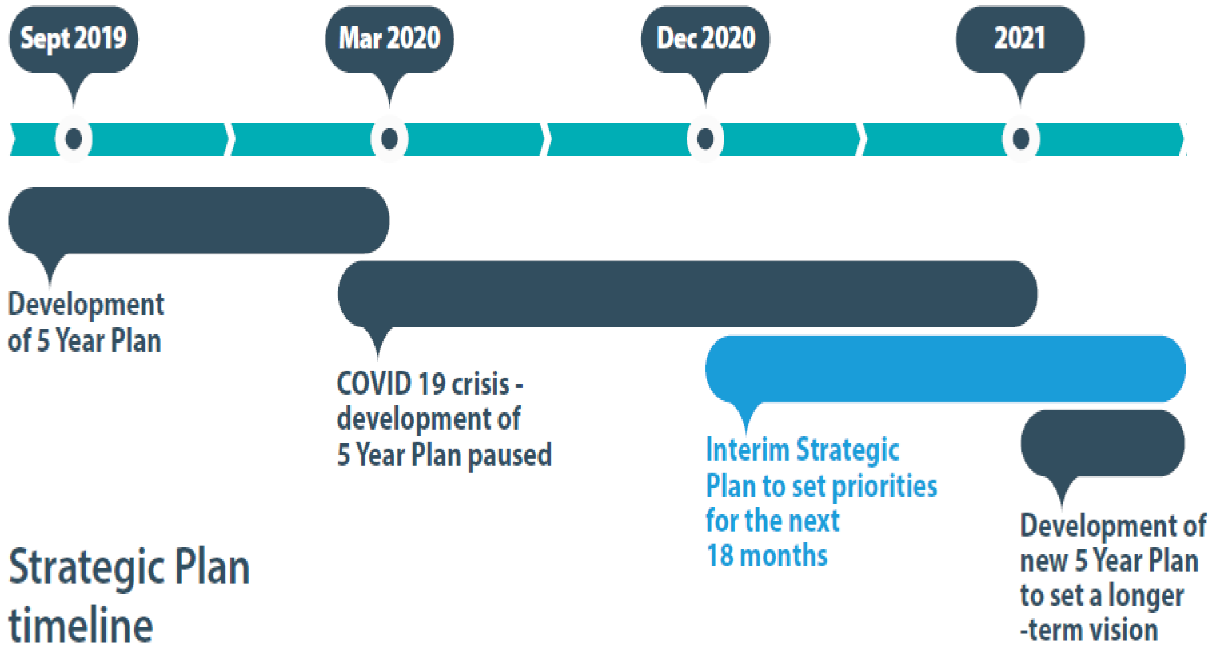
Service Evaluation

Kent County Council showed itself to be highly agile in its evaluation of services to provide in 2020-21. March 2020 had been scheduled to see the launch of a new Five Year Strategic Plan for Kent. As Figure 4 indicates, the March 2020 Council meeting at which the Strategic Plan would have been launched was cancelled as the UK went into lockdown. A rapid assessment was made that the impacts of the pandemic were likely to be so profound that new Strategic Planning would be required after recovery. An Interim Strategic Plan ("Setting the Course") was issued in December 2020 to provide direction for 18 months, until a new Five Year Plan could be developed (this development is in process now, early 2022).

The Interim Strategic Plan set out five main challenges for the coming period (Financial, Economic, Demand, Partnership and Environmental) and a series of Priority Actions against each.

The Priority Actions were not inconsistent with Corporate KPIs already being reported on and evaluation of services provided under the new Plan continued in 2020-21 to be primarily through Quarterly Performance Reports to Cabinet and detailed performance scrutiny for their relevant service lines by the five Cabinet Committees.

Figure 4: Strategic Plan Timeline, Source: Kent County Council



Improving economy, efficiency and effectiveness

Partnership working

Kent County Council has a strong tradition of working effectively with partners. The County has been exposed in recent years to flooding; coastal erosion; Brexit transition impacts on roads to and from Channel crossings; high aslylum seeker arrival rates; and the need to maintain emergency plans for radiation events at Dungeness. The Council is a "Category 1 Responder Member" of the Kent Resilience Forum – working with police, fire, NHS and other key civil agencies to manage community risks set out in a Community Risk Register. This put the Council in a strong position for responding proactively to the Covid-19 pandemic, although we note that the Community Risk Register (last updated in 2016) had not previously included pandemic. The Council should promote an update to the Community Risk Register to now capture disease and pandemic. An Improvement Recommendation has been made around this point (Improvement Recommendation 8, page 34).

As already shown in other sections of this report, Kent has a wide variety of different types of partnership arrangement. There are co-operative partnerships, such as the Resilience Forum; legal partnerships with subsidiaries and joint ventures; contractual partnerships, for example with care providers and schools; and other networking partnerships and forums such as the Kent Community Services Foundation Trust, Kent Leaders Group and Kent Joint CEO forum. As the pandemic emergency subsides, the Council may wish to consider inventorising partnerships so that legal status and commitments can be easily checked.

Since July 2020, the Council has been discussing "Strategic Reset", noting that there are vulnerabilities in the existing supplier and partnership base and that the commercial strategic role of companies may be strengthened in the future. 2022-23 and beyond may see some changes to services currently delivered through commercial subsidiaries and other delivery models. Discussions around delivery models may be more effective if the status of existing partnership arrangements can be clearly mapped first. An Improvement Recommendation has been made around this point (Improvement Recommendation 9, page 35).

Commissioning and Procurement

Kent County Council spends around £1BN per annum through commissioning of contracts, with some £400M of this expenditure being on Adult Social Care contracts every year. The Council has a Strategic Commissioning Team with just under 200 employees, headed up by the Strategic Commissioner" and responsible for managing contracts as well as setting them up.

Governance

The Council does not have a standalone "Procurement Policy" document but does have a staff intranet section called 'Spending the Council's Money' which sets out the mandatory rules and processes that must be complied with under the Constitution, when spending money on behalf of the Council. This applies to all elected member members and those working for, or on behalf of, the Council (including contractors and third parties undertaking procurements on the Council's behalf).

To support 'Spending the Council's Money', the Council also has, on its website, the "Commissioning Framework 2014". The Commissioning Framework sets out the Council's ten principles of commissioning and how they apply throughout the Commissioning lifecycle.

Actual and prospective suppliers are given clear information about opportunities to do business with the Council and rules/ regulations/ processes in place are listed on the Council's website under "*Doing business with Kent County Council*". The Strategic Commissioning team maintains a central register of all contracts and new contracts valued at £1M or higher are required to go to Cabinet for decision.

In July 2020, the "Strategic Reset Programme" paper to the County Council argued that COVID-19 had exposed fragility, fragmentation and vulnerability in some of the traditional supplier markets the Council commissioned from, particularly for commissioned services delivered by the voluntary, community and social enterprise sector. The paper argued that options would be explored going forward for working more strategically with partners and, in cases, strengthening strategic commercilaisation of the Council's subsidiary companies.

In July 2020, the Council also published a Social Value Toolkit *"to provide Kent County Council officers with clear and comprehensive advice and guidance on maximising social value in commissioning".* The Social Value criteria listed in it were Employment; Economy; Community Development; "Good Employer"; and "Green & Sustainable". The toolkit provided Council officers with guidance on:

- Analysing need and market
- Engagement and tendering
- Evaluating
- Agreeing
- Managing the contract
- Reviewing and lessons learnt.

Since the end of 2020-21, the Council has invested in a new software license to set up and run a Social Value Platform. The platform will provide an "auction forum" where suppliers can bid for social value opportunities, for example to include volunteering days or pro bono legal and financial skills for local Voluntary organisations within any procurement or commissioning bids and tenders they are submitting. The platform will also allow Council officers to monitor delivery of social value by suppliers once contracts have been awarded.

At the time of writing our report, no firm structural changes had yet been made to arrangements around partners, commissioning, procurement and the Council's companies. Social Value criteria had not yet been approved by CMT and staff training for the new Social Value platform was still ongoing. The Commissioning Framework documents had also not been updated to reflect the new Social Value criteria or any other proposed structural changes. We will revisit progress with the Strategic Reset Programme, Commissioning, Procurement and Social Value as part of our 2021-22 value for money audit.

Conclusion

Kent County Council had effective arrangements in 2020-21 for monitoring performance, evaluating services, working with partners and commissioning and procurement. For 2020-21, we have noted two Improvement Recommendations. We note that the Strategic Reset Programme may bring wider changes to the current arrangements in future years.

Improvement recommendation

Improving economy, efficiency and effectiveness

Improvement Recommendation 8 Priority: GREEN	The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and pandemic.
Why/impact	The Council is a "Category 1 Responder Member" of the Kent Resilience Forum – working with police, fire, NHS and other key civil agencies to manage community risks set out in a Community Risk Register. This put the Council in a strong position for responding proactively to the Covid-19 pandemic, but that the risk register (last updated in 2016) does not currently include pandemic.
Auditor judgement	The Community Risk Register is an effective tool for partnership working but should be updated to reflect current risks.
Summary findings	The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and pandemic.
Management comment	The KRF risk registers are regularly reviewed and updated to ensure they remain fit for purpose. The Community Risk Register is part of that review and consideration will be given to the recommendation made.

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

Improvement recommendation

Improving economy, efficiency and effectiveness

Improvement Recommendation 9 **Priority: GREEN**	The Council should consider inventorising partnerships so that legal status and commitments can be easily checked.
Why/impact	The Kent has a wide variety of different types of partnership arrangement. 2022-23 and beyond may see some changes to services currently delivered through commercial subsidiaries – discussions around delivery models may be more effective if the status of existing partnership arrangements can be clearly mapped first.
Auditor judgement	Kent County Council works with partners under a wide variety of different arrangements, making the partnership landscape difficult to map.
Summary findings	Inventorying or mapping partnership arrangements would make it easier to assess the effectiveness of different delivery models.
Management comment	Consideration will be given to inventorising partnership arrangements.

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

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

Kent County Council showed itself to be very agile in its response to the Covid-19 pandemic. The Council amended both its Strategic Business Planning and its annual budget for 2020-21 to reflect the changed situation after the pandemic started.

Working with Strategic Commissioning, the Council's Finance Team set up COVID/COMF logs and new account segments to ensure that relevant Covid-19 expenditure could be identified, monitored and reported on – internally and on central government returns.

A June 2021 report to Cabinet on Revenue and Capital Budget Outturn for 2020-21 recorded that the (provisional) total Revenue spend on Covid-19 for the year was £58.6M, with £25M having been on Adult Social Care & Health; £10.5M on having been on Children, Young People & Education; and £15M having been spent by the Growth, Environment and Transport directorate. These costs were off-set by Emergency Grant Allocations. Additional Emergency Grant Allocations of some £28.8M were rolled forward for spend in 2021-22 or later periods.

Governance

Kent County Council received a comprehensive paper on 11th March 2021 summarising the key pandemic responses of 2020-21. This highlighted, for example, that 80% of staff had been supported in working from home; virtual decision-making processes had been introduced for Committees; and the Kent Resilience Forum Strategic Command Structures activated in March 2020 (shown in Figure 5).

For Kent, disruption was heightened when France temporarily closed it's borders with the UK in December 2020, meaning that the work of the Resilience Forum included overseeing road and rail disruption as well as the health and economic disruption more typically associated with the pandemic.

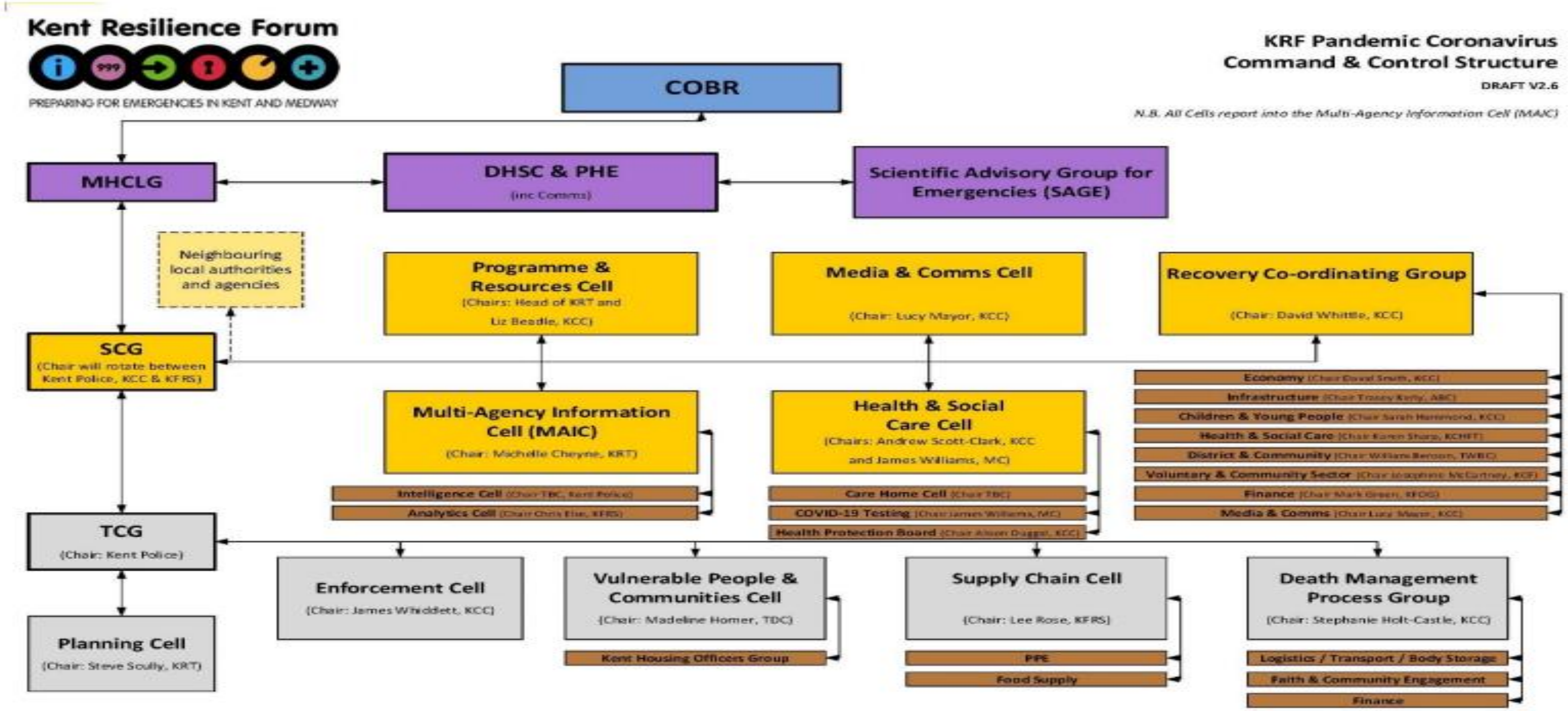
From our work we saw no evidence of the internal control environment being weakened and we note that days were not diverted from Internal Audit resourcing to work on Covid-19 response. As shown on page 18 of this report, processes for reporting risk to Cabinet and Those Charged with Governance were significantly increased during 2020-21. A revised and expanded Corporate Risk Register was presented to Cabinet in June 2020. A Winter Risks Update was presented September 2020 and an additional Covid-19 risks update was also provided to the Cabinet in March 2021.

Improving Economy, Efficiency and Effectiveness

Kent County Council had strong processes in place for working with other partners before the Covid-19 pandemic and The 11th March 2021 paper to County Council shows that 2020-21 Covid-19 responses involved continued close working with multiple agencies. In particular, we note that Kent County Council mandated Kent Commercial Services (KCS) Ltd to source PPE to help address the urgent PPE needs of all providers in Kent. Over 4.4-million items of PPE, including 800,000 face masks, were disbursed through this arrangement. As the Council emerges from the pandemic, the Strategic Reset Programme looks likely to build on this success, and the strategic, commercial role of Kent's subsidiaries is expected to come under scrutiny from 2021-22 onwards, as we have noted earlier in this report.

COVID-19 arrangements

Figure 5: Kent Resilience Forum Pandemic Coronavirus Command and Control Structure, Source: Kent County Council



Opinion on the financial statements

Audit opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 13 December following the Governance and Audit Committee meeting on 30 November 2021.

Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 20/21 Audit Findings Report which was presented to the Governance and Audit Committee on 30 November 2021.

Preparation of the accounts

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

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

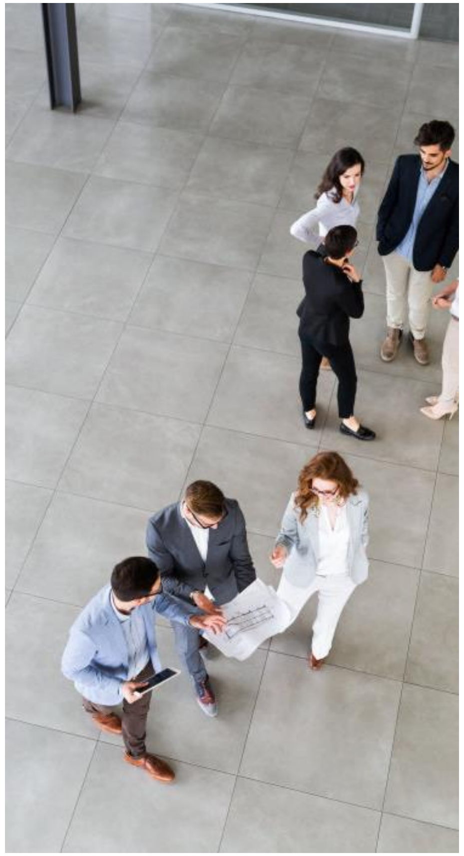
Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

This work has not yet commenced as the group audit instructions are yet to be issued by the NAO. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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.

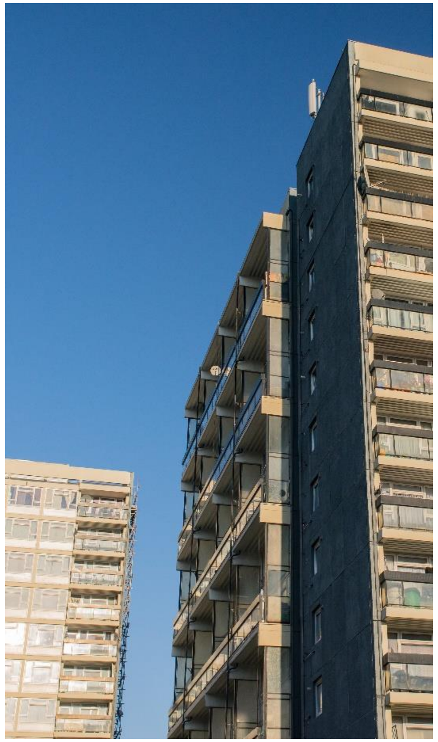
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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) 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
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their 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	FS p. 15 - 16
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	FS p. 17 - 20 Governance p. 27 - 29 3Es p. 34 -35.