

03 November 2020 at 5.00 pm

This meeting will be held virtually via Zoom,  
and livestreamed here:

[https://www.youtube.com/channel/UCIT1f\\_F5OfvTzxjZk6Zqn6g](https://www.youtube.com/channel/UCIT1f_F5OfvTzxjZk6Zqn6g)

Despatched: 26.10.20



# Audit Committee

## Membership:

Chairman, Cllr. McGarvey; Vice-Chairman, Cllr. Morris  
Cllrs. Barnes, Brown, Kitchener, London, Osborne-Jackson, Pender and Williamson

## Agenda

	Pages	Contact
Apologies for Absence		
1. <b>Minutes</b> To agree the Minutes of the meeting of the Audit Committee held on 16 July 2020, as a correct record.	(Pages 1 - 6)	
2. <b>Declarations of Interest</b> Any declarations of interest not already registered.		
3. <b>Actions from Previous Meeting (if any)</b>		
4. <b>Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)</b>		
5. <b>Statement of Accounts 2019/20</b>	(Pages 7 - 194)	Alan Mitchell Tel: 01732227483
6. <b>Members' Allowance Scheme Monitoring</b>	(Pages 195 - 208)	Martin Goodman Tel: 01732227245
7. <b>Internal Audit Progress Report 2020/21</b>	(Pages 209 - 224)	Francesca Chivers Tel: 01732227053
8. <b>Counter Fraud Policies</b>	(Pages 225 - 252)	Francesca Chivers Tel: 01732227053
9. <b>Strategic Risk Register</b>	(Pages 253 - 276)	Francesca Chivers Tel: 01732227053
10. <b>Work Plan</b>	(Pages 277 - 278)	

## EXEMPT INFORMATION

At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public.

If you wish to obtain further factual information on any of the agenda items listed above, please contact the named officer prior to the day of the meeting.

Should you need this agenda or any of the reports in a different format, or have any other queries concerning this agenda or the meeting please contact Democratic Services on 01732 227000 or [democratic.services@sevenoaks.gov.uk](mailto:democratic.services@sevenoaks.gov.uk).

**AUDIT COMMITTEE**

Minutes of the meeting held on 16 July 2020 commencing at 3.00 pm

Present: Cllr. McGarvey (Chairman)

Cllr. Morris (Vice Chairman)

Cllrs. Brown, London, and Pender

Apologies for absence were received from Cllrs. Barnes and Kitchener

34. Minutes

Resolved: That the Minutes of the meeting of the Audit Committee held on 28 January 2020 be agreed and signed as a correct record.

35. Declarations of Interest

No additional declarations of interest were made.

36. Actions from Previous Meeting

The action was noted.

37. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations

There were none.

38. Member Development - Understanding Local Government Accounts

The Head of Finance gave a presentation and briefing for Members on Local Government Accounts.

Resolved: That the Member development be noted.

CHANGE IN ORDER OF AGENDA ITEMS

With the agreement of the Audit Committee, the Chairman brought forward consideration of agenda item 9, followed by items 7 and 6 respectively and item 8 was moved to follow item 13.

39. Statement of Accounts 2019/2020 - Establishment of Member Working Group

The Head of Finance introduced a report which outlined the plans for the Committee to set up a Member working group to review the 2019/2020 Statement of Accounts. If approved, Officers would arrange the first meeting date.

## Agenda Item 1

### Audit Committee - 16 July 2020

Resolved: That

- a) a Member Working group be set up to review the 2019/20 draft Statement of Accounts with delegated authority to recommend changes to the draft whilst ensuring adherence to the statutory regulations for the purposes of reporting back to the Audit Committee; and
- b) membership of the working group be Councillors McGarvey (Chairman), Mrs Morris, Kitchener and Pender

#### 40. External Audit - Annual Audit Plan 2019/20

The Chairman welcomed Sarah Ironmonger and Sebastian Evans from Grant Thornton who presented the External Audit Plan for the year ending 31 March 2020. The original audit plan had been produced in March 2020 (Appendix A), and there was now an audit plan update which outlined the additional audit risks associated with Covid-19 (Appendix B). The main areas of the Audit Plan included property, plant, and equipment, pension liability and group accounts.

The audit plan update, which was issued at the end of May, acknowledged the impact of Covid-19 on practices, deadlines and audit risks. Risks included having to conduct audit remotely and the volatility of financial and property markets causing uncertainty in asset valuation.

Resolved: That the report be noted.

#### 41. Annual Governance Statement - 2019/20

The Chief Officer Finance & Trading presented the report. The Annual Governance Statement (AGS) was a corporate document explaining the Council's governance arrangements and the controls it employs to manage the risk of failure to achieve strategic objectives. It was owned by all Senior Officers and Members of the Council. The process confirmed that the Council had sound systems of internal control and good governance arrangements in place. One significant governance issue had been raised through the AGS process which was the response to the impacts of the Covid-19 pandemic.

In response to queries, the Chief Officer Finance & Trading advised the financial impact of Covid-19 was outlined in a report which had gone to Cabinet. There was a decrease in income, an increase in expenditure and Government had provided some financial support.

Resolved: That the Annual Governance Statement 2019/20 be agreed for signature by the Leader of the Council.

#### 42. Counter Fraud and Compliance Report 2019/20

The Counter Fraud Manager presented the report which set out the work conducted by the Counter Fraud & Compliance team during 2019/20. The Team had been based within the shared Revenues & Benefits Department. The Team had co-ordinated the Council's participation in the government led anti-fraud

initiatives and created pro-active exercises designed to protect valuable Council Tax and Business Rate revenue collection.

By increasing the support to the Business Rates Team in relation to anti-fraud matters, there had been a net effect of £210,123 more revenue being attained. There was also an increase in net revenue in Council Tax. The comparison between the cost of the Counter Fraud & Compliance Team in 2019/20 with the financial benefits derived from the savings attained in anti-fraud exercises conducted showed a surplus of £70,679.

In response to queries regarding the 163 cases adjusted in Council Tax in the 2019/20 year, the Counter Fraud Manager advised that the vast majority were adjusted as discounts and exemptions had been incorrectly claimed. Members were advised that the team had been trained to produce criminal files should a decision to take legal action against fraud be taken.

Resolved: That the work the Counter Fraud & Compliance Team carried out during the year ending 31 March 2020, be noted.

#### 43. Internal Audit - Annual Opinion 2019/20

The Chairman welcomed Fran Chivers, newly appointed to her post as Audit Manager in May 2020.

The Audit Manager presented the report which set out the effectiveness of the Council's internal control, governance and risk management arrangements. The Internal Audit Annual Opinion was a requirement of Public Sector Internal Audit Standards, and included a summary of the work completed by Internal Audit during the year and other available sources of assurance.

The Audit Manager advised that all work taken as final since the writing of the last opinion was considered for this year's audit opinion, meaning some work from 2018/19 had been included in the report. The overall scope had been somewhat reduced due to a restructure of the team, prolonged vacancies and redeployment of staff to assist in the Council's response to Covid-19.

It was concluded that the systems of risk management, governance and control were sound as delivery was consistent. The majority of audits issued had substantial assurance or full assurance. The Internal Audit service had performed well in satisfaction surveys, but needed to improve in budgeting and delivering audits on time.

Resolved: That the Internal Audit Annual Opinion, be noted.

#### 44. Internal Audit Plan 2020/21

The Audit Manager presented the report which detailed the Audit Plan work to be undertaken in 2020/21. The report also provided information related to the planning process, outcomes of planning consultations and the resources necessary to deliver the plan. The Audit Committee is required through its Terms of Reference to consider and approve the plan each year.

A key aim was to make the best use of the resources available and to make sure the key risks were being addressed. The plan was therefore in two sections, plan A and plan B. Plan A included audits that the team intended to deliver which were already scheduled in. Plan B were additions which could be picked up when the resources would be available.

As part of all audits, clients would be asked how their services had changed in response to Covid19. Due to uncertainty caused by Covid19, the plan had included additional time for advisory and consultancy work. The plan was also likely to need to be revised in-year with any changes to be brought to the Audit Committee.

Resolved: That the Internal Audit Plan 2020/21, be approved.

45. Internal Audit Charter

The Audit Manager presented the report which proposed an updated Audit Charter from 2020 as a requirement of the Public Sector Internal Audit Standards (PSIAS). The Charter had set out the purpose, authority, and responsibility of Internal Audit. It also set out the safeguards which were necessary to protect the objectivity and independence of the service along with the governance arrangements for the Council.

The Audit Manager advised that the Internal Audit Charter would need to be reviewed periodically and had aimed to do so annually and alongside the Internal Audit Plan.

Resolved: That the Internal Audit Charter be agreed.

46. External Quality Assessment

The Audit Manager presented the report which updated Members on the intention of procuring an external quality assessment (EQA) in the 2020/21 financial year, via a self-assessment validation exercise. The Public Sector Internal Audit Standards (Standards) had required the Internal Audit function to be externally assessed by an independent and competent assessor every five years.

The EQA would need to be completed by November 2020. In light of Covid19, allowances would be made if the EQA would not be completed by then.

The Audit Manager advised that they would do a validated self-assessment exercise rather than a full assessment. The exercise would provide the Audit Team and key stakeholders with the opportunity of being involved in the EQA process, whilst securing value for money and maintaining compliance with professional standards.

Resolved: That the decision to procure an external quality assessment via a self-assessment validation, be noted.

**Audit Committee - 16 July 2020**

47. Audit Committee Terms of Reference

The Chief Officer Finance & Trading presented the report on the Terms of Reference for the Audit Committee agreed at the Annual Council meeting on 12 May 2019.

Resolved: That the Audit Committee Terms of Reference be noted.

48. Review of Effectiveness of the Audit Committee 2019/20

The Chief Officer Finance & Trading introduced the report which assessed the achievements of the Audit Committee in 2019/20. The process incorporated the recommended self-assessment checklist from CIPFA. The checklist (Appendix A) had been completed drawing from the work of the Committee in relation to its terms of reference, using the evidence available from the work of the Committee during 2019/20. Appendix B contained the responses to the questionnaire from Members who were on the Committee during 2019/20.

Members commented that only three Members had given feedback in the questionnaire and there had been low attendance at the Audit Committee meetings.

Resolved: That

- a) the Self-Assessment Review of the Effectiveness of the Audit Committee (Appendix A) for 2019/20, be approved;
- b) the Audit Committee Chairman, Chief Officer - Finance & Trading and the Audit Manager develop an action plan to address any areas of improvement; and
- c) the action plan be brought to a later meeting of the Audit Committee.

49. Work Plan

The work plan was noted with the addition of an item on the Whistleblowing Policy and an item on the Anti-Fraud Corruption & Bribery Strategy in the next meeting.

THE MEETING WAS CONCLUDED AT 4.16 PM

CHAIRMAN

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**STATEMENT OF ACCOUNTS 2019/20 - OUTCOME OF EXTERNAL AUDIT**

**Audit Committee - 3 November 2020**

**Report of:** Deputy Chief Executive and Chief Officer - Finance and Trading

**Status:** For Decision

**Key Decision:** No

**Executive Summary:** The report set out the external audit findings of the 2019/20 financial statements

**This report supports the Key Aim of:** effective management of the Council's resources.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officers:** Alan Mitchell Ext. 7483

Adrian Rowbotham Ext. 7153

**Recommendation to Audit Committee:** That

- (a) the Statement of Accounts 2019/20 be approved and signed (Appendix D).
- (b) the letter of representation (Appendix B) be approved and signed.

**Reason for recommendation:**

It is a legal requirement under regulation 10 of the Accounts and Audit Regulations 2003 for the audit committee to review and approve the Statement of Accounts.

**Introduction and Background**

- 1 A draft statement of accounts was reviewed by a working group from the Audit Committee on 14 August 2020.
- 2 The external audit of the accounts began on 6 July and the Audit Findings Report in Appendix A sets out the findings and the changes to the accounts agreed as part of the process. The report also sets out the auditor's Value for Money (VfM) conclusion for 2019/20.

## Agenda Item 5

- 3 The external auditor Lead Partner, Sarah Ironmonger from Grant Thornton, will attend the meeting to discuss their report on the 2019/20 audit. The accounts are required to be signed off by 30 November 2020.
- 4 The Audited Statement of Accounts 2019/20 is attached at Appendix D.
- 5 A copy of the letter of representation from the Council to the external auditors is attached at Appendix B.
- 6 The format of the statement has been compiled in line with International Financial Reporting Standards (IFRS). Due to the size of operations, group accounts are now required to incorporate the subsidiary companies.

### **Review by Working Group**

- 7 At the meeting of the working group on 14 August, the Head of Finance explained the most important items in the financial statements and provided detailed answers to questions raised by Members.
- 8 Members examined the Statement of Accounts and the Narrative Statement and the report of the working group is appended to this report at Appendix C

### **Commentary on the Auditor's Report**

#### Audit Findings

- 9 Grant Thornton have stated that the accounts give a true and fair view of the Council's financial position, and have been properly prepared in accordance with the Code of Practice.
- 10 No adjustments were identified that affected the Council's reported financial position and no changes were required to the major statements. The audit was completed within the revised fee of £42,230, and Grant Thornton have reported that the quality of the draft statements presented for audit was good and free of errors.
- 11 The audit findings are as set out in the Audit Findings Report (Appendix A).

#### Value for Money

- 12 Grant Thornton have issued an unqualified conclusion to the arrangements for Value for Money. They are satisfied that in all significant respects the Authority has put in place proper arrangements for securing economy efficiency and effectiveness in its use of resources for year ended 31 March 2020.
- 13 Grant Thornton consider the Councils risk management arrangements to be adequate and they have noted a good level of challenge and discussion around the level of risk assigned to the Property Investment Strategy.

### Redmond Review

- 14 The Redmond Review was launched in September 2019 and its purpose to was to assess the effectiveness of audit in local authorities and the transparency of the financial reporting. Grant Thornton have provided some PowerPoint slides ( Appendix E) to provide a summary of the review and its findings.

### **Summary**

- 15 We would like to express our thanks to Grant Thornton for their efforts in completing the required audit work, particularly in these unprecedented and difficult times to report to this Committee.
- 16 The Finance Team completed the 2019/20 financial statements 2 months ahead of the required deadline of 31 August.

### **Key Implications**

#### Financial

All financial implications are covered within this report.

#### Legal Implications and Risk Assessment Statement.

Under section 151 of the Local Government Act 1972 the section 151 officer (Deputy Chief Executive and Chief Officer - Finance and Trading has statutory duties in relation to the financial administration and stewardship of the authority.

The Audit Committee should review the financial statements and approved under regulation 10 of the Accounts and Audit Regulations 2003, and again, in conjunction with the external auditor's SAS 610 (ISA 260) report to those charged with governance, following completion of the audit. The committee's review of the financial statements should focus on:

- the suitability of accounting policies and treatments
- any changes in accounting policies and treatments
- major judgemental areas
- significant adjustments and material weaknesses in internal control reported by the external auditor.

#### Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## Agenda Item 5

### Conclusions

Members will note that there are no material issues to be brought to the attention of the Committee and that the external auditor expects to issue an unqualified opinion on the financial statements and value for money conclusion.

### Appendices

Appendix A - Grant Thornton Audit Findings Report 2019/20

Appendix B - Letter of Representation

Appendix C - Minutes from the Member Working Group

Appendix D - Audited Statement of Accounts 2019/20

Appendix E - Local Government audit and financial reporting - the Redmond Review

### Background Papers

None

**Adrian Rowbotham**

**Deputy Chief Executive and Chief Officer - Finance and Trading**

# The Audit Findings for Sevenoaks District Council

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Agenda Item 5

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Your key Grant Thornton team members are:

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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sevenoaks District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.</p> <p>The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.</p> <p>The direct impact on the core finance team has been more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business. However, the Finance team at Sevenoaks District Council have been heavily involved in the response to the pandemic locally, both in terms of the direct response and in terms of the accelerated budget process for 2021/22.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 29 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both you and us have had to deliver the audit via remote access working arrangements, which has included accessing financial systems remotely, video calling, physical verification of completeness and accuracy of information produced by the entity. However we have been able to work well with you to keep the overall impact on the audit to a minimum, as evidenced by the progress made and documented within this Report.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely between July and October. Our findings are summarised on pages 6 to 19. We have not identified any adjustments to the financial statements resulting in a change to the Council's Comprehensive Income and Expenditure Statement. Other audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• receipt of management representation letter;</li> <li>• review of the final set of financial statements;</li> <li>• Completion of remaining testing and manager / Engagement Lead review (see page 5)</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion, subject to resolving outstanding matters, will be unqualified. It will include an Emphasis of Matter paragraph, highlighting material uncertainties around the valuation of land and buildings, investment properties and pension fund property investments as at 31 March 2020, which you have reflected in your accounts.</p>

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sevenoaks District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Sevenoaks District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20 to 29.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have not received any questions or objections in relation to the Council's financial statements.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.



# Audit approach

## Overview of the scope of our audit

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

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

## Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Investment Property and Property, Plant and Equipment balances of Quercus 7 Limited and Quercus Housing Limited were required; these procedures were undertaken directly by Grant Thornton as part of the normal course of our audit.

## Audit approach (continued)

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 29 May 2020, to reflect our response to the Covid-19 pandemic. As part of this, we identified an additional significant risk with respect to Covid-19 (see comments on Significant audit risks on subsequent pages). No changes were made to our VfM risk assessment.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 3 November 2020. These outstanding items include:

- Receipt of management representation letter;
- Review of the final set of financial statements;
- Review of statement of cashflows;
- Pension liabilities – follow up queries on calculation of IAS 19 liability and experience item;
- Receipt of letter from the auditors of Kent Pension Fund on controls assurance;
- Property, plant and equipment – completion of review of information sent to valuer by Sevenoaks District Council;
- Resolution of final sample queries in relation to
  - Section 106 creditors;
  - Housing benefit claimant expenditure;
  - Payroll and officers remuneration;
- Review of collection fund bad debt provision; and
- Final manager and key audit partner review of fieldwork.

# Audit approach

## Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan/addendum.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1.110m	1.067m	This is based on 2% of your gross revenue expenditure for the year 2019/20, based on your draft accounts. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts.
Performance materiality	0.832m	0.800m	This is based on 75% of the materiality benchmark
Trivial matters	0.055m	0.055m	This is based on 5% of (group) materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be 'trivial' for this purpose.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Covid- 19

We:

- worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 7 July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

No issues have been identified with respect to this significant risk. To the extent that Covid-19 has a bearing on Value for Money arrangements, this has been considered separately as part of our VfM work reported below.

### The revenue cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Sevenoaks District Council.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Management over-ride of controls

We have

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Although our audit work did not identify any issues in respect to management override of controls, as part of our cyclical review of your information technology general controls, we identified that two of the senior officers involved in the financial reporting business process within your accounting system (Agresso) simultaneously have superuser access to the same system. This presents a segregation of duties risk between the business process and the level of IT access. We adjusted our journals testing strategy to reflect this fact and did not identify any issues. It is also noted that there is a mitigating control in that manual journals posted by these senior officers are reviewed by the Chief Officer, Finance and Trading (who does not have superuser access). However, the presence of this presents a potential control deficiency which we have considered in our **Action Plan** below.

### Valuation of land and buildings (Group, Quercus Housing Ltd)

We have

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested a sample of revaluations made during the year to see if they had been input correctly into the group's asset register; and;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

At the time of writing our audit procedures in this area remain underway. The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council has reflected this uncertainty in the financial statements, and updated the wording in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. This does not constitute a qualification of the opinion.

Subject to the satisfactory resolution of outstanding matters set out on page 5, no other material issues have been identified from our work to date. Should any further issues arise that require reporting, we will do so before issuing our auditor's opinion.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Valuation of pension fund net liability (Group)

We have

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.

This material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet.

The Council has included disclosures in relation to the material uncertainty identified with respect to pooled property investments. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 5. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

We have commented separately on the basis for the pension fund's estimation as part of our procedures on page 13 below.

# Other audit risks

## Risks identified in our Audit Plan

### Group Accounts

## Auditor commentary

We have


- updated our understanding of the capital and operational activity taking place within Quercus 7 and Quercus Housing;
- assessed management’s consolidation arrangements and reviewed management’s intercompany matrix;
- tested management’s consolidation process to determine whether this has been prepared correctly, is appropriately presented in the Group accounts and that intercompany balances have been appropriately eliminated;
- performed testing over balances and transaction streams that are material to the Group as a whole; and
- reviewed the suitability and completeness of disclosures required with respect to the Group and single entity

While our testing did not identify any issues with the consolidation process, from our review of the related party transactions note (30) it was identified that no disclosures were present with respect to an additional subsidiary created in-year, Burlington Mews Management Company Limited.

This entity was created on 10 December 2019 and is fully owned by Sevenoaks District Council. We confirmed with management that no transactions took place with or within this entity to 31 March 2020, on the basis that it will only come into use as such time as the Burlington Mews development is operational and occupied, as it relates to the service of that site. Therefore, it has not been consolidated within the Group accounts.

While based on the information provided we agree with the assessment not to consolidate this entity, the presence of a subsidiary needs to be noted in the related parties note for completeness, even of no activity is currently taking place. See **Action Plan** below


# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Provisions for NNDR appeals - £3.064m</b>	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	<p>We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.</p> <p>We have considered the approach taken by the Council's experts to determine the provision, and it is in line with that used by other bodies in the sector.</p> <p>Disclosure of the estimate in the financial statements is considered adequate.</p>	 <b>Green</b>

**Assessment**

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

# Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<p><b>Land and Buildings – Other - £35.809m</b></p> <p><b>(Group, Quercus Housing Ltd)</b></p>	<p>Other land and buildings comprises specialised assets such as the leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged its external valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 64% of total assets (by value) were revalued during 2019/20.</p> <p>In line with RICS guidance, the Group’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4..</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £1.331m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.</p>	<p>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</p> <p>There have been no changes to the valuation method this year.</p> <p>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor’s expert.</p> <p>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues.</p>	<p style="text-align: center;">   <b>Green</b> </p>

Agenda Item 5

Page 22

**Assessment**


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



# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
<b>Net pension liability – £67.04m</b>	<p>The Council's net pension liability at 31 March 2020 is £67.04m (PY £87.57m). The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £24.33m net actuarial gain during 2019/20.</p> <p>The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund at 31 March 2020 as a result of Covid-19. The actuarial report the Council has received indicates that asset fund performance has been volatile over the period to 31 March.</p> <p>This is particularly in the later months of 2019/20 as a result of the COVID-19 crisis, and thus market valuations may be subject to change, affecting in turn, the net pension liability. The Council has included disclosures on this issue in Note 4.</p>	<ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.</li> <li>We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Sevenoaks District Council Pension Fund valuation.</li> </ul>	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.90%</td> <td>1.85% - 1.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.00%</td> <td>Long term assumption of 1% above CPI</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.2 21.8</td> <td>22.8-24.7 21.4-23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.2 23.7</td> <td>25.2 – 26.2 23.7 – 24.7</td> <td>●</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	●	Pension increase rate	1.90%	1.85% - 1.95%	●	Salary growth	3.00%	Long term assumption of 1% above CPI	●	Life expectancy – Males currently aged 45 / 65	23.2 21.8	22.8-24.7 21.4-23.3	●	Life expectancy – Females currently aged 45 / 65	25.2 23.7	25.2 – 26.2 23.7 – 24.7	●
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		<ul style="list-style-type: none"> <li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li> <li>We have confirmed that the Council's share of the pension scheme assets is in line with expectations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>																								


# Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<b>Level 2/3 investments</b>	<p><u>Level 2 investments</u></p> <p>The Council hold investments in a number of financial institutions, building societies, other local authorities and money market funds, which are collectively valued on the balance sheet as at 31 March 2020 at £14.3m, their carrying value. The Council are also required to estimate the fair value of these assets. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the fair value, management use the following techniques:</p> <ul style="list-style-type: none"> <li>• instruments with quoted market prices – the market price</li> <li>• other instruments with fixed and determinable payments – discounted cash flow analysis.</li> </ul> <p>In the case of Level 2 investments, these are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. In the case of the Level 2 investments held, management have determined that the fair value and the carrying amount are the same.</p> <p><u>Level 3 investments</u></p> <p>The Council have a further investment in UK Municipal Bond Agency and the Council’s trading subsidiary Quercus 7 Ltd – the combined value of these as at 31 March 2020 is £1.711m (31 March 2019, £0.265m). The increase reflects increased investment in Quercus 7 Ltd by Sevenoaks District Council. The fair value is determined by unobservable inputs for the asset.</p>	<p>We reviewed management’s basis for classifying and subsequently valuing level 2 and 3 investments.</p> <p>No issues were noted with respect to these or the corresponding disclosures.</p>	 <b>Green</b>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

# Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<p><b>Restitution for McCloud</b></p> <p>In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protection given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Sevenoaks District Council participate in the Kent County Council Pension Fund. The Pension fund had an initial discussion with Barnett Waddingham, Fund actuary, on the potential impact and their advice is that they expect the impact to be on administration rather than a material impact on liabilities at whole fund level.</p> <p>In addition, in production of the IAS19 statement Barnett Waddingham made an allowance for McCloud as a past service cost (as well as the 2019 valuation).</p>	<p>The Ministry of Housing, Communities &amp; Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from GAD indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated.</p> <p>For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements.</p> <p>The Pension fund adjusted for McCloud in 2019/20 (c£1.031m) so any further revision is unlikely to be material. In Grant Thornton’s view, the revision arising from the consultation is a non-adjusting event.</p> <p>Management have assessed that the impact of this is not material.</p>	 <b>Green</b>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

# Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
<p><b>Other experience item</b></p> <p>On the Pension Notes and in the IAS 19 report, there’s a £18.907m gain described as ‘Other experience’. This has increased significantly compared to prior year.</p>	<p>Sevenoaks District Council participate in the Kent County Council Pension Fund. The Pension fund advised that the “other membership experience” would normally be expected to be small between valuations. The actuary Barnett Waddingham performed an analysis of experience since the last triennial valuation as part of the triennial funding valuation process. The actuary tolerance for the impact of the roll forward approach is generally 5% of the total liabilities or assets. For Sevenoaks District Council however it equates to 10.1% of the total (gross) brought forward liabilities of £185.725m, which is largely a result of the difference in the roll forward versus the full valuation.</p>	<p>Experience items can arise in any financial year but are expected to be greatest in the first set of financial statements produced following a triennial review. This is because the underlying source data is updated during the triennial review and the process will pick up three years of actual vs expected member movements. For English and Welsh LGPS schemes, experience items are likely to be greater in value in 2019/20 than in 2018/19 because it is the first financial year since the latest triennial review was performed.</p> <p>In the case of Sevenoaks District Council, the percentage (10.1%) was particularly large when compared to other Kent districts and therefore warranted further review.</p> <p>From correspondence with the pension fund actuary and management, the main reason for the size of the change was that the assumptions used in the previous triennial valuation (31 March 2016) were subsequently deemed to be very prudent, and that the majority of the gain as at 31 March 2019 reflects the impact of the reversal of those prudent assumptions. It is noted by the auditor that the experience gain in 2019/20 (£18.907m) is comparable in size to the experience loss in 2016/17 (£15.285m).</p> <p>Our review of this area is ongoing, as we have sought further evidence to corroborate the explanation.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Green</b> <i>(subject to completion)</i></p>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
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# Significant findings – going concern

## Our responsibility

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

## Going concern disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses and the closure of car parks, with additional challenges of reopening services under new government guidelines, staff absences due to illness, and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing challenges but has reported a surplus position for 2019/20. Management has undertaken an analysis of the potential financial implications of Covid-19 but has identified that the immediate impact can be absorbed by the budget stabilisation reserve. To help address the longer term impact, the Council have brought forward the budget setting process by three months and are updating the medium term financial strategy.

## Going concern commentary

### Management's assessment process

- Cash flow periods
- Judgements and assumptions taken

## Auditor commentary

The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment. As noted in our VfM review, management have updated their forecasts to take into account the specific challenges presented by Covid-19. As such, management have prepared the accounts on the basis of the going concern assessment.

## Work performed

We have reviewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. We reviewed management's disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.

## Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

## Other matters for communication

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

Issue	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit Committee papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to financial institutions with whom the Council holds cash and investment balances. This permission was granted and the requests were sent. All but five of the investment confirmation requests were returned with positive confirmation, however five requests were not received so we undertook alternative procedures, including a review of bank statements at the time of the investment's renewal and maturity. All cash confirmations were received.
<b>Dislosures</b>	Our review found no material omissions in the financial statements.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided. Your finance team continued to work well with the audit team to provide us with the required information and embraced the new ways of working to ensure we were able to obtain the required audit evidence. There are elements of the audit that take longer due to remote working and we are considering the impact on our fee.

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>At the time of writing, the group instructions have yet to be issued by the NAO, with these due to be communicated to group auditors during October 2020. These procedures will be completed alongside the issue of our auditor's report.</p>
<b>Certification of the closure of the audit</b>	<p>Subject to the completion of the procedures in relation to the Council's WGA consolidation pack, we intend to certify the closure of the 2019/20 audit of Sevenoaks District Council in the audit report.</p>

# Value for Money

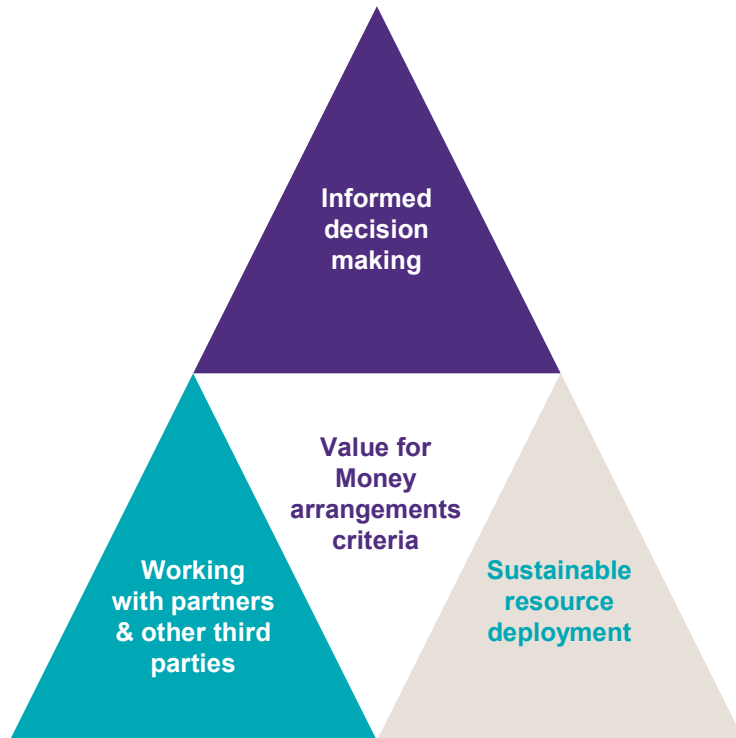
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in March 2020 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 12 March 2020.

We have continued our review of relevant documents up to the date of giving our report and have not identified any further significant risks where we need to perform further work.

We have not identified any new VFM risks in relation to Covid-19. However, we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VFM risk around the Governance arrangements over future income generation and the links with Medium Term Financial Planning.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.



# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's financial planning arrangements pre-Covid were sound;
- The governance arrangements over income generation remain sound, and the Property Investment Strategy's performance was above plan by £0.090m (£1.348m vs £1.258m);
- However, long-term plans remain highly reliant on this income generation and Covid-19 may undermine this. As at July 2020 the Council's estimated net shortfall from Covid19 is £4.661m which can theoretically be absorbed by existing reserves and through long-term financial planning (which is the Council's planned approach)
- The Council also acknowledges that in the absence of further government funding significant decisions will be required to ensure that the Council sustains its 10-year balanced budget position into the future"
- Since the July 2020 update paper a further £0.169m funding has been confirmed (tranche 3 of funding); this does not fundamentally address the shortfall;
- The Council's income generation group has not met since December 2018 as the Council's main focus for income generation has transferred to the Property Investment Strategy
- This is the first year Quercus 7 has contributed significantly to the Property Investment Strategy, and it is cited as a reason for the favourable variance (£0.090m) above
- In respect of the impact of Covid-19 on planning arrangements, the Council has brought forward its budget setting process.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 29.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed two low-priority recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

Income generation forms a key part of your 10-year budget; income from property investment income is planned to increase from £0.735 million per year in 2018/19 to £1.655 million per year in by 2028/29.

As the Council has continued to develop its arrangements during 2019/20 and has increased its investments we will review these arrangements again in 2019/20 as all forms of income generation carry an element of risk and need to be supported by informed decision making. We will review your project management and risk assurance frameworks to understand how the Council identifies, manages and monitors risks and consider these arrangements against good practice.

#### Financial sustainability

Sevenoaks has arrangements in place to continuously update the medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covers the 10 year period from 2020/21 to 2029/30. The MTFS sets out key budget assumptions which were reported to the Cabinet in February 2020 including a 2.3% Council Tax rise in 2020/21 and 2% in subsequent years, 2% pay cost increases and 2.25% non-pay cost increases.

Since 2017/18 the MTFS included a ten year balance sheet alongside the revenue budget, something which has been maintained into 2018/19 and 2019/20 and is rare amongst local authorities as well as being good practice. It is noted however that the plan does seek to increase property investment income (one of the key areas for income generation) from £1,258k in 2019/20 to £1,696k / annum by 2029/30, illustrating the Council's (partial) reliance on income generation to break even in the long term. The total forecast income generation for the period 2020/21 to 2029/30 is £14.181m which is 8% (£172.394m) of the Council's overall identified financing requirement for the same period.

Therefore the strategic impact that this has on the Council and the need for effective governance arrangements to nurture income generation is significant.

#### Property Investment Strategy

The primary driver of this planned growth is the Property Investment Strategy. The Property Investment Strategy was approved by Council on 22 July 2014 to support the aim of the council becoming more financially self-sufficient as Government Support continued to reduce; this is reflected in the prominence played by the Property Investment Strategy in the Council's overall financial planning.

At the end of the year, income from the Property Investment Strategy (£1.348m) exceeded plan (£1.258m) by £0.090m. This favourable variance was attributed to properties owned by the Council and interest income from loans made to Quercus 7, a trading subsidiary 100% owned by Sevenoaks District Council.

This increase in interest income itself reflects the growth of Quercus 7 which during the year made significant acquisitions in Canterbury and Westerham, financed by a mixture of equity and loans from Sevenoaks District Council, although the total value of property acquisitions within Quercus 7 to date (£4.1m) is currently below the business plan forecast of £5.5m. Given the nature of property acquisition, which is characterized by a small number of high value acquisitions, competition, and where the Council does not control all the variables, it is not uncommon for there to be a variance between actual and plan, and so the current achievement rate of 75% should be considered within that context. For the Council's overall Property Investment Strategy as a whole, £50.3m of funding has been approved for which as at February 2020 £29.5m has been spent.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

The Strategy is supported by decision-making criteria for making investment decisions. The criteria, which also apply to Quercus 7, include the following;

Continued.

- Focusing on lower risk investment categories;
- Focusing on multi-tenant properties;
- Limiting investment to within a 50-mile radius of the Council offices;
- Minimum income yield criteria;
- Assessing whether the opportunity is preferable to proceed via the Council or Quercus 7,

These criteria were last agreed by Council in February 2019. An option to change these criteria was available in February 2020 when the Property Investment Strategy update was presented to Council. This option was not invoked meaning the risk profile adopted in the previous year is still in place. It is noted however that the expected income from the Property Investment Strategy has (as of February 2020) increased, with an expectation of an increase of £300,000 from 2019/20 to 2023/24 (continuing to with returns increasing from £1.258m per annum to £1.558m per annum through until 2029/30). This increase is therefore reflected in the 10 year budget.

The primacy of the Property Investment Strategy is reflected in the Council's strategic risk register which identifies "Failure to identify opportunities to meet the Property Investment Strategy" as a strategic risk and cites mitigations. This is further supported by a Property Investment Strategy-specific risk register which considers more granular risks that might undermine the strategy, with a potential lack of "market opportunities meeting investment criteria" as being the highest overall gross risk. This suggests that the Property Investment Strategy, including those elements that are specific to Quercus 7, are embedded within the Council's overall risk management arrangements. The risk management arrangements also cover arrangements for divesting from investments, with monitoring arrangements in place for identifying when an asset no longer meets the criteria set out in the Property Investment Strategy.

More broadly, the governance arrangements for Quercus 7 Ltd and Quercus Housing are defined by way of a shareholders agreement and guarantors agreement respectively. During the year a number of acquisitions were made which were in line with the Council's strategic aims. It is noted that while Quercus 7 forms an integral part of the Property Investment Strategy, Quercus Housing has a different and specific purpose, in so far as this exists as a vehicle to finance affordable housing through s106 receipts – therefore this is outside the scope of the Council's investment strategy.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

Continued.

The Finance Advisory Committee receives updates on the Council's performance against pre-defined Finance Performance Indicators. The background to these is as follows:

- The report presents figures on ten internally set performance indicators covering activities that support information provided in the regular financial monitoring statements;
- Information is provided on targets for the financial year, and figures for the previous year are given for comparison
- Use of these indicators assists management in highlighting areas where performance has an impact on the financial outturn for the council.

It is noted that this does not include indicators relating to the Property Investment Strategy. Given the primacy of the Property Investment Strategy to the Council's medium term income development plans, the Council should consider whether there is benefit to including one or more KPI's specifically in relation to this strategy. This forms the basis for **Recommendation 1**

#### Covid-19 – Business Continuity arrangements in 2019/20

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. Although the impact of this for the period under review (2019/20) is more limited due to the fact that the majority of restrictions were put in place on 23 March 2020 (near the end of the year) the medium term impact of the pandemic was acknowledged to be significant at the time.

Alongside changes to service provision and the reallocation of staff, the immediate impact of restrictions had a significant financial impact.

21 April 2020 (Cabinet) – Chief Officer Finance and Trading presented the report which sought amendments to the budget agreed by Council on 25 February 2020, due to the impact of the current pandemic.

- He advised that the report was linked to the report on urgency decisions as they both related to the same three items which had not gone through the normal approval processes due to their urgency as part of the response to the Covid-19 pandemic.
- He advised that from the Budget Stabilisation Reserve a total of £858,000 would be removed and £758,000 would be used to fund the temporary suspension of car parking charges along with £100,000 to support vulnerable people and communities. The Budget Stabilisation Reserve was used to support the balanced 10-year budget and by reducing the reserve, further budget decisions could be required as part of the next budget setting process to ensure a balanced 10-year budget.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

Continued.

Our value for money conclusion considers the arrangements that were in place during the financial year under review. As this financial year ended on 31 March 2020, at which point the national 'lockdown' restrictions had been substantively in place for one week, the impact on 2019/20 financial planning was relatively minor when considered over the course of the full year. Although the imposition of a national restrictions presented immediate challenges and required business continuity arrangements to be put in place, there is a recognition that the main financial impact of Covid-19 will be felt most acutely during the 2020/21 financial year with further uncertainty over the medium and long term.

In July 2020 a Covid-19 Financial Impact assessment was presented to the Finance and Investment Advisory Committee (FIAC) and the Cabinet setting out the financial impact of Covid-19 to date and the impact of this in terms of long-term decision making. The impact on 2019/20 was deemed to be relatively low, with the impact of additional expenditure (£49k) and reduced income (£129k) offset through government funding.

#### Covid-19 – Financial impact in 2020/21 and beyond

As at that point in time, government had provided an additional £1.2m of funding to support the Council in meeting those costs, the net financial impact of Covid-19 in 2020/21 is still expected to exceed £4.661m, with uncertainty over the timing and extent of future government funding. As the paper sets out, £4.661m is a significant proportion of the Council's net budget for 2020/21 of £15.6m. However, subsequent to this, as at 31 August 2020 and per the monitoring reporting to be presented to the FIAC (21 October 2020) the gross loss was £4.2m. The Council had received grants of £1.2m bringing the reported deficit to £3.0m. The Council have put in a claim on the Government Income Compensations scheme of £1.2m (1st quarter claim) which would reduce the deficit to £1.8m. The total claim for the year is expected to be in the region of £2.3m so the net deficit is expected to be £0.7m. This indicates further progress in resolving the Covid-specific challenges.

Challenges in relation to income generation included

- Car parking income; charges were suspended between 23 March and 22 June, and while this is now being collected again, it is expected that this will continue to be low;
- Direct services (trade waste, MOT's, waste and pest control) due to reduced demand;
- A cessation of recovery action on outstanding debts for revenues and benefit;
- Less net cash available for treasury investment;
- Reduced demand for planning, building control and land charges.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

This has been summarised in the following table (Covid-19 Financial Impact assessment (July 2020))

Continued.

**Table 2:**

2020/21 Covid-19 financial summary	£000
Additional expenditure	536
Reduced income	4,394
Government funding	(1,064)
Council Tax (SDC proportion)	795
Business Rates Retention	0
<b>Total remaining impact</b>	<b>4,661</b>

Note that the £0.795m in relation to Council tax was shown for reference purposes but does not in itself impact 2020/21, as this will filter through to the Collection Fund in 2021/22.

It is noted that a lot of these relate to existing income generation activities, rather than activities specifically targeting revenue growth (e.g. Property Investment Strategy).

This paper requested the Finance and Investment Advisory Committee (and Cabinet) to approve that the Council address the impact of Covid-19 response and recovery through 10-year budget setting process, meaning that the absorption of the impact of these costs will effectively be profiled into the longer term period.

As at 31/03/2020, the Council's usable reserves were (subject to audit) £20.5m, which is comparable with the values as at 31/03/2019 and 31/03/2018 (at £20.9m and £20.5m respectively). Of this, £9.5m relates to the General Fund (£1.5m) and Budget Stabilisation reserve (£8.0m). The Council uses the Budget Stabilisation reserve "to support decisions required to continue to produce a balanced budget in future years in spite of expected funding reductions" and while this allows for some absorption of the Council's identified £4.661m shortfall, it does also show how significant the absorption of Covid-19 related costs are within the context of the Council's financial planning arrangements. A further update presented to the September Finance and Advisory Committee identified a year-end forecast unfavourable variance of £3.3m for 2020/21, citing Covid-19 as the main driver for this, illustrating the ongoing impact of the pandemic on financial sustainability.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

Continued.

While absorbing the additional costs in the long term may offer the most sustainable route for recovery, there remains considerable uncertainty over future funding either from government or from ongoing activities in the shorter term. The Financial Impact assessment acknowledges this, advising that “If additional funds towards meeting the Covid-19 shortfall are not received from Government, it is anticipated that significant decisions will be required to ensure that the Council sustains its 10-year balanced budget position into the future” and reflects that “taking decisive action early in the budget setting process has proven to be a successful strategy for the Council which has enabled it to develop its unique 10-year sustainable budget and is strongly recommended as the strategy that will help retain this position long into the future.”

We discussed with the Chief Officer (Finance and Trading) and the Head of Finance how the suggested decisive action would be effected in practice, noting the annualized nature of budgeting would not normally support action taking place outside the prescribed cycle. In response to this, the Council has established an accelerated timetable for the 2021/22 budget setting process, culminating in the budget setting process being scheduled to be completed in November 2020, whereas it would normally be in the February (in this case 2021). As such, the Council has brought the process forward by three months. The September Finance & Investment Advisory Committee have received the updated Financial Prospects, a roll forward of the ten year budget and the budget impact of Covid19.

The Council’s revised timetable also seeks to anticipate the potentiality for a ‘second wave’ of Covid19 and potential restrictions in winter 2020/21.

Subsequent to the Covid-19 Financial Impact assessment being produced a further tranche of Covid19 funding was announced on 17 July although the amount allocated to Sevenoaks District Council (£0.169m, bringing Sevenoaks’ total cumulative allocation to £1.410m) is a relatively small as a proportion of the total remaining impact quantified above. There remains uncertainty about the timing and extent of future funding.

#### Income generation – property investment

Noting the significance of the property investment strategy, we queried the impact of Covid-19 on the Council’s abilities to develop the strategy, considering the potential impact this would have both on rental returns (for existing properties) and the availability of opportunities (being the area identified as highest risk in the property investment strategy risk register, we discussed this with the Chief Officer (Finance & Trading) and the Head of Finance. While retail performance has not been strong (noting the context of high street closedown) other parts of the portfolio have been performing as expected, noting the balanced nature of the portfolio. In addition, there continue to be opportunities arising; Quercus 7 recently completed on a Sainsbury’s Local in Lewisham (in London, but within the Council’s 50 mile radius criteria) as part of a new development in that area, and have already received the first quarter’s returns from that investment. There is however an acknowledgement at the Council that the nature of the market may itself change and that this may have an impact on future aspirations – for example, changes to PWLB borrowing rules may limited the availability of relatively cheap finance, and more due diligence is and has been required prior to acquisitions.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

### Significant risk

### Findings and conclusion

#### Governance arrangements over future income generation

Continued.

In essence however, the Council has found that they have been able to continue with their property investment strategy and that the existence of the ten year budget (which, as above, is being updated) has provided a framework that supports this, and that the Council is still in a position to make decisions that are strategic in nature rather than focusing solely on the short term emergency of Covid-19.

The Council sets its budget with no reliance on direct grant funding from Government. However, the Government is due to complete reviews on Fair Funding and Business Rates Retention during 2021/22 which will have the potential to impact the Council's financial position in later years but will not be known when the next budget is approved by Council in November.

#### Income generation (other)

As part of our 2018/19 review, we noted that an Income Generation Group had been recently established with the intention of identifying, considering and recommending income generation activities. As part of this review we found that the Group had last met in December 2018 and that steps were required to formalise its terms of reference and to embed its outputs into the Council's wider governance structures.

Reference: recommendation made in 2018/19 – We recommended that as part of the establishment of a terms of reference for the Income Generation Group, the relationship between elected Councillors and officers is clearly defined in such a way that fosters member interest and expertise, but in such a way that is not disproportionately influenced by electoral cycles.

Management response: As part of the budget process each year, Members are asked for their income generation ideas. Where a Member has particular expertise relating to a specific idea, they may be invited to attend an Income Generation Group meeting to provide additional information on that idea.

However, as part of our current review the Head of Finance has advised that the purpose income generation group was to share and generate ideas but that the primary income generation focus for the Council is the Property Investment Strategy as noted above – the Property Investment Strategy is the only alternative income source that is formally embedded into the Council's 10 year budget.

This forms the basis for **Recommendation 2**



# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
<p><b>Governance arrangements over future income generation</b></p> <p>Continued.</p>	<p><b>Wider context</b></p> <p>In June 2020, the Institute for Fiscal Studies published a briefing note on the financial risk and resilience of English local authorities in the coronavirus crisis. In the case of Sevenoaks District Council, overall the Council’s risk profile was comparable to that of other non-metropolitan (“shire”) districts (based on the average indicator scores) including a relatively low prevalence of health-related risks, business rates revenue risk, and sales, fees and charges revenue risk. However, there were a number of areas where the Council’s indicator score was in the lowest decile (i.e. highest 10% of authorities by risk) including</p> <ul style="list-style-type: none"> <li>• Assessed prevalence of Covid-19: Number of lab-confirmed cases to 2020-06-16 per 100,000 people in upper-tier authority [Kent County Council];</li> <li>• Revenue risk commercial income: Other (non-property) commercial income surplus as proportion of revenue expenditure, 2018 (the higher the proportion the greater the risk, as this implies greater reliance on commercial income</li> </ul> <p>This highlights again the importance of commercial income generation to Sevenoaks District Council.</p> <p><b>Conclusion</b></p> <p>Based on the work performed above, we are satisfied that Sevenoaks District Council has adequate arrangements in place for the significant risk identified. In addition, we have not identified any additional significant risks.</p> <p>The significant risk raised with respect to income generation governance arrangements pre-supposed a continuing emphasis on the generation of new income streams through the medium of an income generation group designed to foster member involvement while ensuring development opportunities are considered in a structured way that respects the Council’s risk profile and experience . However, it is clear from interviews with management (both prior to and since the Covid-19 pandemic emerged) that the only major other source of income is the Property Investment Strategy; it is the only income source specifically separated in the 10 year medium term financial plan.</p> <p>We understand from interviews with the Chief Executive, Chief Officer (Finance and Trading) and Head of Finance that, primarily as a result of the Covid-19 pandemic, there is likely to be a considerable strategic focus on internal transformation. While the exact form of this is still being developed, this may result in fundamental changes to how the organisation is run.</p> <p>However, the fact that Sevenoaks has been able to continue with their main source of income generation (property investment) at a time of such uncertainty does portray a high degree of confidence in the robustness of their financial forecasting.</p>

# Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

# Independence and ethics

## Audit and Non-audit services



For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to 7 October 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Claim	20,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,500 in comparison to the total fee for the audit of £42,230 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.




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

# Action plan




We have identified 5 recommendations for the Group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p> <b>Medium</b></p> <p>Page 42</p>	<p><b>ITGC - Agresso Superusers</b></p> <p>As part of our cyclical review of information technology general controls (ITGC) we identified that two senior members of the finance team are 'superusers' within the Agresso finance software. This presents potential segregation of duties issues. The issue is partly mitigated in so far as manual journals posted by these users are reviewed by the Chief Officer (Finance and Trading) but a solution should be sought to address the underlying risk.</p>	<p>We recommend that the Council consider their segregation of duties arrangements with respect to the use of the 'superuser' role in Agresso.</p> <p><b>Management response</b></p> <p>Due to the small finance team it is difficult to reduce the number of superusers below current levels in order to maintain a robust level of appropriately senior cover. Control mechanisms such as Chief Officer weekly review provide assurance that the system is secure. The level of risk is deemed acceptable.</p>
<p> <b>Medium</b></p>	<p><b>ITGC - iTrent</b></p> <p>There are weak password controls on the iTrent system whereby there is no requirement to change password after a period of time. There are also no complexities embedded in the password requirements – it is standard practice for password systems to have both these elements to the . There are mitigating controls against this, such as a maximum login attempt before the account is locked out, but a solution should be sought to address the underlying risk.</p>	<p>We recommend that the Council consider their password controls with respect to iTrent.</p> <p><b>Management response</b></p> <p>The current security protocols are being reviewed in order to align them with other system standards across the council.</p>




## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Action plan (continued)

Assessment	Issue and risk	Recommendations
 <b>Medium</b>	<p><b>Pension experience item</b></p> <p>As noted in our work on the pension liability assumptions, the 2019/20 accounts contained a material 'experience item' which at £18m was significant both as an absolute amount and relative to the size of the overall liability.</p> <p>It was apparent from our discussions with management that, while the size of the experience item was noted at the time, the background behind it was not queried with the pension fund actuary on receipt. .</p> <p>While subsequent testing performed over this item found that the experience item had been determined appropriately, a key element in accounts preparation is for management to ensure the transactions in the accounts are fully understood, even where these have been provided by a third party expert.</p>	<p>Where the Council receives information from a third party expert that appears unusual due to its size or nature, it is recommended that these are queried with the third party expert as at the time the information arises.</p> <p><b>Management response</b></p> <p>The pension experience item was challenged by Management as part of the audit process but management acknowledge the timing of the query and have put controls in place to ensure large or unusual items are challenged earlier in the process.</p>
<p>Page 43</p>  <b>Low</b>	<p><b>Value for Money Rec. 1 – Finance Performance Indicators</b></p> <p>The Council's Finance Performance Indicators, as presented to the Finance Advisory Committee, do not include indicators relating to the Property Investment Strategy.</p>	<p>Given the primacy of the Property Investment Strategy to the Council's medium term income development plans, the Council should consider whether there is benefit to including one or more KPI's specifically in relation to this strategy.</p> <p><b>Management response</b></p> <p>The income from the Property Investment Strategy is presented separately in the monthly revenue monitoring where any variances from budget would be disclosed and explained. Annually a Property Investment Strategy update is taken to Cabinet via the Finance and Investment Committee where members are provided details of the current performance and the strategy going forward.</p>
 <b>Low</b>	<p><b>Value for Money Rec. 2 – Income Generation in the context of Covid-19</b></p> <p>The demise of the income generation group means that currently the only formal structure in place in relation to income generation is the Property Investment Strategy. While we are satisfied that there are adequate governance arrangements in place around the Property Investment Strategy, we note that the plans do currently remain highly reliant on the property investment strategy.</p> <p>The Covid-19 pandemic has brought about significant economic changes and may yet bring about changes to how the Council structures itself operationally. Although to date the Property Investment Strategy has not been significantly affected by these changes, we recommend that the Council put in place a structured means by which income generation opportunities outside of the Property Investment Strategy can be identified and assessed.</p>	<p>In the context of Covid-19 , we recommend that the Council put in place a structured means by which income generation opportunities outside of the Property Investment Strategy can be identified and assessed.</p> <p><b>Management response</b></p> <p>A new position of Commercial and Operation Trading Manager has been created and filled, the successful applicant is starting October 2020. The new position will be looking at increasing both new and existing income streams.</p>

#### Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Sevenoaks District Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. Of these, one has been implemented, although the issue to which it pertains did recur in 2019/20. The other recommendation (overleaf) was declared as implemented the time of our previous audit (18/19). Since then the Council's approach to income generation has changed and so the specifics of the recommendation are no longer relevant. We have however reviewed income generation afresh as part of our VfM work above and made a thematically similar recommendation as part of this year's action plan.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Related party transactions Note 30 – declarations not received Priority MEDIUM</p> <p>Councillors are required to make declarations to the Council. We noted nine instances where a Councillor had not returned a declaration. In each instance, the Councillor in question had submitted a declaration in 2017/18 which did not identify any material related party transactions. While this reduces the risk of unidentified transactions to a limited degree, management still need to assure themselves that no such transactions exist for 2018/19</p> <p>Recommendation:</p> <p>Management should seek further assurances that those nine individuals who did not return declarations do not have material undisclosed or unidentified relationships with Sevenoaks District Council. This should include, but not necessarily be limited to, reviewing all committee minutes for those meetings attended by these councillors to determine whether they have declared any additional interests during the 2018/19 financial year.</p> <p>Management response (July 2019)</p> <p>Management made several attempts using different methods to obtain returns for all members including members who did not stand in the May 2019 elections. If no response was received the previous years return was used as a basis but for all related party stakeholders a detailed review of Company House records as well as our own Financial system was conducted. All related party transactions found where disclosed in the Financial Statements</p>	<p>Although this year there were three related party declarations that were not received, it is evident that the response rate to these and management's mitigating procedures to identify potential related parties were performed appropriately. The use of an electronic system this year, as necessitated by the circumstances of Covid-19, may have assisted with this.</p>

**Assessment**

- ✓ Action completed
- ✗ Not yet addressed

# Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<b>No longer applicable</b>	<p>Value for Money – Priority LOW</p> <p>Following the May 2019 Council elections, in response to councillor interest in income generation, management is considering the extent to which member involvement could be integrated into the Income Generation Group, which is to resume meeting in July 2019, alongside establishing a terms of reference.</p> <p>Recommendation:</p> <p>We recommend that as part of the establishment of a terms of reference for the Income Generation Group, the relationship between elected Councillors and officers is clearly defined in such a way that fosters member interest and expertise, but in such a way that is not disproportionately influenced by electoral cycles.</p> <p>Management response (July 2019)</p> <p>As part of the budget process each year, Members are asked for their income generation ideas. Where a Member has particular expertise relating to a specific idea, they may be invited to attend an Income Generation Group meeting to provide additional information on that idea.</p>	<p>As per our VfM findings, the Income Generation Group has been disbanded and the primary focus in relation to Income Generation has been on the Property Investment Strategy. In our action plan we have identified a low priority recommendation with respect to the future structure of identifying income generation opportunities.</p>

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**Assessment**

- ✓ Action completed
- ✗ Not yet addressed

# Audit adjustments

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

## Impact of adjusted misstatements

We have not identified or proposed any adjustments aside from misclassification and disclosure changes; see next section.

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 3 - Accounting Standards that have been issued but not yet adopted.	Original disclosure: ""There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council's financial statements.""	Enhance disclosure to make reference to the specific standards and management's assessment of the likely impact of these.	✓
Note 4 - Critical Judgements in Applying Accounting Policies	We recommend the inclusion of a critical judgement with respect to material uncertainties identified by the pension fund actuary and property valuation expert.	Enhance disclosure, specifically referring to the underlying standards against which the material valuation uncertainty has been determined.	✓
Note 10 – Property, Plant and Equipment	The revaluations ageing table contained a reference to £1.164m of surplus assets being revalued in 2018/19. However this information is out of date having been superseded by a new valuation in 2019/20 (which has been correctly reflected as £1.045m).	Remove the out of date reference to 2018/19 surplus assets revaluation.	✓
Note 11 – Investment Properties	A miscasting in this note had the effect of understating the line 'Rental Income from investment property' by £0.282m and understating Direct expenses by a similar amount £0.291m. The net impact to the note is a trivial £9,000.	Adjust the miscasting in the note.	✓
Note 12 – Financial Instruments	In the table for 'Categories of Financial Liabilities', short term PWLB loans of £178k were 'double counted' appearing in both short term creditors and short term borrowings.	As the loans relate to borrowing, the double counted amount (£178k) should be removed from short term creditors.	✓



# Audit adjustments (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 24c/e - Reconciliation to Subjective Analysis	Employee Expenditure: Amount £13,757k overstated by £2,115k due to pensions and other small expenditure items being double counted, correct figure should be £11,640k	Correct the presentational disclosure.	✓
Note 25 – Trading Operations	TASK Disclosure - additional narrative to Note 25 to guide the reader on why the Depot has moved from below to above the line in the CIES	Enhance disclosure to reflect change in presentation from 2018/19 to 2019/20.	✓
Note 29 – Grant Income	Amount for Community facilities should be £3.406m and BCF should be £0.977m, these have been transposed in the accounts incorrectly and should be swapped.	Correct the presentational disclosure.	✓
Note 30 – Related Parties	Burlington Mews Management Company Limited: The Council should refer to the existence of its wholly owned subsidiary within the related parties notes as this is currently absent from the note.	Enhance disclosure.	✓
Note 35 – Defined Benefit Pension Schemes	Reconciliation of movements in fair value of scheme assets: Return on asset less interest is to be changed from £4.406m to (£9.620m) and other actuarial gains/(losses) to be changed from (£774) to £774.	Correct transposition errors.	✓
Note 38 – Heritage Assets	Adjustment to the Heritage Asset note as was not updated in the 18/19 accounts for the Peppercorn Lease.	Enhance disclosure.	✓

In addition to these misclassification and disclosure adjustments, we have also identified a number of minor changes (such as formatting / textual corrections / clarifications) or immaterial disclosure omissions; these are not individually significant enough to warrant separate inclusion within this audit findings report and have been adjusted following discussions with the Finance team.

# Audit adjustments

## Impact of unadjusted misstatements

In our review of the Fixed Asset Register (which underpins Note 10), we identified one asset with a negative net book value of £0.187m, which was regarded as unusual as a result. This had arisen due to a spreadsheet error and has the effect of understating Property Plant and Equipment by £0.187m with a corresponding overstatement of net expenditure of £0.187m. The value of the asset as at year end should be £0. This error was identified relatively late in the audit process and while the finding was accepted, it was felt that adjusting for the error within the time available would not be practical, especially noting the extent to which a change in the PPE disclosure note would have a knock on impact on other disclosures (similarly immaterial).. Given the isolated nature of this error and its immateriality, management have agreed not to adjust for the finding in 2019/20 but to correct the opening balance in 2020/21.

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p><b>McCloud judgement</b></p> <p>In December 2018, the Court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect LGPS pension schemes as well (of which Sevenoaks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.</p> <p>The IAS19 report previously issued as at 31 March 2019 (dated 16 April 2019) did not make an allowance for the McCloud judgement, due to uncertainty at the time of how this judgement may effect LGPS members' past or future service benefits.</p> <p>However, given the uncertainty, to assess the materiality of the potential impact of this issue, in June 2019 management commissioned an summary impact assessment, from the scheme actuary (Barnett Waddingham) for Kent County Council.</p> <p>Based on this, the impact on total liabilities was estimated at £983,000.</p>	983	983	983	<ul style="list-style-type: none"> <li>The figures provided by the actuary were an estimate, and not a formal actuarial valuation.</li> <li>Although we were of the view that was sufficient evidence to indicate that a liability was probable, we were satisfied that the differences were not likely to be material.</li> <li>This has been corrected as part of the actuarial valuation exercise in 2019/20.</li> </ul>
<b>Overall impact</b>	<b>£983</b>	<b>£983</b>	<b>£983</b>	

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	42,230	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£42,230</b>	<b>TBC</b>

The fees reconcile to the financial statements.

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<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services E.g. Grant Claims	20,500	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£20,500</b>	<b>TBC</b>



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Email: [alan.mitchell@sevenoaks.gov.uk](mailto:alan.mitchell@sevenoaks.gov.uk)  
My Ref:  
Your Ref:  
Date: 3 November 2020

Dear Sirs

**Sevenoaks District Council**  
**Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Sevenoaks District Council and its subsidiary undertakings, Quercus 7 Limited and Quercus Housing Limited, for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

Chief Executive: Dr. Pav Ramewal

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Kent TN13 1HG

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- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the group and Council have been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

**Information Provided**

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

### Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 3 November 2020.

Yours faithfully

Name .....

Position .....

Date .....

Name .....

Position .....

Date .....

**Signed on behalf of the Group and Council**



## List of Unadjusted Misstatements

### Impact of unadjusted misstatements

In our review of the Fixed Asset Register (which underpins Note 10), we identified one asset with a negative net book value of £0.187m, which was regarded as unusual as a result. This had arisen due to a spreadsheet error and has the effect of understating Property Plant and Equipment by £0.187m with a corresponding overstatement of net expenditure of £0.187m. The value of the asset as at year end should be £0. This error was identified relatively late in the audit process and while the finding was accepted, it was felt that adjusting for the error within the time available would not be practical, especially noting the extent to which a change in the PPE disclosure note would have a knock on impact on other disclosures (similarly immaterial).. Given the isolated nature of this error and its immateriality, management have agreed not to adjust for the finding in 2019/20 but to correct the opening balance in 2020/21.

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**Notes from the Audit Committee Working Group meeting, 14 August 2020**

**In Attendance:**

**Members:** Cllr. McGarvey (Chairman)

Cllr. Kitchener

Cllr. Morris

Cllr. Pender

**Officers:** Adrian Rowbotham, Chief Finance Officer

Alan Mitchell, Head of Finance

Jessica Booth, Senior Principal Accountant

**Apologies:** none

The Head of Finance explained that the purpose of this working group is to assist the Audit Committee in fulfilling its terms of reference, namely

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies, including International Financial Reporting Standards (IFRS), have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the council.
- To approve the statutory statement of accounts when the deadline for approval does not allow approval by full council (though not anticipated this year)
- To consider the external auditors' report to those charged with governance on issues arising from the audit of the accounts and comments received from the district auditor.

As points 2 and 3 cannot be fulfilled until the Audit Committee, the purpose of this meeting is to support point 1.

The accounts themselves are a very complicated and technical document as they are produced to comply with the CIPFA code of practise as well as the relevant IFRS (International Financial Reporting Standards).

The accounts themselves are a very complicated and technical document as they are produced to comply with the CIPFA code of practise as well as the relevant IFRS (International Financial Reporting Standards).

Due to the COVID-19 pandemic the reporting deadlines were changed for the 2019/20 accounts. Rather than the draft accounts being published by 31 May this

## Agenda Item 5

was moved back to 31 August. The requirement for the accounts to be audited and the approved by the audit committee and for the auditors (Grant Thornton) to issue the ISA260 were moved back to 30 November 2020.

The draft accounts are audited (the auditors are Grant Thornton or GT) and they will go over every aspect of the accounts to ensure they correctly comply with the code. Throughout the audit process they work closely with the Finance Team to ensure they have sufficient evidence on which to base their opinion.

They produce a management report which is then presented to the Audit Committee (on 3 November) which sets out their findings. Audit Committee Members will have the chance to ask the auditors any questions at that meeting.

If approved, the Chief Finance Officer and Audit Committee Chairman will then sign the accounts. The auditors themselves have until 31 November to sign the accounts.

The Head of Finance took the Member Working Group through the Draft Statement of Accounts, discussing the document section by section and providing explanations to all of their questions and ensuring that they were satisfied with the Accounts and its contents.

### Narrative Report

The narrative report links the performance of the organisation to the financial results of the year. It details what has been achieved and the Council's successes. It also contains details of corporate risks. Risk information is presented at high level - highlighting the more significant risks and the mitigating actions. Further information in relation to corporate risks are shared with Members at Committees during the year.

The Narrative Report is the area where there is flexibility as to what is included and how it is presented and is therefore the section of the accounts where the Member Working Group can recommend changes.

The Member Working Group commented that Chart 1 - Spending on front line services 2019/20 - was not easily read and would be improved if it was presented in the same way as Chart 2 - Funding Sources 2019/20. This change has been made to the final version of the Statement of Accounts.

The Member Working Group also recommended that mention of Sevenoaks Town Car Park should be included within the Cash Flow paragraphs as an example of the investment in property assets.

### Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting

practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost.

### Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. It shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices. The Net Increase/Decrease line shows the statutory General Fund balance movements in the year following those adjustments.

### Balance Sheet

The Balance Sheet shows the value (as at the Balance Sheet date) of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories: the first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt); the second category of reserves represents those that the authority is not able to use to provide services - this category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### Cash Flow

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

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### Notes to the Core Statements

The Statement of Accounts includes 39 disclosure notes covering a wide range of areas.

The Member Working Group asked several questions which the Head of Finance answered and provided clarification on a number of the notes. Many figures were examined in detail, and for anyone unfamiliar with Local Authority financial reporting, it might help to remind Members that because a Local Authority is a net spender (on services etc) rather than a business that generates income for profit; the norm is to report income as a negative, and expenditure as a positive figure (Balance Sheet excepted).

### Member Working Group Conclusion

Upon overall review, Members were happy with the 2019/20 draft accounts. It was requested that a short report from the Working Group go back to the Audit Committee, alongside the presentation of the Accounts on 3 November 2020.



# Statement of Accounts

2019/20

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## Narrative Report

This Narrative Report seeks to clarify the relationship between the Council's financial statements and other financial information the Council reports externally.

It is the purpose of this report to explain the financial facts and performance of the Council. It follows approved accounting standards and where technical or complex language is required a glossary of key terms can be found at the end of this publication.

### 1. Introduction

The Statement of Accounts sets out the Council's financial performance for the year and its financial position at the year ended 31 March 2020. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20.

The Core Statements are:

The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. This expenditure represents a combination of:

- services and activities that the Council is required to carry out by law (statutory duties) such as street cleaning, planning and building control; and
- expenditure focussed on local priorities and needs.

The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "usable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes.

The **Balance Sheet** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year end date.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The Supplementary Financial Statements are:

The **Annual Governance Statement** which sets out the governance structures of the Council and its key internal controls.

The **Collection Fund** summarises the collection of council tax and business rates, and the redistribution of a proportion of that money to other public authorities and central government.

The **Pension Fund Account** reports the contributions received, payments to pensioners and the value of net assets invested in the Local Government Pension Scheme on behalf of Council employees.

The Notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.

### **2. Chief Finance Officer's Statement – Adrian Rowbotham**

Our Council Plan sets out our ambition for our communities: going beyond the traditional remit of a district council by putting the wellbeing of our residents and businesses at the heart of everything we do, while still providing high quality services at a price people can afford.

The Council's work is built on excellence, innovation and value for money, and we recognise the importance of high quality and innovative financial management to help us achieve our aims.

Our 10-year budget framework, introduced in 2011, continues to give us strong foundations to invest in our District. Last year we set a budget for 2019/20 that continued to reflect our financial self-sufficiency, having achieved this in 2016/17, ahead of our projected timescale. Then, as of now, we were clear that we would continue to need to make savings but we have continued to invest in assets that help us to generate more of our own income. Along with our existing acquisitions, these are already generating strong returns, and helping us to maintain our financial independence.

We continue to be very proud at the recognition we continue to win from our peers regarding the success of our organisation. We were one of the first organisations globally to be awarded Investors in People Platinum in 2015, and retained this status during our reassessment in February 2019. In December 2019 we were shortlisted as Platinum Employer of the Year, and the award of Leader of the Year went to Dr Pav Ramewal, our Chief Executive.

Kent was one of the areas that was successful in bidding to be a Business Rates Retention Pilot area in 2018/19. By being part of the pilot, this Council was able to retain an additional £554,000 of Business Rates income which has been transferred to the Budget Stabilisation Reserve for the longer term benefit of the Council. However, the future Business Rates distribution method and the financial effect on this Council remains unclear as the Government announced that it had abandoned the planned revaluation of business rates due to take place in 2021, with ministers wanting to ensure businesses have more certainty during the Covid-19 crisis.

As this financial year drew to a close, the country had only just begun lockdown; the long term effects of this and the pandemic in general both for us and the country will be far-reaching, and will no doubt be reflected in next year's accounts. Our focus switched immediately to protecting our staff, continuing to provide services while keeping safe, and supporting the most vulnerable in our communities.

Our Finance Team continue to provide the Council with the financial expertise it requires to meet the challenges ahead of us and we are proud that their efforts have been recognised through being shortlisted in this year's Public Finance awards. We await the judge's final decision later in 2020. Our HR team and senior managers continue to maximise opportunities to deploy the Apprenticeship Levy and to fulfil our public sector duty on employing apprentices.

I would like to record my thanks to Members, the Finance team and the many others across the Council that have worked hard to make decisions in light of the financial pressures the Council faces and have ensured that services are delivered and money is managed in line with the budgets that were set. Every year since the introduction of the 10-year budget framework the Council has achieved a budget surplus and this would simply not be possible if we did not all support and believe in the vision we have set. The full impact of Covid-19, including the substantial loss of income from fees and charges, as well as the additional expenditure on supporting our most

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vulnerable residents, is yet to be quantified, but we are in a stronger position than many other councils due to our firm foundations. We are already looking at recovery and how to bring forward our major capital projects in order to reinvigorate the economy of the district.

In the coming year we look forward to supporting the Council to make further progress in delivering its Property Investment Strategy, and to meet the challenges that will be ahead for the sector once more clarity is provided on the terms of leaving the European Union. We aim to provide advice on the most effective way to fund our investments and to continue to provide advice and skills to the Council's trading company, Quercus 7 and the affordable housing company, Quercus Housing.

Adrian Rowbotham

Deputy Chief Executive and Chief Officer Finance & Trading

## 3. Council Performance

The Council Plan contains five themes, with our key promises to the District and performance examples against them listed below:

### Environment

Through a robust Local Plan, protect our high quality natural environment, including the Green Belt, Areas of Outstanding Natural Beauty and biodiversity that form our unique character.

Take action to reduce waste, and maintain our weekly rubbish and recycling collection.

The Council continues to provide a weekly collection of all rubbish and recycling to every household in the District. We carry out over 15,000 successful dual waste and recycling collections every single day. During 2019/20 the Council recycled 38.7% of all household waste collected. This is an increase on the previous year.

The Council missed only 5.8 waste collections per 100,000 made during 2019/20; this is an improvement on the previous year and well below the target level of 10. Our performance of collecting those un-collected waste streams the same or following day stands at 100%.

The 2018/19 Local Plan Authority Monitoring Report shows that 96% of the gross number of housing units were completed within Urban Confines (outside of the Green Belt). This figure is 16% above the target of 80%.

The 2018/19 Local Plan Authority Monitoring Report shows that 4% of the gross number of housing units provided were completed within the Green Belt. Of these, 21% were provided through redevelopment and 79% of the units provided were either change of use or conversions. All applications granted were in accordance with the Green Belt Policy and did not impact on the openness of the Green Belt.

### Economy

Support new and existing businesses through our “Team Around the Business” approach, excellent customer service and supporting local employers to promote mental and physical wellbeing at work.

The number of businesses within the District has increased year on year from a baseline of 6,365 in 2010 to 7,275 in the last year. 6,150 of these are micro businesses employing 9 people or less, which form a significant contribution to the local economy.

The new Sevenoaks Town (formerly Buckhurst 2) Car Park opened on 8 April 2019, bringing 480 much needed, long-stay parking spaces to the town to serve both visitors to the town and those who work in it.

### Housing

Deliver our Housing Strategy for Sevenoaks District, providing a choice of accommodation to meet the needs of residents including affordable housing and homes for older people.

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We have successfully delivered our own housing development for investment purposes adjacent to the new car park in Buckhurst Way, and through our housing company, Quercus Housing, have begun to provide affordable social housing in the district.

### Community Safety

Protect our residents by making sure that all of our policies, partnerships and teams are working together to safeguard people and communities.

98% of all the actions in the Council's Community Safety Action Plan were delivered during the year, compared to 96% during 2018/19.

### Health

Deliver first class wellbeing services, supporting residents to make healthy choices, and linking them to our core services such as leisure and housing.

Percentage of actions in the Sustainable Community Action Plan achieved as at Q3 is 96%, same time last year was 94%.

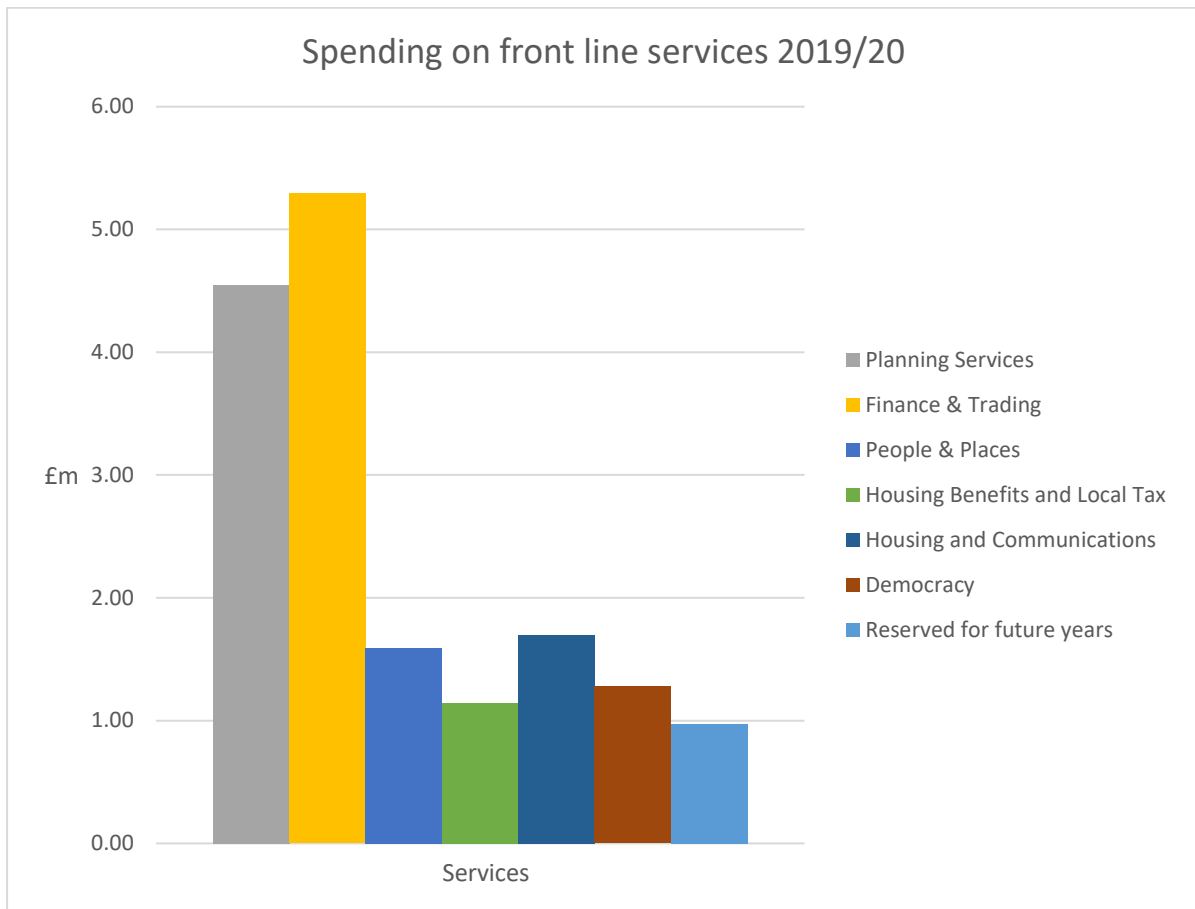
Number of customers engaged in the One You Health Services for 2019/20 is 456, exceeding our target of 440.

### To provide value for money

In 2019/20 the Council collected 98.4% of Council Tax within the year, an increase of 0.2% on the previous year and 97.4% of the business rates due within the year (98.2% 2018/19) and raised additional income through its Property Investment Strategy which contributed £1.5m to fund the budget. A further £266,000 was raised through other investments.

Our reputation for excellence and innovation was recognised in December 2019 when we were shortlisted as Platinum Employer of the Year, and the award of Leader of the Year went to Dr Pav Ramewal, our Chief Executive. As always we will continue to take great pride in the level of service we provide to our customers and aim to provide high quality and accurate budget monitoring reports and financial statements that meet the needs of all that use them.

**Chart 1:** The chart below illustrates where we spent our money, by service, in 2019/20



#### 4. Corporate Risk

A risk management strategy is in place to support the Council to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. Below are the main risks from the Council's strategic risk register dated June 2019.

SR01: Finance: Failure to deliver a balanced budget				
Risk Factors	Potential Effects	Gross Risk Rating	Internal Controls	Net Risk Score
<ul style="list-style-type: none"> <li>▪ Limited opportunity to generate income through the business rates retention scheme and New Homes Bonus</li> <li>▪ Effect of council tax capping and referendum costs</li> <li>▪ Low and decreasing level of government grant</li> <li>▪ Potential for negative government funding (local authority to make payments to Government)</li> <li>▪ Effect of cost of external borrowing on the Council's budgets</li> <li>▪ Loss of external funding</li> <li>▪ Accuracy of budget assumptions</li> <li>▪ Failure to meet savings targets</li> <li>▪ Poor financial plans and strategies</li> <li>▪ Ineffective financial governance</li> <li>▪ Lack of capacity and skilled professionals within the finance team</li> <li>▪ Failure to maintain proper financial and budgetary controls</li> <li>▪ Procurement</li> </ul>	<ul style="list-style-type: none"> <li>- Poor financial health</li> <li>- Inability to maintain services and deliver Council Vision and Promises</li> <li>- Reputational damage</li> <li>- Poor outcome for the Audit of Accounts or Value for Money assessment</li> <li>- Potential for increased intervention</li> </ul>	<p>20 High</p>	<ul style="list-style-type: none"> <li>• Self-sufficient budget position; no reliance on direct government funding</li> <li>• Long term 10 year budget framework</li> <li>• Savings Plan</li> <li>• Property Investment Strategy</li> <li>• Strong financial and scenario planning over the short, medium and long term</li> <li>• Effective financial governance including reports to FIAC, Cabinet, Audit Committee and Scrutiny Committee</li> <li>• Restructured service with qualified and experienced officers in post development</li> <li>• Annual Internal and External Audit reviews</li> <li>• Contract and Financial Procedure Rules, Procurement Working Group and procurement training for officers</li> </ul>	<p>10 Medium</p>



<b>SR02: Property Investment Strategy: Failure to identify opportunities to meet the Property Investment Strategy</b>				
<b>Risk Factors:</b>	<b>Potential Effect</b>	<b>Gross Risk rating</b>	<b>Internal Controls</b>	<b>Net Risk Score</b>
<ul style="list-style-type: none"> <li>▪ Ability to seek appropriate investment opportunities</li> <li>▪ Appetite for risk within investment strategy to enable the Council to generate target returns</li> <li>▪ Ability to deliver sufficient funds to maximise the opportunities presented through the Property Investment Strategy</li> <li>▪ Appetite to prudentially borrow over the medium to long term</li> <li>▪ The cost of interest payments</li> <li>▪ Lack of capacity or skilled professionals to advise on investment and borrowing strategies</li> <li>▪ Ineffective governance processes that could result in opportunities being missed or being ineffectively scrutinised</li> <li>▪ Ineffective use of Quercus 7 to support the Council's investment strategy</li> <li>▪ Ability to borrow funds</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of diversity in investments</li> <li>- Cost of interest payments</li> <li>- Negative impact on budgets reserves and the ability to deliver Council projects</li> <li>- Poor financial health</li> <li>- Unable to maintain low increases in council tax levels</li> <li>- Reputational damage</li> <li>- Poor outcome for the Audit of Accounts or Value for Money Assessment and potential for increased intervention</li> </ul>	<p>16 High</p>	<ul style="list-style-type: none"> <li>• Council approved Property Investment Strategy with defined rates of return demonstrating risk appetite</li> <li>• Governance arrangements defined with appropriate delegations agreed</li> <li>• Qualified and experienced officers in post</li> <li>• Professional, external advisers engaged to support the development of strategies and fill skills gaps</li> <li>• Effective budget setting and financial monitoring processes embedded</li> <li>• Regular Quercus 7 Board and Trading Board meetings – including regular review of investment parameters to monitor market fluctuations</li> </ul>	<p>9 Medium</p>

<b>SR03: Asset Management &amp; Maintenance –</b>				
Losing the ability to: a) Dispose of surplus land; b) Maintain and develop assets and land holdings; c) Secure tenants for vacant or part-vacant assets				
<b>Risk Factors</b>	<b>Potential Effects</b>	<b>Gross Risk Rating</b>	<b>Internal Controls</b>	<b>Net Risk Score</b>
<ul style="list-style-type: none"> <li>▪ Lack of finance to deliver asset management plans and maintenance programmes</li> <li>▪ Lack of capacity to appropriately manage, maintain and invest in the council's assets</li> <li>▪ Failure to maximise the benefit from asset disposals</li> <li>▪ Lack of tenants to occupy vacant or part-vacant assets</li> <li>▪ Lack of buyers for surplus Council land</li> <li>▪ Failure to adopt effective governance procedures</li> <li>▪ Project management skills to ensure cost effective and robust developments</li> <li>▪ Failure to identify partners to take forward projects and initiatives</li> <li>▪ Loss of contracted providers to manage and operate assets</li> </ul>	<ul style="list-style-type: none"> <li>- Decrease in asset values placing increased pressure on council budgets</li> <li>- Failure to maximise the opportunity to raise income from investment in assets</li> <li>- Increased insurance premiums</li> <li>- Adverse impact on service delivery</li> <li>- Loss of investment or income opportunities</li> <li>- Reputational damage</li> <li>- Closure of public assets and loss of community facilities</li> </ul>	16	<ul style="list-style-type: none"> <li>• Property / Asset Register (record of land in Council ownership)</li> <li>• Annual review of Asset Management Plan</li> <li>• Asset maintenance budgets reviewed annually</li> <li>• Ongoing strategic review of council owned property</li> <li>• Inventory registers in place</li> <li>• Financial procedure rules and disposal policy in place</li> <li>• Economic Development &amp; Property team in place</li> <li>• Professional, external advisers engaged to support the development of strategies and fill skills and capacity gaps</li> <li>• Capital Programme and Asset Maintenance 2019-22 plan in place</li> <li>• Surveys of all Council buildings completed and reflected in Asset Maintenance plan</li> <li>• Long term leases in place with providers with regular monitoring</li> </ul>	9

<b>SR04 Knowledge, capacity &amp; culture</b> Management of the Council's human resources fails to protect the Council's culture, making it difficult to address gaps in capacity and knowledge				
Risk Factors:	Potential Effect	Gross Risk Rating	Internal Controls	Net Risk Score
<ul style="list-style-type: none"> <li>▪ Continuing reductions to Council budgets</li> <li>▪ National and local pay constraint</li> <li>▪ Employment and retention of high quality staff</li> <li>▪ Amendments to the Local Government Pension Scheme</li> <li>▪ Increased demand for services and high levels of work with reduced capacity and resources</li> <li>▪ Requirement for new skills to deliver the Council's Corporate Plan promises</li> <li>▪ Lack of capacity within the Human Resources team to develop policy and support the workforce</li> <li>▪ Ineffective succession planning</li> <li>▪ High staff turnover</li> <li>▪ Loss of IIP Platinum status</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of resources to employ, develop and support the wellbeing of staff</li> <li>- Impact of poor mental health across the organisation</li> <li>- Reduced morale and staff satisfaction</li> <li>- Reduced productivity</li> <li>- Reduced quality of staff and work / services</li> <li>- Unable to recruit or retain high quality staff</li> <li>- Unable to continue to deliver the range and quality of services currently experienced</li> <li>- Increased absence levels</li> <li>- Skills gaps that inhibit the ability to deliver Council projects</li> <li>- Reputational damage as an employer and a service provider</li> </ul>	<p>16 High</p>	<ul style="list-style-type: none"> <li>• 10 year budget minimises the need for short notice changes to the workforce</li> <li>• Human Resources Strategy including workforce development plan, recruitment and retention policies</li> <li>• Investors in People Platinum status demonstrates the Council is a high quality employer</li> <li>• Managing Attendance Policy supported by return to work and staff wellbeing initiatives</li> <li>• Staff Appraisal Scheme and Personal Development Plans</li> <li>• Regular Staff Surveys and Investors in People Assessments to benchmark effectiveness as an employer</li> <li>• Management and Staff Development programmes to support staff and protect the organisational culture</li> <li>• Ability to engage professional, external advisers to support the organisation and fill skills and capacity gaps</li> </ul>	<p>8 Medium</p>

<b>SR05: Technology</b> - The Council's Information Technology doesn't meet the needs of the Council, Members, Officers and the local community				
<b>Risk Factors</b>	<b>Potential Effect</b>	<b>Gross Risk Rating</b>	<b>Internal Controls</b>	<b>Net Risk Score</b>
<ul style="list-style-type: none"> <li>▪ Lack of capacity in the workforce to identify and adhere to legislative changes</li> <li>▪ Lack of finance to adjust to changes in legislation</li> <li>▪ Lack of Member or Senior Management support to deliver service changes in response to new legislation</li> <li>▪ Breakdown in relationships between Members and Officers</li> <li>▪ Lack of capacity and skilled professionals within the Legal, Democratic and Internal Audit teams</li> <li>▪ Lack of financial resources to deliver high quality governance arrangements</li> <li>▪ Governance arrangements which may not provide effective oversight of shared service arrangements</li> <li>▪ Lack of skills and resources to provide Anti-Fraud and Corruption service</li> <li>▪ Ineffective support for Councillors in relation to governance, legal compliance and ethics</li> <li>▪ Procurement undertaken outside of / in breach of the Rules</li> </ul>	<ul style="list-style-type: none"> <li>- Failure to fulfil statutory duties resulting in government intervention and an increase in legal liabilities</li> <li>- Failure to continue to deliver high quality services</li> <li>- Increase in customer complaints and falling satisfaction levels</li> <li>- Increase in incidences of fraud and error</li> <li>- Failure to maximise the opportunities changes to legislation may bring</li> <li>- Ineffective political and management leadership</li> <li>- Ineffective scrutiny of decision making and performance</li> <li>- Failure to deliver statutory requirements including an up to date constitution, an effective Internal Audit function and an Annual Governance Statement</li> <li>- Reputational damage</li> </ul>	<p>12 Medium</p>	<ul style="list-style-type: none"> <li>• Dedicated Lexcel accredited Legal team with qualified and experienced officers in place</li> <li>• Professional managers within service areas</li> <li>• Council's Constitution including Codes of Conduct, Officer / Member Protocol and Standards regime</li> <li>• Cabinet and Committee Structure including Advisory, Governance, Audit, Scrutiny &amp; Standards Committees</li> <li>• Monitoring Officer and Section 151 officers in post</li> <li>• Internal Audit function complies with Public Sector Internal Audit Standards</li> <li>• Risk Management processes embedded</li> <li>• Effective budget setting and financial monitoring processes embedded</li> <li>• Annual review of Committee Terms of Reference</li> <li>• Members Handbook and Training Annual Governance Statement and actions monitored, plan reported to Audit Committee</li> <li>• Procurement Group oversee and monitor compliance</li> </ul>	<p>6 Low</p>

### 5. Financial Performance

#### Operating Environment

Since 2010 Sevenoaks District Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures within services and greater volatility in financing. This challenging environment is on-going and includes additional uncertainty regarding the detail of the terms of leaving the European Union, which still remains unclear over 3 years since the vote to Leave.

The Council continuously reviews the environment it operates within, seeking to develop a stronger understanding of the financial opportunities and challenges it faces. Since 2010/11, the local government sector as a whole has faced a real term reduction in government funding of 49.1% to 2017/18, and a 28.6% real term reduction in spending power during the same period.

The previous Government had begun consultation on the plan for local government to retain 100% of business rate revenues to fund local services to take effect from April 2021. However, the future Business Rates distribution method and the financial effect on this Council remains unclear as the Government announced that it had abandoned the planned revaluation of business rates due to take place in 2021, with ministers wanting to ensure businesses have more certainty during the COVID-19 crisis and The Local Government Finance Bill has not been reintroduced during this parliament.

Although we are now financially self-sufficient, the long term challenges have not disappeared. We still need to make savings and efficiencies within the context of our 10-year budget. Sevenoaks District is 93% Green Belt. This means there is little space to build or develop new business space. This equally applies to the Council's ability to provide more housing which limits the amount by which the Council can increase its income from New Homes Bonus, which is currently subject to review by Government, or from growth in council tax receipts linked to each new home.

Councils are set to be banned from investing in commercial property for the purpose of boosting revenues. A Treasury consultation on commercial investments has been extended as a result of the ongoing pandemic. Jeremy Pocklington, Permanent Secretary at the Ministry of Housing, Communities and Local Government, told MPs: "In future, assuming that we implement the proposals set out in the consultation, councils will be prevented from investing in commercial property. That, we think, will stop councils not only borrowing, in particular, but investing in these sorts of commercial property arrangements that are primarily for yield."

Financial conditions also mean that the Council must work hard to retain and recruit the very best people as what can be provided in salary is contained within national terms and conditions. It has become evident over the past two years that attracting high quality staff is increasingly challenging. However, our commitment to being a great place to work is underlined by the fact the Council has become the first public sector organisation in the country to retain the Investors in People Platinum Award. Our focus on our people has never been greater and continuing to maintain this will be critical to the Council's future success.

As the financial year drew to a close, the country was approaching the second week of lock down, with all the attendant impacts on the economy and household finances yet to be fully realised,

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despite an unprecedented package of support from the Treasury. The full impact of COVID-19 will no doubt be reflected in our Statement next year.

### Revenue

Sevenoaks District Council set its budget for 2019/20 at a meeting of the Council on 26 February 2019. Overall, the Council's net revenue budget has increased from £14.687m in 2018/19 to £15.251m in 2019/20.

The final outturn position for 2019/20 is a surplus of £52,000 (2018/19 £85,000) and as approved by Cabinet, this balance was transferred to the Budget Stabilisation Reserve to support future budgets, leaving a nil movement on the General Fund Reserve. There were no material events after the reporting period.

The adoption of the 10-year budget over the last nine years has resulted in a much more stable budget position than had previously been achieved. The aim of the ten year budget is to meet the primary financial objective of reducing reliance on reserves, whilst enabling the Council to invest in priority services.

**Chart 2:** The chart below illustrates where the Council received the money it spends.



Capital & assets

**Table 1:** The table below shows the net capital budget over the period of 2019 to 2023 by service area.

**Capital Programme 2020-23**

Chief Officer/Scheme	Funding Source							Total over 3 year programme period £000
		Total approved scheme £000	Previous year spend £000	2019/20 Forecast £000	2020/21 Budget £000	2021/22 Budget £000	2022/23 Budget £000	
<b>People &amp; Places</b>								
Parish projects	Capital Receipts	51	-	-	51	-	-	51
White Oak Leisure Centre - pre construction	Capital Receipts	550	-	550	-	-	-	0
Disabled Facilities Grants (gross)	Better Care Fund	-	-	1,100	1,100	1,100	1,100	3,300
<b>Finance &amp; Trading</b>								
Property Investment Strategy	Prop. Inv. Reserve	50,300	25,775	3,730	5,000	5,000	10,795	20,795
Commercial vehicle replacements	Vehicle Renewal Res.	-	-	548	548	563	575	1,686
Buckhurst 2- Residential	Capital Receipts	6,472	1,727	5,249	-	-	-	0
CCTV	Capital Receipts	70	50	20	-	-	-	0
<b>TOTAL</b>				<b>11,197</b>	<b>6,699</b>	<b>6,663</b>	<b>12,470</b>	<b>25,832</b>

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**Table 2:** The Council's capital programme is fully funded from the funding sources available to it. These are set out in the table below.

Funding Source				
	2019/20	2020/21	2021/22	2022/23
	Forecast	Budget	Budget	Budget
	£000	£000	£000	£000
Capital Receipts	-5,819	-51	-	-
Financial Plan Reserve & Cap Receipts				
Vehicle Renewal Reserve	-548	-548	-563	-575
Property Investment Strategy ***	-3,730	-5,000	-5,000	-10,795
Better Care Fund (KCC)	-1,100	-1,100	-1,100	-1,100
Internal Borrowing	-	-	-	-
Capital Reserve (from Revenue)	-	-	-	-
External Borrowing	-	-	-	-
	<u>-11,197</u>	<u>-6,699</u>	<u>-6,663</u>	<u>-12,470</u>

\*\*\* Part will be funded from Capital Receipts, Reserves, Internal Borrowing and External Borrowing.

### Borrowing & Investments

During the 2019/20 year the Council internally borrowed £4.1m to fund the continuing redevelopment of the Buckhurst 2 car park site in Sevenoaks town centre for the Burlington Mews development .

The Council's existing investments including office accommodation at Pembroke Road, Swanley petrol filling station, Suffolk Way, an 80 bedroom hotel and retail accommodation at



96 The High Street, are all tenanted and the rents received are assisting to maintain the Council's financial self-sufficiency in response to the removal of government grant contributions to the Council.

### Cash flow

The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period.

At the 31 March 2019 the Council held £2.8m in cash and cash equivalents.

At the 31 March 2020 the Council held £4.8m in cash and cash equivalents.

The increase is attributable to timing of investments at the year end.

### Contingencies

The Council's significant provision relates to Business Rates valuation appeals. Following Business Rates localisation, introduced in 2013, the Council has to set aside a provision for any future successful ratepayer appeals against rateable valuations.

Business rates – valuation appeals provision	£2.547m at 31 March 2019	£3.064m at 31 March 2020
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### Pensions

The Council participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council has net pension liabilities of £67.0m at 31 March 2020 compared to £87.6m at 31 March 2019 in the Balance Sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund.

The Council's pension fund has to be revalued every three years to set future contribution rates. The last valuation was in December 2019.

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### STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

#### The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Deputy Chief Executive and Chief Officer - Finance & Trading;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

#### The Deputy Chief Executive and Chief Officer - Finance & Trading's Responsibilities

The Deputy Chief Executive and Chief Officer - Finance & Trading is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Deputy Chief Executive and Chief Officer - Finance & Trading has:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Deputy Chief Executive and Chief Officer - Finance & Trading has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### The Deputy Chief and Executive Chief Officer - Finance & Trading's Certificate

The Accounts present a true and fair view of the financial position as at 31 March 2020 and its income and expenditure for the year ended on that date.

ADRIAN ROWBOTHAM

The Deputy Chief Executive and Chief Officer - Finance & Trading

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and in the Movement in Reserves Statement.

### Comprehensive Income and Expenditure Statement

2018/19				SDC 2019/20			Group 2019/20
Gross Exp. £'000	Gross Income £'000	Net Exp £'000	Note	Gross Exp £'000	Gross Income £'000	Net Exp £'000	Net Exp £'000
6,056	(2,941)	3,115		8,729	(4,885)	3,844	3,856
29,739	(27,372)	2,367		26,659	(24,451)	2,208	2,221
11,048	(4,859)	6,189		23,566	(5,405)	18,161	18,113
8,700	(3,521)	5,179		10,320	(3,368)	6,952	6,952
<b>55,543</b>	<b>(38,693)</b>	<b>16,850</b>	<b>24</b>	<b>69,274</b>	<b>(38,109)</b>	<b>31,165</b>	<b>31,142</b>
	(656)					(1,227)	(1,227)
	(209)		25				-
	4,227					4,415	4,415
	<u>1</u>					-	-
	<u>3,363</u>					<u>3,188</u>	<u>3,188</u>
	(157)					(370)	1,355
	-					-	-
	(1,000)		11			(1,591)	(1,591)
	138					135	135
	2,289		35			2,059	2,059
	<u>(329)</u>					<u>(283)</u>	<u>(178)</u>
	<u>941</u>					<u>(50)</u>	<u>1,780</u>
	(2,415)		29			(1,121)	(1,121)
	(14,713)					(15,415)	(15,415)
	(3,498)					(1,636)	(1,636)
	(2,932)		29			(2,827)	(2,827)
	<u>(23,558)</u>					<u>(20,999)</u>	<u>(20,999)</u>
	(2,404)						
						13,304	15,111
						-	-
	(1,965)		20			(1,331)	(1,331)
	(6,731)		35			(24,328)	(24,328)
	<u>(8,696)</u>					<u>(25,659)</u>	<u>(25,659)</u>
	<u>(11,100)</u>					<u>(12,355)</u>	<u>(10,548)</u>

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### MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Movement in Reserves statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

The CIPFA Code of Local Authority Accounting in 2019/20 requires the total General Fund Balance be presented. In the past it was recommended that Earmarked General Fund Reserves be separately presented.

#### Movement in Reserve Statement

Financial Year 2018/19									
Notes	General Fund Balance	Earmark'd Reserves Balance	Total General Fund Balance	Capital Grants Unapplied	Capital Receipts Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves	Group
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018	(1,500)	(19,184)	(20,684)	(2,992)	(49)	(23,725)	48,084	24,359	24,359
<b>Movement in reserves during 2018/19</b>									-
(Surplus) or deficit on the provision of services	(2,404)		(2,404)			(2,404)		(2,404)	(2,404)
Other Comprehensive Income and Expenditure			-		(1)	(1)	(8,695)	(8,696)	(8,696)
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,404)</b>	<b>-</b>	<b>(2,404)</b>	<b>-</b>	<b>(1)</b>	<b>(2,405)</b>	<b>(8,695)</b>	<b>(11,100)</b>	<b>(11,100)</b>
Adjustments between accounting basis & funding basis under regulations (note 8)	2,217	-	2,217	(635)	(508)	1,074	(1,074)	-	-
<b>Net (Increase)/ Decrease before Transfers to Earmarked reserves</b>	<b>(189)</b>	<b>-</b>	<b>(189)</b>	<b>(635)</b>	<b>(509)</b>	<b>(1,331)</b>	<b>(9,769)</b>	<b>(11,100)</b>	<b>(11,100)</b>
Year end balance transferred (to)/from Budget Stabilisation Reserve	85	(85)	-			-		-	-
Other transfers to/from Earmarked Reserves	104	(104)	-			-		-	-
<b>Total transfers (to)/from Earmarked Reserves (Note 9)</b>	<b>189</b>	<b>(189)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Increase)/ Decrease in 2018/19</b>	<b>-</b>	<b>(189)</b>	<b>(189)</b>	<b>(635)</b>	<b>(509)</b>	<b>(1,331)</b>	<b>(9,769)</b>	<b>(11,100)</b>	<b>(11,100)</b>
<b>Balance at 31 March 2019</b>	<b>(1,500)</b>	<b>(19,373)</b>	<b>(20,873)</b>	<b>(3,627)</b>	<b>(558)</b>	<b>(25,056)</b>	<b>38,316</b>	<b>13,257</b>	<b>13,257</b>

Movement in Reserve Statement (cont.)

Financial Year 2019/20									
Notes	General Fund Balance	Earmark'd Reserves Balance	Total General Fund Balance	Capital Grants Unapplied	Capital Receipts Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves	Group
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2019	(1,500)	(19,373)	(20,873)	(3,627)	(558)	(25,056)	38,316	13,257	13,625
Movement in reserves during 2019/20									-
(Surplus) or deficit on the provision of services	13,304	-	13,304	-	-	13,304	-	13,304	15,111
Other Comprehensive Income and Expenditure	-	-	-	-	(1)	(1)	(25,658)	(25,659)	(25,659)
Total Comprehensive Income and Expenditure	13,304	-	13,304	-	(1)	13,304	(25,658)	(12,355)	(10,548)
Adjustments between accounting basis & funding basis under regulations (note 8)	(12,942)	-	(12,942)	584	(1,180)	(13,538)	13,538	-	-
Net (Increase)/ Decrease before Transfers to Earmarked reserves	361	-	361	584	(1,181)	(235)	(12,120)	(12,355)	(10,548)
Year end balance transferred (to)/from Budget Stabilisation Reserve	52	(52)	-	-	-	-	-	-	-
Other transfers to/from Earmarked Reserves	(413)	413	-	-	-	-	-	-	-
Total transfers (to)/from Earmarked Reserves (Note 9)	(361)	361	-	-	-	-	-	-	-
(Increase)/ Decrease in 2019/20	-	361	361	584	(1,181)	(235)	(12,120)	(12,355)	(10,548)
Balance at 31 March 2020	(1,500)	(19,011)	(20,511)	(3,043)	(1,739)	(25,293)	26,195	902	3,077

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### BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

31/03/19 £'000	SDC Note		31/03/20 £'000	31/03/20 £'000
			SDC	Group
SDC		Long Term Assets		
39,670	10	Property, Plant and Equipment	34,674	34,674
1,164	10	Surplus Assets	1,045	1,045
-	38	Heritage Assets	-	-
29,753	11	Investment Property	30,347	35,260
-		Intangible Assets	-	-
265	12	Long Term Investments	1,711	51
1,136	14	Long Term Debtors	3,291	800
<u>71,988</u>		Total Long Term Assets	<u>71,068</u>	<u>71,830</u>
		Current Assets		
18,078	12	Short Term Investments	11,087	11,087
180	16	Assets held for sale	187	187
2,773	15	Cash and Cash Equivalents	4,806	4,806
69	13	Inventories	64	64
5,973	14	Short Term Debtors	4,526	4,082
572	14	Payments in Advance	658	658
<u>27,645</u>		Total Current Assets	<u>21,328</u>	<u>20,884</u>
		Current Liabilities		
(8,320)	17 & 29	Receipts in Advance	(8,261)	(8,261)
(8,643)	17	Short Term Creditors	(9,236)	(9,242)
(2,699)	18	Short Term Provisions	(3,216)	(3,216)
<u>(19,662)</u>		Total Current Liabilities	<u>(20,713)</u>	<u>(20,719)</u>
7,983		Net Current Assets	615	165
		Long Term Liabilities		
(5,364)	17	Long Term Borrowing	(5,241)	(5,241)
(257)	18	Long Term Provisions	(257)	(257)
(87,574)	35	Net Pensions Liability	(67,037)	(67,037)
(33)	29	Capital Grants Receipts in Adv.	(50)	(2,537)
<u>(93,228)</u>		Total Long Term Liabilities	<u>(72,585)</u>	<u>(75,072)</u>
<u>(13,257)</u>		Total Net Assets/(Liabilities)	<u>(902)</u>	<u>(3,077)</u>

Balance Sheet (cont)

31/03/19 £'000	SDC Note		31/03/20 £'000	31/03/20 £'000
		<b>Usable Reserves</b>		
(559)	MIRS	Usable Capital Receipts Reserve	(1,739)	(1,739)
(19,373)	9	Earmarked Reserves	(19,011)	(19,011)
-		Profit and Loss Reserve		2,175
(3,627)	MIRS	Capital Grants Unapplied	(3,043)	(3,043)
(1,500)	MIRS	General Fund	(1,500)	(1,500)
<u>(25,059)</u>		Subtotal Usable Reserves	<u>(25,293)</u>	<u>(23,118)</u>
		<b>Unusable Reserves</b>		
(30,058)	20	Capital Adjustment Account	(20,709)	(20,709)
(18,812)	20	Revaluation Reserve	(19,825)	(19,825)
152	20	Accumulated Absences Act.	152	152
(382)	20	Collection Fund Adj. Account	(312)	(312)
87,574	20 & 35	Pensions Reserve	67,037	67,037
(158)	20	Deferred Capital Receipts	(148)	(148)
<u>38,316</u>		Subtotal Unusable Reserves	<u>26,195</u>	<u>26,195</u>
<u>13,257</u>		Total Reserves	<u>902</u>	<u>3,077</u>

These unaudited financial statements will be replaced by the audited financial statements authorised at the meeting of the Audit Committee on 3 November 2020

Adrian Rowbotham  
Deputy Chief Executive and Chief Officer - Finance & Trading  
3 November 2020

**COUNCIL APPROVAL**

The Audit Committee at its meeting on 3 November 2020, approved the Statement of Accounts for the year end 31 March 2020 in accordance with the Accounts and Audit Regulation 2011.

Councillor P McGarvey  
Chairman of the Audit Committee  
3 November 2020

## Agenda Item 5

### THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as Operating, Investing and Financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

SDC			SDC	Group
2018/19			2019/20	2019/20
£'000	Note		£'000	£'000
(2,404)		Net (surplus) or deficit on the provision of services	13,304	15,111
1,207	21	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	(15,708)	(22,493)
1,848	21	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	3,235	3,130
651		Net cash flows from operating activities	831	(4,252)
4,371	22	Investing Activities	(3,563)	1,521
(350)	23	Financing Activities	698	698
4,672		Net (increase) or decrease in cash and cash equivalents	(2,033)	(2,033)
(7,445)		Cash and cash equivalents at the beginning of the reporting period	(2,773)	(2,773)
(2,773)	15	Cash and Cash Equivalents at the end of the reporting period	(4,806)	(4,806)



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Note 1. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services.

#### Expenditure and Funding Analysis

2018/19			2019/20			
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
1,723	1,392	3,115	People & Places	1,806	2,038	3,844
3,298	(931)	2,367	Customer & Resources	3,409	(1,201)	2,208
8,305	(2,115)	6,189	Finance & Trading	8,669	9,492	18,161
1,904	3,274	5,179	Planning & Regulatory	1,764	5,188	6,952
15,230	1,620	16,850	Net Cost of Services	15,648	15,517	31,165
(15,419)	(3,835)	(19,254)	Other Income and Expenditure	(15,287)	(2,574)	(17,861)
(189)	(2,215)	(2,404)	(Surplus) or Deficit	361	12,943	13,304
(20,684)			Opening General Fund Balance	(20,873)		
(189)			(Surplus) or Deficit on General Fund Balance in Year	361		
(20,873)			Closing General Fund Balance at 31 March	(20,511)		

### Note 2. Accounting Policies

#### 2.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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### 2.2 Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

Exceptions to this are payments of regular quarterly accounts (e.g. telephones, electricity) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. This policy applies to contractual debt as well as to statutory debt for Council Tax, Non-Domestic Rates and overpayments of Housing Benefit.

### 2.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. The officer responsible for Treasury Management has categorised items on the balance sheet as cash equivalents on this basis.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### 2.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events

and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **2.5 Charges to Revenue for Non-Current Assets**

Service revenue accounts, central support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- any subsequent reversal of such losses;
- the annual amortisation of intangible fixed assets attributable to the service;
- any revenue costs which are met from capital resources as Revenue Expenditure Financed from Capital under Statute (REFCUS – see 2.19 below)

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation, and they are therefore reversed through appropriations from the Capital Adjustment Account to the General Fund. However, the Council is required to make an annual contribution from revenue resources to the Capital Adjustment Account to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP).

### **2.6 Council Tax and Non-domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

#### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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### 2.7 Provisions Contingent Assets and Liabilities

#### Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the authority has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### Contingent Assets

A contingent asset is a possible asset that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically, a contingent asset is related to a legal action by the Council, whose outcome is uncertain when the balance sheet is compiled.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 2.8 Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday

benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

When termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at the year-end

### Post-employment Benefits

International Accounting Standard 19 became effective from the accounting period starting after 1 January 2013. This standard relates to Pensions and details of the impact of this are recorded in Note 35.

Employees of the Authority are members of the Local Government Pension Scheme, administered by Kent County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority.

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the Kent County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

The liabilities are valued using a discount rate being the annualised yield. This started at 20 years on the Merrill Lynch AA-rated Corporate bond yield curve which was chosen to meet the requirements of IAS19 and with consideration of the Employers liabilities and is reduced annually as detailed in Note 35.

The assets of the Kent County Council Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

A revised IAS19 statement applied for company accounting periods beginning on or after 1 January 2013 and the main changes that arose from that standard are:

The expected return on assets has been replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate.

Some labelling changes to the Profit and Loss change e.g. Service costs now include what were

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previously described as 'Current Service Costs' plus the 'Past Service cost' plus 'Curtailments' plus 'Settlements'. Administration expenses are now accounted for within the Profit and Loss charge, where previously they were a deduction to the actual and expected return on assets.

The change in the net pensions liability is analysed into components of service cost:

- Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the service for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Past service costs include the cost of curtailments, which are normally linked to an event giving rise to a post employment benefit. Past service costs are debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
- Net interest on the defined liability – the change to the net pension liability that arises from the passage of time during the year. This is charged to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
- Contributions by scheme participants, which increase plan liabilities, but correspondingly increase plan assets, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
- Remeasurements – changes in the present value of the net pensions liability, resulting from:
  - the return on plan assets, excluding the amounts included in net interest.
  - experience adjustments (the differences between the previous actuarial assumptions and what has actually occurred).
  - the effects of changes in actuarial assumptions
- Benefits paid, which reduce plan assets, but correspondingly reduce its liabilities, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
- Contributions paid to the Kent County Council Pension Fund – the employer's contributions to the pension fund for the financial year, chargeable to the General Fund, but not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### 2.9 Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 2.10 Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. This includes trade creditors and loans.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

#### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

#### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that

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the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

### Financial assets measured at fair value through other comprehensive income

Financial assets that are measured at FVOCI are recognised on the balance sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

### Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

### Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

## **2.11 Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:



- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Grants and contributions towards specific services for revenue purposes are credited against the appropriate line in the Cost of Services, but if grants and contributions are not related to specific services they are credited as Taxation and Non-Specific Grant Expenditure and Income, along with all grants and contributions receivable towards investment in non-current assets. As these capital grants and contributions are not properly credited to the General Fund, an equivalent appropriation is made from the General Fund into the Capital Grants Unapplied Reserve, which is set aside for the financing of capital investment. When it has been applied for financing it is transferred to the Capital Adjustment Account.

### **2.12 Community Infrastructure Levy**

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions as set out in 2.11. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

### **2.13 Inventories**

Stocks are valued at cost. This is a departure from the requirements of the Code which require inventories to be shown at cost or net realisable value if lower; the effect of the different treatment is immaterial.

### **2.14 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### 2.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### The Authority as Lessee

##### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### The Authority as Lessor

#### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **2.16 Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

### **2.17 Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

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### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. A de-minimis level of £15,000 has been applied.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement basis:

- infrastructure, community assets and assets under construction - depreciated historical cost
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective.
- all other assets – current value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);

Where there is no market-based evidence of existing use value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for in the following ways:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back

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to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the authority's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **2.18 Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

### **2.19 Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset (for example, Disabled Facilities Grants) has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

### **2.20 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

## 2.21 Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in policy 2.17.

At present the Council has no material heritage assets.

## 2.22 Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in an authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 - inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

## 2.23 Group Accounts

Group Accounts are prepared in accordance with IFRS 10 (consolidated financial statements) and IFRS 12 (disclosure of interest in other entities), where it is considered that the Council has a material interest in subsidiaries.

Where applicable the following principles will be followed:

### Basis of Consolidation

Group Accounts will be prepared on the basis of a full consolidation of the financial transactions and balances of the Council and a relevant subsidiary. Any gains and losses arising from a subsidiary will be fully reflected in the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and Cashflow Statement within the Group column.

### Accounting Policies

Group Accounts will be prepared using consistent accounting policies where possible; where there are

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conflicting policies with IFRS requirements, then the requirements of the Code of practice for Local Authority accounting will be adopted for consolidation purposes.

Where Intra-group charges occur, they will be removed during consolidation of the accounts.

The decision to group account is determined by Qualitative and Quantitative materiality, therefore when considering whether to group, not only the values are relevant, the interest to all stakeholders is also taken into account.

### 2.24 Interests in companies and other entities

Where the authority has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### Note 3. Accounting Standards that have been issued but not yet adopted.

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard which has been issued but is yet to be adopted by the 2019/20 Code. The Code also requires that changes in accounting policy are to be applied retrospectively unless transitional arrangements are specified, this would result in an impact on disclosures spanning two financial years. Accounting changes that are introduced by the 2020/21 code are:

- Amendments to IAS 28 Investment in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

These changes are not expected to have a material impact on the Council's statements.

- Changes relating to IFRS16 Leases were originally in the 2020/21 code but the implementation of these have now be delayed for a further year. These changes relate to the classification of leases and will affect the authorities accounts from 1st April 2021.

### Note 4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is much uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of any need to close facilities or reduce levels of service provision.
- An assessment has been made of the potential liability of valuation appeals arising from business rate premises in respect of monies received by the Council up to 31 March 2020. This provision is based on information received from the Valuation Office Agency. Further details are shown within the notes to the Collection Fund.
- Going Concern. The UK and in fact the rest of the world is currently dealing with the COVID-19 pandemic which is putting significant pressure on the UK economy. The Council has a strong financial planning process and is identifying the impact of COVID-19 and how it will be dealt with and plan for the future. Based on its current financial position and the legislation unpinning local



authorities, the accounts have been prepared on a going concern basis

- Preparation of Group accounts as detailed in 2.23
- Property Valuations. The valuer has declared a 'material valuation uncertainty' in the valuation report issued. This is on the basis of uncertainties in markets caused by COVID-19. The values in the report have been used to inform the measurement of the Council's properties at valuation in these financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and this remains the best and most reliable information available to the Council. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global.
- Pension Fund. The information report in these accounts are based on the actuarial information. Due to the nature of the pension fund there are a number of estimations and assumptions that are undertaken. Two elements that have impact of the Pension fund this year are:
  - Following the COVID-19 pandemic occurring towards the end of 2019/20, it is likely there will be an impact on the valuation of pension funds which were valued at 31 March and the assumptions used within these calculations. Although this impact is currently uncertain, the actuarial report the Council has received indicates that asset fund performance has been volatile over the period to 31 March. Therefore market valuations may be subject to change, affecting in turn, the net pension liability. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global.
  - Past service costs for 19/20, which are material, have been estimated by the actuary and relate to the McCloud judgement

### **Note 5. Prior Period Adjustment**

The 2018/19 core statements and appropriate notes have been restated following a reporting restructure in 2019/20.

The Capital Finance Requirement for 2018/19 has been restated to follow the 2019/20 treatment of capital grants unapplied.

Where the Code of Practice requires analysis on a segmental basis, tables have been re-stated to provide a prior year comparison.

### **Note 6. Events After the Balance Sheet Date**

Events after the Balance Sheet Date are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. There are potentially two types of events:

- If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events;
- If they are indicative of conditions that arose after the reporting period, the Statement of Accounts is not amended. If, however, an event would have a material effect, a disclosure is made in the notes to the accounts, outlining the event and its estimated financial effect.

Any event taking place after the accounts are authorised for issue is not reflected in the Statement of Accounts.

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### Brexit

In January 2020 the UK left the European Union and currently the post Brexit trade and other related negotiations are being held. Currently no details have been released so the impact negotiations and also the reported delay being caused by COVID-19 means that at the time these accounts are completed the impact is unknown.

### COVID-19

Further to the final point under Note 4 critical judgements, the impact of COVID-19 on the financial statements 2019/20 has been reviewed and accounted for as appropriate following the CIPFA Code of Practice and IAS1. The COVID-19 operational impact was first recognised by the Council on 23 March 2020 and has carried on into the 2020/21 financial year. Financial uncertainty exists in a number of fields including volatility of the financial and property markets and the future financial impact of COVID-19. The financial impact is being closely monitored and financial planning has been put in place to ensure the stable financial future of the authority.

### **Note 7. Notes to the Expenditure and Funding Analysis**

#### **Adjustments between Funding and Accounting Basis**

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund Balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2018/19	Adjustments for Capital	Net change for the Pensions adjustments	Other Statutory Adjustments	Other Differences	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
People & Places	132	412	-	848	1,392
Customer & Resources	-	517	-	(1,448)	(931)
Finance & Trading	(17)	(1,122)	-	(976)	(2,115)
Planning & Regulatory	1,015	796	-	1,463	3,274
<b>Net Cost of Services</b>	<b>1,130</b>	<b>603</b>	<b>-</b>	<b>(113)</b>	<b>1,620</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(6,181)	2,289	(54)	111	(3,835)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	(5,051)	2,892	(54)	(2)	(2,215)

Adjustments between Funding and Accounting Basis (cont)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2019/20	Adjustments for Capital £'000s	Net change for the Pensions adjustments £'000s	Other Statutory Adjustments £'000s	Other Differences £'000s	Total £'000s
People & Places	225	457	-	1,356	2,038
Customer & Resources	-	482	-	(1,684)	(1,202)
Finance & Trading	10,930	(25)	-	(1,413)	9,492
Planning & Regulatory	1,704	818	-	2,666	5,188
<b>Net Cost of Services</b>	<b>12,859</b>	<b>1,732</b>	<b>-</b>	<b>925</b>	<b>15,516</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(3,779)</b>	<b>2,059</b>	<b>71</b>	<b>(925)</b>	<b>(2,574)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services</b>	<b>9,080</b>	<b>3,791</b>	<b>71</b>	<b>-</b>	<b>12,942</b>

**Note 8. Adjustments Between Accounting Basis and Funding Basis Under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

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### Adjustments Between Accounting Basis and Funding Basis

Adjustments between Accounting Basis and Funding Basis under Regulations 2018/19	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	( 682)			682
Revaluation gain on Property, Plant and Equipment	709			( 709)
Movements in the market value of Investment Properties	157			( 157)
Capital grants and contributions applied	2,917		1,029	( 3,946)
<b>Non Specific Capital Grants</b>				
Revenue expenditure funded from capital under statute	( 4,589)			4,589
Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement	( 50)			50
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements.				-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:</b>				
Transfer of non current asset sale proceeds from revenue to the Capital Receipts Reserve	657	( 657)		-
Administrative costs of non current asset disposals (funded by a contribution from the Capital Receipts Reserve				-
Capital expenditure charged against the General Fund Balance	4,130			( 4,130)
Statutory provision for the repayment of debt	150			( 150)
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,665		( 1,665)	-
Mitigation of operating lease as lessee reclassified as finance lease upon transition to IFRS	( 8)			8

Adjustments Between Accounting Basis and Funding Basis (cont)

Adjustments between Accounting Basis and Funding Basis under Regulations 2018/19 (continued)	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure		148		(148)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1)	1		-
Adjustments primarily involving the Pensions Reserve				-
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(6,291)			6,291
Employer's pensions contributions and direct payments to pensioners payable in the year	3,399			(3,399)
Adjustments primarily involving the Collection Fund Adjustment Account				-
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(189)			189
Amount by which Business Rate income credited to the Comprehensive Income and Expenditure Statement is different from Business Rate income calculated for the year in accordance with statutory requirements	243			(243)
Adjustments primarily involving the Accumulated Absences Account				-
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements				-
<b>Total Adjustments</b>	<b>2,217</b>	<b>(508)</b>	<b>(636)</b>	<b>(1,074)</b>

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### Adjustments Between Accounting Basis and Funding Basis (cont)

Adjustments between Accounting Basis and Funding Basis under Regulations 2019/20	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	( 786)	-	-	786
Revaluation gain on Property, Plant and Equipment	( 10,952)	-	-	10,952
Movements in the market value of Investment Properties	370	-	-	( 370)
Capital grants and contributions applied	4,383	-	1,705	( 6,088)
	-	-	-	
<b>Non Specific Capital Grants</b>				
Revenue expenditure funded from capital under statute	( 6,090)	-	-	6,090
Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement	( 269)	-	-	269
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements.	-	-	-	-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:</b>				
Transfer of non current asset sale proceeds from revenue to the Capital Receipts Reserve	1,497	( 1,497)	-	-
Administrative costs of non current asset disposals (funded by a contribution from the Capital Receipts Reserve	-	-	-	-
Capital expenditure charged against the General Fund Balance	1,381	-	-	( 1,381)
Statutory provision for the repayment of debt	274	-	-	( 274)
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,121	-	( 1,121)	-
	-	-	-	
Mitigation of operating lease as lessee reclassified as finance lease upon transition to IFRS	( 9)	-	-	9

Adjustments Between Accounting Basis and Funding Basis (cont)

Adjustments between Accounting Basis and Funding Basis under Regulations 2019/20 (continued)	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	-	317	-	( 317)
	-	-	-	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-	-	-
	-	-	-	
Adjustments primarily involving the Pensions Reserve	-	-	-	
	-	-	-	
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	( 7,338)	-	-	7,338
	-	-	-	
Employer's pensions contributions and direct payments to pensioners payable in the year	3,547	-	-	( 3,547)
	-	-	-	
Adjustments primarily involving the Collection Fund Adjustment Account	-	-	-	
	-	-	-	
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	83	-	-	( 83)
	-	-	-	
Amount by which Business Rate income credited to the Comprehensive Income and Expenditure Statement is different from Business Rate income calculated for the year in accordance with statutory requirements	( 154)	-	-	154
	-	-	-	
Adjustments primarily involving the Accumulated Absences Account	-	-	-	
	-	-	-	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-
	-	-	-	
<b>Total Adjustments</b>	<b>( 12,942)</b>	<b>( 1,180)</b>	<b>584</b>	<b>13,537</b>

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### Note 9. Transfers To/From Usable Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19 and 2019/20.

#### Transfers to/from Usable Reserves

	Balance at 31/03/18 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31/03/19 £'000	Transfers Out 2019/20 £'000	Transfers In 2019/20 £'000	Balance at 31/03/20 £'000
General Fund	(1,500)	-	-	(1,500)	-	-	(1,500)
Budget Stabilisation	(5,610)	433	(2,761)	(7,938)	391	(452)	(7,999)
Financial Plan	(4,020)	3,976	(1,320)	(1,364)	869	(1,220)	(1,715)
Asset Maintenance	(1,000)	-	-	(1,000)	-	-	(1,000)
Carry Forward Items	(508)	31	(231)	(707)	44	(295)	(958)
IT Asset Maintenance	(590)	-	(92)	(682)	-	(43)	(725)
Business Rates Retention	(809)	243	-	(566)	-	(154)	(720)
Vehicle Renewal	(697)	766	(601)	(532)	563	(694)	(663)
Housing and Commercial Growth Fund	-	-	-	-	1	(567)	(566)
Pension Fund	(500)	-	-	(500)	-	-	(500)
New Homes Bonus	(469)	63	-	(406)	-	-	(406)
Action and Development	(396)	-	-	(396)	-	-	(396)
Housing Benefit Subsidy	(611)	250	(83)	(444)	248	(164)	(360)
People and Places	(274)	75	(153)	(352)	96	(68)	(324)
Re-organisation	(423)	-	-	(423)	111	-	(312)
Corporate Project Support	(572)	127	(141)	(586)	284	-	(302)
Local Plan	(559)	263	(195)	(491)	272	(66)	(285)
Vehicle Insurance	(309)	10	-	(299)	51	-	(248)
Sewerage	(266)	60	-	(206)	-	-	(206)
Community Infrastructure Levy Administration	(107)	-	(77)	(184)	-	-	(184)
Capital Financing	(445)	-	(148)	(593)	581	(148)	(160)
Property Investment Strategy Maintenance	-	-	(24)	(24)	-	(110)	(134)
Planning Services	(20)	20	(35)	(35)	-	(94)	(129)
Homelessness Prevention	(231)	310	(334)	(255)	506	(370)	(119)
Other	(768)	926	(1,548)	(1,390)	883	(93)	(600)
<b>Total</b>	<b>(20,684)</b>	<b>7,553</b>	<b>(7,741)</b>	<b>(20,873)</b>	<b>4,900</b>	<b>(4,538)</b>	<b>(20,511)</b>



The purpose of these usable reserves is shown below:

- Budget Stabilisation - To support decisions required to continue to produce a balanced budget in future years in spite of expected funding reductions.
- Financial Plan – Funds that support the 10-year budget strategy.
- Asset Maintenance – To fund emergency asset maintenance works.
- Carry Forward Items - For specific items agreed by Cabinet.
- IT Asset Maintenance – To fund future IT asset maintenance costs.
- Business Rates Retention– To manage the volatility in yearly cash flows in the Collection Fund caused by the complexities in the Business Rates Retention Scheme.
- Vehicle Renewal - Funding for future commercial vehicle replacements.
- Housing and Commercial Growth Fund – To fund projects as part of the West Kent Partnership within the district
- Pension Fund - To contribute towards any future downturns in the pension fund following actuarial
- New Homes Bonus - Due to the uncertainty of future Government funding an element of the New Homes Bonus is being kept separate as part of the 10 year Financial Plan.
- Action and Development - To fund ad hoc expenditure e.g. resulting from an emergency.
- Housing Benefit Subsidy - Provides a cushion against large movements in reclaimable sums in any year.
- People and Places - To fund ongoing and future projects.
- Re-organisation - To fund actions taken to achieve ongoing budget savings.
- Corporate Project Support - To support investigation and development of Corporate Projects.
- Local Plan - To help support the Local Plan.
- Vehicle Insurance - Provides own damage cover on the Council's commercial vehicle fleet.
- Sewerage – Transferred from a provision for potential liabilities relating to earlier sewerage installations.
- Community Infrastructure Levy Administration - To be spent on the administration of the levy.
- Capital Financing –Annual contributions from revenue to fund some capital projects.
- Property Investment Strategy Maintenance – To fund future maintenance and void periods
- Planning Services - To fund ongoing and future projects.
- Homelessness Prevention – To assist in the delivery of the Homelessness Reduction Act
- Other - Other small reserves set aside.

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### Note 10. Property, Plant and Equipment

Movements on Balances

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000	Community Assets £'000	Operational Property Surplus £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Movements in 2018/19:						
Cost or Valuation						
At 1 April 2018	20,825	5,280	211	1,190	11,826	39,332
Additions	52	810	-	-	10,903	11,765
Revaluation increases/ (decreases) recognised in:	-	-	-	-	-	-
- Revaluation Reserve	2,015	-	-	( 24)	-	1,991
- Surplus or Deficit	711	-	-	( 2)	-	709
Derecognition – Disposals	-	( 372)	-	-	-	( 372)
Derecognition – Other	-	( 395)	-	-	-	( 395)
Reclassifications in PPE	-	-	-	-	-	-
Reclassifications other	-	-	-	-	( 8,026)	( 8,026)
At 31 March 2019	<u>23,603</u>	<u>5,323</u>	<u>211</u>	<u>1,164</u>	<u>14,703</u>	<u>45,003</u>
Accumulated Depreciation and Impairment						
At 1 April 2018	( 350)	( 3,904)	-	-	-	( 4,254)
Depreciation Charge	( 167)	( 516)	-	-	-	( 683)
Depreciation written out to the						-
- Revaluation Reserve	-	-	-	-	-	-
- Surplus or Deficit on the provision of services	-	-	-	-	-	-
Derecognition – Disposals	-	372	-	-	-	372
Derecognition - Other	-	395	-	-	-	395
Reclassifications	-	-	-	-	-	-
At 31 March 2019	<u>( 517)</u>	<u>( 3,653)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 4,170)</u>
Net Book Value						
As at 31 March 2019	23,086	1,670	211	1,164	14,703	40,834

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000	Community Assets £'000	Operational Property Surplus £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Movements in 2019/20:						
Cost or Valuation						
At 1 April 2019	23,603	5,323	211	1,164	14,703	45,003
Additions	5	582	-	-	4,721	5,308
Revaluation increases/ (decreases) recognised in:	-	-	-	-	-	-
- Revaluation Reserve	1,162	-	-	( 119)	-	1,043
- Surplus or Deficit	( 10,959)	-	-	-	-	( 10,959)
Derecognition – Disposals	-	( 667)	-	-	-	( 667)
Derecognition – Other	11,327	-	-	-	-	11,327
Reclassifications in PPE	-	-	-	-	-	-
Reclassifications other	-	-	-	-	( 11,327)	( 11,327)
At 31 March 2020	25,138	5,238	211	1,045	8,097	39,728
Accumulated Depreciation and Impairment						
At 1 April 2019	( 517)	( 3,653)	-	-	-	( 4,170)
Depreciation Charge	( 195)	( 591)	-	-	-	( 786)
Depreciation written out to the	-	-	-	-	-	-
- Revaluation Reserve	1,888	-	-	-	-	1,888
- Surplus or Deficit on the provision of services	-	-	-	-	-	-
Derecognition – Disposals	-	657	-	-	-	657
Derecognition - Other	-	-	-	-	( 1,599)	( 1,599)
Reclassifications	-	-	-	-	-	-
At 31 March 2020	1,176	( 3,587)	-	-	( 1,599)	( 4,010)
Net Book Value						
As at 31 March 2020	26,314	1,651	211	1,045	6,498	35,719

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### Capital Commitments

At 31 March 2020, there were no significant sums outstanding on capital contracts.

### Surplus Assets

Details of the authority's Surplus Assets and information about the fair value hierarchy

	31st March 2019 £'000	31st March 2020 £'000
<b>Surplus Operation Properties</b>		
Quoted Prices in active market for identical assets (Level 1)	-	-
Other significant observable inputs (Level 2)	1,164	1,045
Significant un-observable inputs (Level 3)	-	-
Fair Value	<u>1,164</u>	<u>1,045</u>

The following significant observable inputs were used to determine the level 2 fair value for Surplus Assets.

The fair value for the properties (at market rates) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. Appropriate adjustments have been made to account for planning risk and associated uncertainties where planning permission does not already exist for the highest and best use.

The assets which include the site of the Swanley Working Mens Club and property in the Swanley High Street are surplus to operational needs and are being held pending redevelopment of the site.

The fair value of the authority's Surplus Assets is measured annually. All valuations are carried out by external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuers work closely with finance officers reporting directly to the Chief Officer – Finance & Trading on a regular basis regarding all valuation matters.

### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Each class of asset is valued at the same time.

The freehold and leasehold properties which comprise the Authority's property portfolio have been valued as at 31st March 2020, by external independent valuers, Wilks, Head and Eve, Chartered Surveyors. Valuations have been made on the undermentioned bases in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors, except that not all the properties were inspected. This was neither practicable nor considered by the valuers to be necessary for the purpose of the valuation.

Plant and machinery that forms part of a building is included in the valuation.

Properties regarded by the Authority as operational were valued on the basis of Existing Use Value or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. Useful economic lives for these properties are generally 35 years.

Properties regarded by the Authority as investment properties have been valued on the basis of market value, again with useful economic lives of generally 35 years.

Vehicles, plant and equipment in the balance sheet relate to the Council's commercial vehicle fleet, computer equipment, fitness equipment in the leisure centres, air quality monitoring equipment, CCTV equipment and playground equipment. Most equipment is depreciated over 5 years, with larger commercial vehicles over 7 years or, exceptionally, 10 years.

The regular rolling programme of asset valuation is as follows:

Year of Valuation	Class of asset valued in year
2019/20	Investment Properties, Car parks, Amenity Land, Community Offices and Surplus Operational Assets
2018/19	Investment Properties, Car parks; Amenity Land, Playgrounds
2017/18	and Surplus Operational Assets
2016/17	Investment Properties, Amenity Land, Car Parks and Community Offices
2015/16	Investment Properties and Amenity Land
2014/15	Investment Properties, Leisure Centres, Golf Course, Hollybush Depot, premises and grounds
	Investment Properties, Stag Theatre, Parks and Woodlands

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The following statement shows the progress on the Council's rolling programme for the revaluation of Property, Plant and Equipment:

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Community Assets £'000	Assets Held for Sale £'000	Assets Under Construction £'000	Surplus Assets £'000	TOTAL £'000
Carried at historical cost:		5,237	211	-	-	-	5,448
Valued at current value in:							
2019/20	15,153			186	6,498	1,045	22,882
2018/19	7,083	-	-	150	-	-	7,233
2017/18	-	-	-	-	-	-	-
2016/17	4,483	-	-	30	-	-	4,513
2015/16	-	-	-	-	-	-	-
2014/15	17	-	-	-	-	-	17
2013/14	-	-	-	-	-	-	-
Total	<u>26,736</u>	<u>5,237</u>	<u>211</u>	<u>366</u>	<u>6,498</u>	<u>1,045</u>	<u>40,093</u>

### Note 11. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2018/19 £'000	2019/20 £'000
Rental income from investment property	(1,056)	(1,939)
Direct operating expenses from investment property	56	348
Net income from Investment Properties	<u>(1,000)</u>	<u>(1,591)</u>

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There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or to make repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2018/19 £'000	2019/20 £'000
Balance at start of the year	21,443	29,753
Purchases	8,229	482
Disposals	( 50)	( 259)
Net Gains/ (losses) from fair value adjustment	131	371
	<u>29,753</u>	<u>30,347</u>

Details of the authority's Investment Properties and information about the fair value hierarchy at 31 March 2020 are as follows:

	31st March 2019 £'000	31st March 2020 £'000
<b>Existing properties generating rental income</b>		
Quoted Prices in active market for identical assets (Level 1)		
Other significant observable inputs (Level 2)	10,750	2,651
Significant un-observable inputs (Level 3)		
<b>Property Investment Strategy</b>		
Quoted Prices in active market for identical assets (Level 1)		
Other significant observable inputs (Level 2)	19,003	27,696
Significant un-observable inputs (Level 3)		
Total Fair Value	<u>29,753</u>	<u>30,347</u>

The observable inputs used for the fair value calculation for Investment properties are the same as previously stated for Surplus Assets.

Properties are subject to leases with varying review dates.

The fair value of the authority's Investment Properties is measured annually. All valuations are carried out by external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuers work closely with

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finance officers reporting directly to the Chief Officer – Finance & Trading on a regular basis regarding all valuation matters.

### Note 12. Financial Instruments

#### Balance Sheet disclosures

#### Categories of Financial Assets

	Long Term				Short Term			
	Investments		Debtors		Investments		Debtors	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
FVPL								
Amortised cost			987	3,153	20,851	15,893	2,132	1,784
FVOCI - designated	265	1,711						
FVOCI - other								
Total Financial Assets	<u>265</u>	<u>1,711</u>	<u>987</u>	<u>3,153</u>	<u>20,851</u>	<u>15,893</u>	<u>2,132</u>	<u>1,784</u>
Non-Financial Assets			70,736	66,205			4,662	3,651
Total			<u>71,988</u>	<u>71,069</u>			<u>27,645</u>	<u>21,328</u>

#### Categories of Financial Liabilities

	Long Term				Short Term			
	Borrowings		Creditors		Borrowings		Creditors	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
FVPL								
Amortised cost	(5,014)	(4,892)	(350)	(349)	(176)	(178)	(2,365)	(1,795)
Total Financial Liabilities	<u>(5,014)</u>	<u>(4,892)</u>	<u>(350)</u>	<u>(349)</u>	<u>(176)</u>	<u>(178)</u>	<u>(2,365)</u>	<u>(1,795)</u>
Non-Financial Liabilities			(87,864)	(67,344)			(17,121)	(18,741)
Total			<u>(93,228)</u>	<u>(72,585)</u>			<u>(19,662)</u>	<u>(20,713)</u>

#### Investments in equity instruments designated at fair value through other comprehensive income

	Carrying amount at 31/03/20 £'000	Fair value at 31/03/20 £'000	Change in value during 2019/20 £'000	Dividends 2019/20 £'000
UK Municipal Bond Agency	50	50	-	-
Quercus 7 Ltd	1,661	1,661	1,446	-
	<u>1,711</u>	<u>1,711</u>		

The authority holds shares in UK Municipal Bond Agency which was set up to allow local authorities to diversify funding sources and borrow at a lower cost. The agency will sell municipal bonds on the capital markets, raising funds that it will then lend to the councils. As the equity instrument of UK MBA is not held for trading, rather a longer term policy initiative, it has been designated as fair value through other comprehensive income. The shares are carried at cost which is the best estimate of fair value.

The authority holds shares in Quercus 7 Ltd, a wholly owned subsidiary, which was set up to enable



Sevenoaks District Council to invest in property on a commercial basis, ensuring a sustainable income for the Council, as well as enabling the Council to invest in and hold residential property, which it is otherwise not allowed to do. As the equity instrument of Quercus 7 Ltd is not held for trading, rather a longer term policy initiative, it has been designated as fair value through other comprehensive income. The shares are carried at cost which is the best estimate of fair value.

### Comprehensive Income and Expenditure Statement disclosures

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2018/19		2019/20	
	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000
Interest revenue				
financial assets measured at Amortised cost	(310)		(266)	
financial assets measured at FVOCI - other				
Total interest revenue	<u>(310)</u>	<u>-</u>	<u>(266)</u>	<u>-</u>
Interest expense	<u>164</u>		<u>161</u>	

### Fair Value

Some of the authority's financial assets are measured at fair value on a recurring basis and described in the following table, including the valuation technique used to measure them:

	Input level in fair value hierarchy	Valuation technique	As at	As at
			31/3/19 £'000	31/3/20 £'000
FVOCI - designated				
UK Municipal Bond Agency	Level 3	Cost	50	50
Quercus 7 Ltd	Level 3	Cost	215	1,661

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For both non-PWLB loan payable and the loan from the PWLB new loan rate has been applied to provide the fair value.
- For loans receivable 24 months Investment market rates have been used to provide fair values.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months (investments) or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

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The fair values of financial assets and financial liabilities that are not measure at fair value

	Input level in fair value hierarchy	31/3/19		31/3/20	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		£'000	£'000	£'000	£'000
<b>Financial liabilities</b>					
PWLB debt	Level 2	(5,190)	(5,497)	(5,070)	(5,218)
Long term creditors	Level 2	(350)	(672)	(349)	(637)
Short term creditors	Level 2	(2,365)	(2,365)	(1,795)	(1,795)
<b>Financial Assets</b>					
Financial Institutions (banks)	Level 2	7,037	7,037	5,056	5,056
Building Societies	Level 2	1,003	1,003	3,026	3,026
Other Local Authorities	Level 2	11,039	11,039	3,005	3,005
Money Market Funds	Level 2	2,201	2,201	3,203	3,203
Long term debtors	Level 2	987	1,260	3,188	3,538
Short term debtors	Level 2	2,132	2,132	1,749	1,749

The fair value of liabilities is greater than the carrying amount because the Council's portfolio of loans includes fixed rates loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loan of £4.892m measures the economic effect of terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loan under the agreement with the PWLB, against what would be paid if the loan was at the current PWLB new loan rate.

The fair value of assets is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for investments the Council would be allowed to make in accordance with the Council's Investment Policy at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2020) arising from a commitment to receive interest from borrowers above current Investment market rates.

### Disclosure of nature and extent of risks arising from financial instruments

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have the funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate or stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by treasury management officers under policies approved by the Council in the annual treasury management strategy. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The Council uses the creditworthiness service provided by its treasury management consultant, Link Asset Services. This service uses a sophisticated modelling approach that combines credit ratings from the above mentioned rating agencies as the core element with other subjective overlays. In addition, the Council has the following policies:

- Maximum investment period of two years.
- Lending to Building Societies restricted to those Societies having assets in excess of £3bn with a maximum investment period of 1 year if the Society does not satisfy the creditworthiness modelling approach.
- No more than £7m per counterparty. For Building Societies, the limit is £5m where the Society satisfies the creditworthiness modelling approach, or £3m if it doesn't.

Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies.

Total investments in any one country outside of the UK, is limited to 15% of the total fund. Investment in non-UK banks is subject to prior approval by Committee.

The Strategy also permits investment with other local authorities and the UK Government's Debt Management Office for periods up to 2 years and six months respectively. Money Market Funds and Enhanced Money Market Funds are also utilised with a combined maximum deposit of £5m per provider.

The full investment strategy for 2019/20 was approved by Council on 26 February 2019. There were no breaches of the Council's counterparty criteria during the reporting period.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £10.2m at 31 March 2020 cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2020 that this was likely to crystallise.

The Council calculates impairment losses to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on basis of 12-month expected losses. Only lifetime losses are recognised for trade receivables held by the authority.

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The changes in loss allowances for the trade receivables during the year are shown in the table below:

	Lifetime ECL - simplified approach £'000	Total £'000
Opening Balance as at 01/04/18	(85)	(85)
Trade debtors: individual assessment	-	-
Trade debtors: collective assessment	-	-
Amounts written-off	22	22
Balance as at 31/03/19	(64)	(64)
Trade debtors: individual assessment	-	-
Trade debtors: collective assessment	(32)	(32)
Amounts written-off	16	16
Balance as at 31/03/20	(79)	(79)

### Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All investments, totalling £16.4m are due to be repaid in less than one year.

### Refinancing and Maturity Risk

The Council maintains a substantial investment portfolio and a relatively small amount of debt. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. As the Council has only a small amount of debt and does not lend for periods in excess of two years, this risk is not considered significant.

**Market Risk**

Interest Rate Risk

Upwards or downwards movements in interest rates may have a complex impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

Borrowings at fixed rates – the fair value of the borrowing will fall (but no impact on revenue balances);

Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and

Investments at fixed rates – the fair value of the assets will fall (but no impact on revenue balances).

The treasury management team has an active strategy for assessing interest risk exposure that feeds into the setting of the annual budget.

By way of example, if interest rates on deposits had been 1% higher during 2019/20 (with all other variables held constant), the financial effect would have been to increase investment income by £339,000.

Price Risk

The Council does not invest in equity shares or marketable bonds for trading purposes and is not, therefore, exposed to losses arising from movements in prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It, therefore, has no exposure to loss arising from movements in exchange rates.

**Note 13. Inventories**

This refers to stocks of salt and fuel held at the Dunbrik depot and wood stocks at Farningham Woods.

	2018/19 £'000	2019/20 £'000
Balance outstanding at start of the year	46	69
Purchases	459	435
Recognised as an expense in the year	( 436)	( 440)
Balance outstanding at end of the year	69	64

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### Note 14. Debtors

#### Short Term Debtors

31/03/19 £'000		31/03/20 £'000
337	Central Government Bodies	274
1,369	Other Local Authorities	737
441	Council Tax Payers	581
2,475	Non Domestic Rate	1,432
1,923	Other entities and individuals	2,160
<u>6,545</u>	Total	<u>5,184</u>

#### Long Term Debtors

31/03/19 £'000		31/03/20 £'000
1,136	Other entities and individuals	3,291
<u>1,136</u>	Total	<u>3,291</u>

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to exchange assets).

### Note 15. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31/03/19 £'000	31/03/20 £'000
Cash held by the Authority	8	6
Bank current accounts	(437)	1,597
Short-term deposits with:		
Banks	1,001	0
Building Societies	-	-
Other Local Authorities	-	-
Money Market Funds	2,201	3,203
Total Cash and Cash Equivalents	<u>2,773</u>	<u>4,806</u>

**Note 16. Assets Held for Sale**

	2018/19 £'000	2019/20 £'000
Balance at start of the year	180	180
Purchases	-	-
Disposals	-	-
Net Gains/ (losses) from fair value adjustment	-	7
Assets newly classified as held for sale	-	-
Asset de-classified as held for sale	-	-
	<u>180</u>	<u>187</u>

Assets Held for Sale are carried at the lower of their carrying value or their fair value less costs to sell. Details of the authority's Assets Held for Sale and information about the fair value hierarchy at 31 March 2020 are as follows:

	Carrying Value £'000	Fair Value £'000	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000
Assets held for Sale 2019/20	187	1,163	-	1,163	-
Assets held for Sale 2018/19	180	1,454	-	1,454	-
Assets held for Sale 2017/18	180	1,013	-	1,013	-
Assets held for Sale 2016/17	180	528	-	528	-

The following significant observable inputs were used to determine the level 2 fair value for Surplus Assets:

The fair value for the properties (at market rates) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. Appropriate adjustments have been made to account for planning risk and associated uncertainties where planning permission does not already exist for the highest and best use.

The fair value of the authority's Assets Held for Sale is measured annually. All valuations are carried out by external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuers work closely with finance officers reporting directly to the Chief Officer – Finance & Trading on a regular basis regarding all valuation matters.

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### Note 17. Creditors and Receipts in Advance

#### Short Term Creditors

31/03/19 £'000		31/03/20 £'000
( 473)	Central Government Bodies	( 2,036)
( 955)	Other Local Authorities	( 855)
( 121)	Council Tax Payers	( 144)
( 5,468)	Non Domestic Rate	( 5,261)
( 1,626)	Other entities and individuals	( 940)
<u>( 8,643)</u>	Total	<u>( 9,236)</u>

#### Long Term Borrowing

31/03/19 £'000		31/03/20 £'000
( 5,014)	Central Government Bodies	( 4,892)
( 350)	Other Local Authorities	( 349)
<u>( 5,364)</u>	Total	<u>( 5,241)</u>

#### Short Term Receipts in Advance

31/03/19 £'000		31/03/20 £'000
( 45)	Central Government Bodies	( 1,998)
( 322)	Other Local Authorities	( 331)
( 275)	Council Tax Payers	( 266)
( 319)	Non Domestic Rate	( 180)
( 399)	Other entities and individuals	( 406)
<u>( 1,360)</u>	Total	<u>( 3,181)</u>

### Note 18. Provisions

The following provisions have been made by the Council:

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to settle liabilities).



	Long Term MMI £'000	Short Term Accumulated Absences £'000	NDR Appeals £'000	Total Short Term £'000
Balance at 1 April 2019	257	152	2,547	2,699
Additional Provisions made during year	-	-	3,820	3,820
Amounts Used during the year	-	-	(3,303)	(3,303)
Amounts reversed as not required	-	-	-	-
Balance at 31 March 2020	<u>257</u>	<u>152</u>	<u>3,064</u>	<u>3,216</u>

**Municipal Mutual Insurance Limited (MMI)** – MMI was the main local authority insurer for many years up until 1992 when the company failed and went into “run off”. A Scheme of Arrangement was approved in 1994 with the aim of meeting all claims and achieving a solvent run-off. For a number of years the Administration and Creditors Committee reported that a solvent run-off was likely to be achieved and sought to sell the business to another insurer to bring the arrangement to a conclusion.

Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of others rather than MMI. This increased the risk that a solvent run-off would not be achieved which would result in councils (and others, such as housing associations) being liable to clawback of monies paid out to settle claims. Due to this uncertainty, the Council has shown this risk as a Contingent Liability in the Statement of Accounts in recent years

**The Accumulated Absences Provision** is the opposite of the Accumulated Absences Account included in Unusable Reserves. This absorbs the difference that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2020.

**NDR Appeals** – Business ratepayers can make an appeal against the rateable value attributed to their property by the Valuation Office. Changes brought about by the new Business Rates Retention scheme mean that the Council has to provide for its share of the costs arising from successful appeals.

#### Note 19. Usable Reserves

Movements in the Authority’s usable reserves are detailed in the Movement in Reserves Statement and note 8.

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### Note 20 Unusable Reserves

	31/03/19	Movement in	31/03/20
	£'000	Year	£'000
Capital Adjustment Account	(30,058)	9,349	(20,709)
Revaluation Reserve	(18,812)	(1,013)	(19,825)
Accumulated Absences Account	152	-	152
Collection Fund Adjustment Account	(382)	70	(312)
Pensions Reserve	87,574	(20,537)	67,037
Deferred Capital Receipts Reserve	(158)	10	(148)
Total Unusable Reserves	38,316	(12,121)	26,195

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

## Capital Adjustment Account

2018/19 £'000		2019/20 £'000
( 26,040)	Balance at 1 April	( 30,058)
( 736)	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	-
682	Charges for depreciation and impairment of non current assets	786
27	Revaluation Losses on Property, Plant and Equipment	10,959
4,589	Revenue expenditure funded from capital under statute	6,090
-	Deferred Capital Receipts movement	-
	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	269
50		269
4,612		18,104
( 99)	Adjusting Amounts written out of the Revaluation Reserve	( 318)
4,513	Net Written out amount of the cost of non current assets consumed in the year	17,786
	<b>Capital Financing applied in the year:</b>	
( 148)	Use of the Capital Receipts Reserve to finance new capital expenditure	( 317)
-	Capital Grants and contributions credited to the Comprehensive Income and expenditure statement that have been applied to capital financing	( 4,383)
( 3,946)	Non-specific capital grant	-
-	Application of Grants to capital financing from the Capital Grants Unapplied Account	( 1,705)
( 4,130)	Capital Expenditure charged against the General Fund	( 1,381)
( 150)	Statutory provision for the repayment of debt	( 274)
( 8,374)		( 8,060)
( 157)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	( 377)
( 30,058)	Balance at 31 March	( 20,709)

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

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The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2018/19			2019/20	
£'000	£'000		£'000	£'000
	(16,946)	Balance at 1 April		(18,812)
(2,331)		Upward Revaluation of Assets	(2,522)	
366		Downward Revaluation of Assets and impairment losses not charged to Surplus Deficit on the Provision of Services	1,191	
(1,965)	(1,965)	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on Provision of Services	(1,331)	(1,331)
	99	Difference between fair value depreciation and historical cost depreciation		318
	-	Accumulated gains on assets sold or scrapped		-
	(18,812)	<b>Balance at 31 March</b>		<b>(19,825)</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2018/19			2019/20
£'000			£'000
152		Balance at 1 April	152
-		Settlement or cancellation of accrual made at the end of previous year	-
-		Amounts accrued at the current year end	-
-		Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-
152		<b>Balance at 31 March</b>	<b>152</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2018/19 £'000		2019/20 £'000
( 327)	Balance at 1 April	( 382)
( 55)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	<u>70</u>
( 382)	Balance at 31 March	( 312)

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £'000		2019/20 £'000
91,413	Balance at 1 April	87,574
( 6,731)	Actuarial Gains/(Losses) on pensions assets and liabilities	( 24,328)
6,291	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	7,338
( 3,399)	Employer's pensions contributions and direct payments to pensioners payable in the year	<u>( 3,547)</u>
87,574	Balance at 31 March	67,037

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

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2018/19 £'000		2019/20 £'000
( 167)	Balance at 1 April	( 158)
8	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	9
1	Transfer to the Capital receipts reserve upon receipt of cash	1
( 158)	Balance at 31 March	( 148)

### Note 21. Cash Flow Statement – Operating Activities

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

2018/19 £'000		2019/20 £'000
( 682)	Depreciation	( 786)
866	Impairment and downward valuations	( 10,582)
-	Amortisation	-
( 198)	Increase in impairment provision for bad debts	128
27	(Increase)/Decrease in creditors	( 531)
3,178	Increase/(Decrease) in debtors / payments in advance	( 1,490)
23	Increase/(Decrease) in stock	( 4)
( 2,892)	Pension liability	( 3,791)
( 50)	Carrying amount of non-current assets sold	( 268)
935	Other non-cash items charged to the net surplus or deficit on the provision of services	1,616
<u>1,207</u>	<b>Net cashflows from operating activities</b>	<u>( 15,708)</u>

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

2018/19 £'000		2019/20 £'000
-	Purchase of short-term and long-term investments	-
1,191	Proceeds from short-term and long-term investments	1,739
657	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,496
<u>1,848</u>		<u>3,235</u>

The cash flows for operating activities include the following items:

2018/19 £'000		2019/20 £'000
( 329)	Interest received	( 283)
138	Interest paid	135

**Note 22. Cash Flow Statement – Investing Activities**

2018/19 £'000		2019/20 £'000
11,968	Purchase of property, plant & equipment, investment property and intangible assets	5,790
215	Purchase of short term and long term investments	1,446
-	Other payments for investing activities	-
( 660)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	( 2,079)
( 6,159)	Proceeds from sale of short-term and long-term investments	( 7,139)
( 993)	Other receipts from investing activities	( 1,581)
<u>4,371</u>	<b>Net Cash Flow from Investing activities</b>	<u>( 3,563)</u>

**Note 23. Cash Flow Statement – Financing Activities**

2018/19 £'000		2019/20 £'000
-	Cash receipts of short and long term borrowing	-
( 635)	Other receipts from financing activities	-
( 8)	Cash receipts for finance leases	( 9)
293	Other payments for financing activities	707
<u>( 350)</u>	<b>Net Cash Flow from Financing activities</b>	<u>698</u>

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### Note 24. Segmental Reporting and Reconciliation to Subjective Analysis

The Council is required to present information on reportable segments. Reporting segments are to be based on an authority's internal management reporting arrangements. The segments are based on Chief Officer responsibilities.

#### Note 24.a Subjective Reporting by Chief Officer segments

	People & Places £'000	Customer & Resources £'000	Finance & Trading £'000	Planning & Regulatory Services £'000	Total £'000
<b>Chief Officer Income and Expenditure 2018/19</b>					
	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Service Income	( 716)	( 1,129)	( 4,883)	( 2,273)	( 9,001)
Grants	( 536)	( 26,085)	( 65)	( 34)	( 26,720)
<b>Total Income</b>	<b>( 1,252)</b>	<b>( 27,214)</b>	<b>( 4,948)</b>	<b>( 2,307)</b>	<b>( 35,721)</b>
Employee Expenses	1,585	2,135	3,082	2,214	9,016
Other Service Expenses	1,391	28,375	10,171	1,997	41,934
<b>Total Expenditure</b>	<b>2,976</b>	<b>30,510</b>	<b>13,253</b>	<b>4,211</b>	<b>50,950</b>
<b>Net Expenditure</b>	<b>1,724</b>	<b>3,296</b>	<b>8,305</b>	<b>1,905</b>	<b>15,230</b>
<b>Chief Officer Income and Expenditure 2019/20</b>					
	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Service Income	( 649)	( 1,489)	( 5,275)	( 2,630)	( 10,043)
Grants	( 568)	( 22,807)	( 178)	( 19)	( 23,572)
<b>Total Income</b>	<b>( 1,217)</b>	<b>( 24,296)</b>	<b>( 5,453)</b>	<b>( 2,649)</b>	<b>( 33,615)</b>
Employee Expenses	1,794	2,263	3,231	2,371	9,659
Other Service Expenses	1,230	25,443	10,890	2,041	39,479
<b>Total Expenditure</b>	<b>3,024</b>	<b>27,706</b>	<b>14,121</b>	<b>4,412</b>	<b>49,263</b>
<b>Net Expenditure</b>	<b>1,806</b>	<b>3,410</b>	<b>8,668</b>	<b>1,763</b>	<b>15,648</b>

Reporting is made to Chief Officers and Members on the above segmental basis.



**Note 24.b Reconciliation of Chief Officer Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement**

The reconciliation shows how the figures in the analysis of income and expenditure related to the amounts included in the Comprehensive Income and Expenditure Statement.

2018/19		2019/20
£'000		£'000
15,230	Net Expenditure in Chief Officer Analysis	15,648
1,620	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	15,517
-	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement.	-
<u>16,850</u>	Cost of Services in Comprehensive Income and Expenditure Statement	<u>31,165</u>

**Note 24.c Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of Chief Officer income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2018/19	Chief Officer Analysis £'000	Amounts not reported to management £'000	Amounts not included in I&E £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Inc.	( 9,001)	( 58)	-	( 9,059)	( 209)	( 9,268)
Interest Income	-	-	-	-	( 329)	( 329)
Investment Income	-	-	-	-	( 1,000)	( 1,000)
Disposal of Items of Property Plant & Equipment	-	-	-	-	( 656)	( 656)
Income from Council Tax and NDR	-	-	-	-	( 18,212)	( 18,212)
Movement on Fair Value of Investment Property	-	-	-	-	( 157)	( 157)
Government Grants and Contributions	( 26,718)	-	-	( 26,718)	( 2,932)	( 29,650)
Capital Grants and Contributions	-	( 2,917)	-	( 2,917)	( 2,415)	( 5,332)
Total Income	<u>( 35,719)</u>	<u>( 2,975)</u>	<u>-</u>	<u>( 38,694)</u>	<u>( 25,910)</u>	<u>( 64,604)</u>
Employee Expenses	9,016	737	-	9,753	2,289	12,042
Other Service Expenses	41,935	4,372	-	46,307	-	46,307
Depreciation, amortisation and Impairment	-	( 542)	-	( 542)	-	( 542)
Interest Payments & similar payments	-	27	-	27	138	165
Precepts & Levies	-	-	-	-	4,227	4,227
Payments to Housing Capital Receipts Pool	-	-	-	-	1	1
Gain or loss on disposal of non current assets	-	-	-	-	-	-
Capital Grants and Contributions	-	-	-	-	-	-
Total Expenditure	<u>50,951</u>	<u>4,594</u>	<u>-</u>	<u>55,545</u>	<u>6,655</u>	<u>62,200</u>
services	<u>15,232</u>	<u>1,619</u>	<u>-</u>	<u>16,850</u>	<u>( 19,255)</u>	<u>( 2,404)</u>

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### Reconciliation to Subjective Analysis (Cont).

Reconciliation to Subjective Analysis 2019/20	Chief Officer Analysis £'000	Amounts not reported to manage- ment £'000	Amounts not included in I&E £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Inc.	( 10,044)	( 111)	-	( 10,155)	-	( 10,155)
Interest Income	-	-	-	-	( 283)	( 283)
Investment Income	-	-	-	-	( 1,591)	( 1,591)
Disposal of Items of Property Plant & Equipment	-	-	-	-	( 1,227)	( 1,227)
Income from Council Tax and NDR	-	-	-	-	( 17,664)	( 17,664)
Movement on Fair Value of Investment Property	-	-	-	-	( 370)	( 370)
Government Grants and Contributions	( 23,571)	-	-	( 23,571)	( 2,827)	( 26,398)
Capital Grants and Contributions	-	( 4,383)	-	( 4,383)	( 1,121)	( 5,504)
<b>Total Income</b>	<b>( 33,615)</b>	<b>( 4,494)</b>	<b>-</b>	<b>( 38,109)</b>	<b>( 25,083)</b>	<b>( 63,192)</b>
Employee Expenses	9,658	1,982	-	11,640	2,058	13,698
Other Service Expenses	39,605	7,101	-	46,706	-	46,706
Depreciation, amortisation and Impairment	-	10,905	-	10,905	-	10,905
Interest Payments & similar payments Precepts & Levies	-	23	-	23	135	158
Payments to Housing Capital Receipts Pool	-	-	-	-	5,029	5,029
Gain or loss on disposal of non current assets	-	-	-	-	-	-
Capital Grants and Contributions	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>49,263</b>	<b>20,011</b>	<b>-</b>	<b>69,274</b>	<b>7,222</b>	<b>76,496</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>15,648</b>	<b>15,517</b>	<b>-</b>	<b>31,165</b>	<b>( 17,861)</b>	<b>13,304</b>

Note 24.d Expenditure and Income analysed by nature

2018/19	Expenditure and Income analysed by nature	2019/20
£'000		£'000
	<b>Expenditure</b>	
14,331	Employee Benefit Expenses	15,815
44,018	Other Service Expenses	44,645
( 542)	Depreciation, amortisation and impairment	10,905
-	Loss on Disposal of non current assets	-
165	Interest payments	102
4,227	Precepts and levies	5,029
1	Payment to Housing Capital Receipts Pool	-
<u>62,200</u>	<b>Total Expenditure</b>	<u>76,496</u>
	<b>Income</b>	
( 9,268)	Fees and Charges and other service income	( 10,155)
( 18,212)	Income from Council Tax and Business Rates	( 17,664)
( 29,650)	Government Grants and contributions	( 26,398)
( 1,329)	Interest and Investment income	( 1,874)
( 656)	Gain on disposal of non current assets	( 1,227)
( 157)	Movement on Fair Value of Investment Property	( 370)
( 5,332)	Capital Grants and Contributions	( 5,504)
<u>( 64,604)</u>	<b>Total Income</b>	<u>( 63,192)</u>
<u>( 2,404)</u>	<b>Net Service cost/income</b>	<u>13,304</u>

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### Note 24.e Segmental Income and Expenditure

Income and expenditure on a segmental basis					
2018/19	People & Places	Customer & Resources	Finance & Trading	Planning & Regulatory Services	Total
<b>Expenditure</b>					
Employee Benefit Expenses	1,640	2,383	3,190	2,538	9,752
Other Service Expenses	4,384	27,362	8,399.42	6,161	46,307
Depreciation, amortisation & impairment	32	-	(574)	-	(542)
Interest payments	-	-	27	-	27
Total Segmental Expenditure	6,056	29,746	11,042	8,700	55,544
<b>Income</b>					
Fees and Charges and other service income	(703)	(1,289)	(4,794)	(2,273)	(9,059)
Benefits and other Gov. grants	(2,238)	(26,084)	(65)	(1,248)	(29,635)
Total Segmental Income	(2,941)	(27,373)	(4,859)	(3,521)	(38,694)
Net Segmental Expenditure	3,115	2,373	6,183	5,178	16,850
Reconciliation to CIES					
Other Income and Expenditure not segmentally reported					(19,254)
Net Service Expenditure					(2,404)

**Note 24.e Segmental Income and Expenditure (cont)**

Income and expenditure on a segmental basis					
2019/20	People & Places	Customer & Resources	Finance & Trading	Planning & Regulatory Services	Total
<b>Expenditure</b>					
Employee Benefit Expenses	1,989	2,532	4,286	2,833	<b>11,640</b>
Other Service Expenses	6,518	24,127	8,574	7,487	<b>46,706</b>
Depreciation, amortisation & impairment	222	-	10,683	-	<b>10,905</b>
Interest payments	-	-	23	-	<b>23</b>
<b>Total Segmental Expenditure</b>	<b>8,729</b>	<b>26,659</b>	<b>23,566</b>	<b>10,320</b>	<b>69,274</b>
<b>Income</b>					
Fees and Charges and other service income	(654)	(1,644)	(5,227)	(2,629)	<b>(10,154)</b>
Benefits and other Gov. grants	(4,231)	(22,807)	(178)	(739)	<b>(27,955)</b>
<b>Total Segmental Income</b>	<b>(4,885)</b>	<b>(24,451)</b>	<b>(5,405)</b>	<b>(3,368)</b>	<b>(38,109)</b>
<b>Net Segmental Expenditure</b>	<b>3,844</b>	<b>2,208</b>	<b>18,161</b>	<b>6,952</b>	<b>31,165</b>
<b>Reconciliation to CIES</b>					
Other Income and Expenditure not segmentally reported					<b>(17,861)</b>
<b>Net Service Expenditure</b>					<b>13,304</b>

**Note 25. Trading Operations**

Trading Accounts are operated for Direct Services, which includes two major services, Refuse Collection and Street Cleaning.

During the financial year Direct Service financial management was transferred from a separate financial system to the Councils main financial system. As such Direct Services are reported in the Comprehensive Income and Expenditure Statement as part of the Net Cost of Services rather than as a (surplus)/deficit on Trading Operations.

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(Surplus)/ Deficit 2018/19 £'000		Income £'000	Expend. £'000	(Surplus)/ Deficit 2019/20 £'000
	<b>Direct Services</b>			
60	Refuse Collection	( 2,652)	2,738	86
( 9)	Street Cleansing	( 1,411)	1,379	( 32)
( 221)	Other Operational Accounts	( 2,415)	2,387	( 28)
( 39)	Overhead Accounts	( 1,315)	1,343	28
<u>( 209)</u>		<u>( 7,793)</u>	<u>7,847</u>	<u>54</u>

Other Operational Accounts include vehicle workshop and premises cleaning. Overhead Accounts include transport fleet and depot.

For management accounting purposes, recharges for internal work completed by the trading accounts have been priced to include a capital financing charge. The Code of Practice does not permit charges for cost of capital to be debited to trading accounts. The following table sets out the position if capital charges had been made:

(Surplus) /Deficit 2018/19 £'000		Income £'000	Expend. £'000	(Surplus) /Deficit 2019/20 £'000
	<b>Direct Services</b>			
97	Refuse Collection	( 2,652)	2,702	50
2	Street Cleansing	( 1,411)	1,368	( 43)
( 211)	Other Operational Accounts	( 2,415)	2,377	( 38)
( 36)	Overhead Accounts	( 1,315)	1,340	25
<u>( 148)</u>		<u>( 7,793)</u>	<u>7,787</u>	<u>( 6)</u>

### Subjective Analysis for the Trading Operation

2018/19 £'000		2019/20 £'000
( 2,070)	Revenues from External Customers	( 2,090)
( 5,436)	Income from Internal Customers	( 5,703)
<u>( 7,506)</u>	Total Income	<u>( 7,793)</u>
3,432	Employee Expenses (inc Agency staff)	3,707
575	Depreciation	645
3,351	Other Service Expenditure	3,495
<u>7,358</u>	Total Expenditure	<u>7,847</u>
<u>( 148)</u>	Net Trading Income	<u>54</u>

The authority paid the following amounts to Members of the Council during the year:

2018/19 £'000		2019/20 £'000
386	Allowances	393
15	Expenses	9
<u>401</u>	Total	<u>402</u>

**Note 27. Officers' Remuneration**

The remuneration paid to the Authority's senior employees, being the head of Paid Service and those officers reporting directly to him, was as follows:

2018/19	Salary £	Bonuses £	Expenses £	Com- pensation Loss of employment £	Pension £	Other Emol- uments £	Total £
Chief Executive	153,840	-	59	-	24,461	1,614	179,973
Chief Officer - Finance & Trading	99,694	500	153	-	15,931	-	116,278
Chief Officer Customer & Resources	99,694	500	97	-	15,931	170	116,392
Chief Officer Communities and Business	81,148	500	83	-	12,982	-	94,714
Chief Officer - Planning & Regulatory Services	99,694	500	-	-	15,931	-	116,124
Chief Officer Environmental and Operations	99,694	500	74	-	15,931	-	116,198
Head of Transformation & Strategy	66,115	500	-	-	10,592	-	77,207
Head of Legal and Democratic Services	66,704	500	53	-	10,685	-	77,942

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2019/20	Salary £	Bonuses £	Expenses £	Com- pensation Loss of employment £	Pension £	Other Emol- uments £	Total £
Chief Executive	157,243	3,781	-	-	25,603	7,171	<b>193,798</b>
Chief Officer - Finance & Trading	106,626	2,403	-	-	17,336	-	<b>126,365</b>
Chief Officer Customer & Resources	106,626	2,403	-	-	17,336	2,921	<b>129,286</b>
Chief Officer People and Places	16,034	-	-	-	2,549	-	<b>18,584</b>
Chief Officer - Planning & Regulatory Services	106,626	2,403	-	-	17,336	-	<b>126,365</b>
Head of Transformation & Strategy	72,358	500	-	-	11,584	2,921	<b>87,364</b>
Head of Legal and Democratic Services	77,358	500	-	-	12,379	-	<b>90,238</b>
Chief Officer Communities and Business	79,249	-	-	49,389	12,601	-	<b>141,238</b>
Chief Officer Environmental and Operations	62,199	-	-	55,305	9,890	-	<b>127,393</b>

The Chief Executive receives other payments for being the Deputy Returning Officer at elections.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Number of Employees 2018/19	Remuneration Bands	
		Number of Employees 2019/20
2	£50,000 - £55,000	4
4	£55,001 - £60,000	2
4	£60,001 - £65,000	7
2	£65,001 - £70,000	2
3	£70,001 - £75,000	-
-	£75,001 - £80,000	2
-	£80,001 - £85,000	1



The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	18/19	19/20	18/19	19/20	18/19	19/20	18/19 £'000	19/20 £'000
£0 - £20,000	-	2	1	3	1	5	10	34
£20,001 - £40,000	-	-	-	-	-	-	-	-
£40,001 - £60,000	1	2	-	-	1	2	52	115
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
Over £100k	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>7</b>	<b>62</b>	<b>149</b>

## 28. External Audit Fees

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors.

2018/19 £'000		2019/20 £'000
35	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor	42
-	Fees Payable to external auditors in respect of statutory inspections	-
13	Fees payable to external auditors for the certification of grant claims and returns	21
-	Fees payable in respect of other services provided by external auditors during the year	-
<u>48</u>	<b>Total</b>	<u>63</u>

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### Note 29. Grant income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure statement:

2018/19 £'000		2019/20 £'000
	<b>Credited to Taxation and Non Specific Grant Income</b>	
( 1,602)	S31 Small Business Rate Reduction	( 1,589)
( 1,320)	New Homes Bonus (MHCLG)	( 1,220)
( 1,665)	Community Infrastructure Levy	( 1,121)
( 750)	Access Improvement	-
( 10)	S31 Council Tax Family Annexes	( 19)
<u>( 5,347)</u>	Total	<u>( 3,949)</u>
	<b>Credited to Services</b>	
( 25,599)	Benefit Subsidy (DWP)	( 22,309)
( 1,418)	Community Facility Improvements	( 3,406)
( 1,499)	Better Care Fund (was Disabled Facilities Grant) (KCC)	( 977)
( 353)	Housing Benefit Administration (DWP)	( 325)
( 179)	Flexible Homelessness (MHCLG)	( 265)
( 197)	New Burdens (MHCLG)	( 183)
( 159)	Homelessness (MHCLG)	( 167)
( 117)	Choosing Health PCT (KCC)	( 124)
( 17)	EU Exit Fund (MHCLG)	( 105)
-	Innovation and Enforcement (MHCLG)	( 43)
( 34)	Communities against Drugs (KCC)	( 34)
( 17)	Individual Electoral Registration (CO)	( 17)
( 15)	Mental Health (KCC/ MHCLG)	-
( 31)	Other	( 40)
<u>( 29,635)</u>	Total	<u>( 27,995)</u>

The authority receives grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if conditions are not met. The balances at year-end are as follows:

2018/19 £'000		2019/20 £'000
	<b>Capital Grants Receipts in Advance</b>	
( 21)	Better Care Fund (KCC)	( 38)
( 12)	Regional Housing Pot (KCC/MHCLG)	( 12)
<u>( 33)</u>	Total	<u>( 50)</u>

2018/19 £'000		2019/20 £'000
	<b>Revenue Grants Receipts in Advance</b>	
( 6,959)	Section 106 receipts	( 5,079)
<u>( 6,959)</u>	Total	<u>( 5,079)</u>

### Note 30. Related Party Transactions

The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Central Government

Central Government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 24 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2020 are shown in note 29.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in note 26. Returns were obtained from Members in respect of the 2019/20 financial year requesting details of any transactions that had taken place between them or close family members and the Council. For all the organisations listed in the table below the relationship to the organisation was that the member was in a position of general control or management.

Related party disclosure forms were sent to all members and chief officers who had served during the year. However a some forms were not returned so the disclosure has been based on their previous years returns plus additional internal checks.

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2018/19			Organisation	2019/20		
Paid to (Supplier)	Received From (Customer)	Balance at 31/03/19		Paid to (Supplier)	Received From (Customer)	Balance at 31/03/20
£'000	£'000	£'000		£'000	£'000	£'000
0	0	0	New Ash Green Village Association Ltd	2	0	0
3	0	0	Stag Community Arts Centre	12	2	0
46	15	0	West Kent Mind	9	10	0
0	0	0	Godfreys (Sevenoaks) Limited	3	0	0
2	0	0	J & D Griffiths	3	0	0
0	0	0	New Ash Green Village Trust	1	0	0
58	0	0	Citizens Advice North & West Kent	19	0	0

Other payments were made to the following organisations where members held position of authority or representation

2018/19	Organisation	2019/20
£'000		£'000
3	Sevenoaks District Arts Council	3
3	Sevenoaks District Sports Council	3
99	Citizens Advice Bureau	99

The Register of Members' Interests is open to public inspection.

### Senior Officers

Senior officers of the Council have control over the day to day management of the authority. The Chief Executive and Chief Officers are required to declare any related party transactions. Three officers are Directors of Quercus 7 Limited and Quercus Housing Limited and the Monitoring Officer is the Company Secretary.

**Kent County Council** pension fund – see note 35.

**Assisted organisations** – the Council provided material financial assistance to the following organisation:

Sevenoaks Leisure Limited – management fee of £26,950 (2018/19 £26,950) and a Development Fee of £20,000 (2018/19 £20,000). Two members are Sevenoaks District Council appointed directors of Sevenoaks Leisure Limited. A loan of £600,000 was given to Sevenoaks Leisure Limited to refurbish the fitness centre at Sevenoaks Leisure Complex. The term of the loan was 10 years, with a redemption date of March 2028 and interest of 6% per year.

### Quercus 7 Limited

Council on 31 March 2015 authorised the incorporation of a company and this was incorporated on 31 December 2015 (Quercus7 Limited Number 09933195). Three Chief Officers were appointed as Directors and there are two Non-Executive Directors. The trading activities of the company are overseen by the Cabinet. The Articles of Association state that there can only be one shareholder and

is defined as all the Members of SDC. The liability of the Council is limited to the nominal of its share capital.

The Company will enable the Council to operate property development on a commercial basis as well as allowing the Council to invest in residential property to be leased.

The company has acquired 3 commercial properties and during the year the company were given credit facilities for business expenses totalling £168,076. Quercus 7 Limited also has secured long term borrowing of £4.06m.

### **Quercus Housing Limited**

Council on 21 November 2017 authorised the incorporation of a company and this was incorporated on 13 April 2018 (Quercus Housing Limited Number 11307980). Three Chief Officers were appointed as Directors and there are two Non-Executive Directors. The trading activities of the company are overseen by the Cabinet. The company is limited by guarantee.

Sevenoaks District Council has ultimate control over the activities of the Company and the Company's operational matters. The Company will enable the Council to operate develop affordable housing using Section 106 receipts.

During the year the company were given credit facilities for business expenses totalling £47,412

### **Burlington Mews Management Company Limited**

The company was incorporated 10 December 2019 (Company number 12357799). Two officers were appointed as directors and 1 as Secretary. The purpose of the company is to manage the shared spaces of the Burlington Mews development. The development was still in construction as 31 March 2020 and there were no transactions during the year between the Council and the Company.

### **Shared Services**

The Authority has a shared service arrangement with Dartford Borough Council to provide various services namely Revenues and Benefits, Audit, and Environmental Health. There is a shared Building Control Service with Tonbridge and Malling. The Licensing Partnership is a shared service with Maidstone, Tunbridge Wells and London Borough of Bexley Councils. The relevant costs to the Council are accounted for within the Comprehensive Income and Expenditure Statement.

### **Note 31. Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

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2018/19 £'000		2019/20 £'000
( 13,807)	<b>Opening Capital Financing Requirement</b>	( 21,989)
	Capital Investment:	
11,765	Property, Plant & Equipment	5,308
-	Intangible Assets	-
-	Surplus Assets	-
203	Investment Properties	482
4,589	Revenue Expenditure Funded from Capital under Statute	6,090
<u>16,557</u>		<u>11,881</u>
	<b>Sources of Finance:</b>	
( 148)	Capital Receipts	( 317)
( 3,947)	Government Grants and other contributions	( 6,088)
( 4,130)	Sums set aside from revenue	( 1,381)
<u>( 8,225)</u>		<u>( 7,785)</u>
<u>150</u>	MRP for the year	<u>274</u>
<u>( 21,989)</u>	Closing Capital Financing Requirement	<u>( 25,811)</u>

### Note 32 Leases

#### Operating Leases

##### Authority as Lessee

In 2014/15 the Council entered into an operating lease for land adjacent to 66 London Road Sevenoaks (the 'Top Car Park'). This lease is for 15 years.

In 2018/19 the Council entered into an operating lease for vending machines for Argyle Road. The lease is for 3 years.

Payments under operating leases for the car park and vending equipment during the year amounted to £41,516 (£41,516 in 2018/19).

31/03/19 £'000	Minimum Lease Payments	31/03/20 £'000
48	Not later than one year	49
202	Later than one year and not later than five years	206
221	Later than five years	168
<u>471</u>	Total	<u>423</u>

**Authority as Lessor**

The council operate a number of properties where it is the Lessor. The future income receivable under non-cancellable leases is detailed below.

31/03/19		31/03/20
£'000		£'000
1,470	Not later than one year	1,508
5,001	Later than one year and not later than five years	4,327
<u>7,457</u>	Later than five years	<u>6,618</u>
<u>13,928</u>		<u>12,453</u>

The lease payments receivable do not include rents that are contingent on events taking place after the leases were entered into such as adjustments following rent reviews.

The Council also owns various smaller leases including estate shops and some leisure establishments. The future rentals are not listed here as they are not considered to be material.

**Finance Leases**

**Authority as Lessee**

The Council has no finance leases as a lessee.

**Authority as Lessor**

The Authority has classified one lease it has granted, as a finance lease. This is due to the length of the lease agreement in relation to the asset's useful life at the inception of the lease, and the value of lease payments to asset value. The Authority recognises a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts.

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31/03/19 £'000		31/03/20 £'000
200	Gross Investment in the Lease	174
31	Estimated Residual value	31
145	Net Investment in the lease (Gross Investment discounted by implicit rate)	134
55	Unearned Finance Income	40
	The gross investment in the lease will be received over the following periods.	
23	Not later than one year	23
114	Later than one year and not later than 5 years	112
62	Later than 5 years	63
<u>199</u>	Total	<u>198</u>

### Note 33. Impairment Losses

During 2019/20 there were no impairment losses on the Council's property assets.

### Note 34. Termination Benefits

The Authority terminated the contracts of 4 employees in 2019/20, incurring costs of £129,620 (£62,000 in 2018/19) – see note 27 for the number of exit packages and total cost per band.

### Note 35. Defined Benefit Pension Schemes

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these will not actually be payable until the employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

#### Characteristics of the Defined Benefit Scheme

The Authority participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Participation in a defined benefit pension scheme means that the Authority is exposed to a number of risks, statutory changes to the scheme, change to inflation, bond yields and the performance of the equity investments held by the scheme.



- Investment risk. The Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short term volatility can cause additional funding to be required if a deficit emerges.
- Interest Rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities, the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed, a deficit will emerge in the Fund. There are also other demographic risks.

All the above risks may also benefit the Authority e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

### **Transactions relating to Post Employment Benefits**

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure statement and the General Fund balance via the Movement in Reserves Statement during the year:

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2018/19 £'000		2019/20 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
	Cost of Services	
	Service cost comprising:	
3,956	Current Service cost	4,175
-	Past Service costs	1,047
2,335	Net Interest Expense (includes administration expense)	<u>2,116</u>
6,291	Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services	<u>7,338</u>
Other post employment charged to the Comprehensive Income and Expenditure Statement		
	Remeasurement of the net defined liability comprising:	
( 4,805)	Return on plan assets (excluding the amount included in the net interest expense)	9,620
-	Other actuarial (gains)/losses on assets	( 774)
( 10,219)	Actuarial (gains) and losses arising on change in demographic assumptions	( 2,164)
8,293	Actuarial (gains) and losses arising on changes in financial assumptions	( 12,103)
-	Other	<u>( 18,907)</u>
( 6,731)	Total post employment benefits charged to the Comprehensive Income and Expenditure statement	<u>( 24,328)</u>
<b>Movement in Reserves Statement</b>		
6,291	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefit in accordance with the Accounting Code of Practice	7,338
	Actual Amount charged against the General Fund balance for pensions in the year	
3,399	Employers contributions payable to the scheme	3,547

Pensions Assets and Liabilities recognised in the Balance Sheet

2018/19 £'000		2019/20 £'000
	<b>Present value of the Defined Obligations</b>	
( 184,004)	Present value of Funded Liabilities	( 156,253)
( 1,721)	Present Value of Unfunded Liabilities	( 1,653)
( 185,725)	Total Defined Benefit Obligation	( 157,906)
98,151	Fair Value of plan assets (at bid value)	90,869
( 87,574)		( 67,037)

Reconciliation of movements in the fair value of scheme assets

2018/19 £'000		2019/20 £'000
92,094	Opening fair value of scheme assets	98,151
2,335	Interest on assets	2,347
4,805	Return on assets less interest	( 9,620)
-	Other actuarial gains/(losses)	774
( 46)	Administration expense	( 57)
3,399	Contributions from employer	3,547
728	Contributions from scheme participants	767
( 5,164)	Estimated benefits paid plus unfunded net of transfers in	( 5,040)
98,151	Closing Value of scheme assets	90,869

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### Reconciliation of the movements in defined benefit obligation

2018/19 £'000		2019/20 £'000
183,507	Opening Defined Benefit Obligation	185,725
3,956	Current Service Cost	4,175
4,624	Interest Cost	4,406
8,293	Change in Financial Assumptions	( 12,103)
( 10,219)	Change in Demographic assumptions	( 2,164)
-	Experience loss/(gain) on defined benefit obligation	( 18,907)
( 4,992)	Estimated benefits paid net of transfers in	( 4,869)
-	Past service costs including curtailments	1,047
728	Contributions by scheme participants	767
( 172)	Unfunded pension payments	( 171)
<u>185,725</u>	Closing Defined Benefit Obligation	<u>157,906</u>

### Scheme Assets

The scheme's assets consist of the following categories, by proportion of the total assets held:

31/03/19 %		31/03/20 %
68	Equity investments	61
1	Gilts	1
9	Bonds	13
12	Property	14
2	Cash	3
8	Absolute Return Fund	8
<u>100</u>	Total	<u>100</u>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Kent County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

2018/19		2019/20
	Mortality Assumptions:	
	Longevity at 65 for current pensioners	
22	Men	22
24	Women	24
	Longevity at 65 for future pensioners	
24	Men	23
26	Women	25
	Financial Assumptions	
2.40%	Rate of Inflation (CPI)	2.00%
3.90%	Rate of increase in salaries	3.00%
2.40%	Rate of increase in pensions	2.00%
2.40%	Rate for discounting scheme liabilities	2.35%
50.00%	Take-up of option to convert annual pension into retirement lump sum	50.00%

Barnett Waddingham estimate the duration of Employers liabilities at 17 years.

### Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return to the discount rate. The discount rate is the annualised yield at the 17 year point on the Merrill Lynch AA rated corporate bond curve which was chosen by the actuaries to meet the requirements of IAS19 and with consideration of the duration of Employers liabilities.

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### Sensitivity Analysis

The estimation of the defined Benefit Obligation is sensitive to actuarial assumptions. The financial impact on the Defined Benefit Obligation in the scheme to variances in those assumptions are given in the following table. These assumptions are based on the present value of the total obligation of £185.7m.

	Increase of 0.1% £'000	Decrease of 0.1% £'000
Adjustment to discount rate		
Present value of total obligation	154,961	160,910
Projected Service Cost	3,915	4,113
Adjustment to long term salary increase		
Present value of total obligation	158,184	157,631
Projected Service Cost	4,015	4,011
Adjustment to pensions increases and deferred revaluation		
Present value of total obligation	160,610	155,223
Projected Service Cost	4,112	3,917
Adjustment to mortality age rating assumptions	Increase 1 year	Decrease 1 year
Present value of total obligation	164,574	151,528
Projected Service Cost	4,138	3,892

### Projected Pension Expense for the year to 31 March 2021

	2019/20 Projection £'000
Service Cost	4,013
Net interest on the defined liability	1,533
Administration expense	53
Total	<u>5,599</u>
Employer Contributions	3,433

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

### **Note 36. Contingent Liabilities**

There are no contingent liabilities identified in the year

### **Note 37. Contingent Assets**

The Council transferred the remaining part of its housing stock to Moat Housing Association in 1993. When Shared Ownership Lessees purchase further equitable shares in their property the Council receives the proceeds of purchasing the further share, less certain costs. This contingent asset applies for a period of 30 years commencing in 1993.

### **Note 38. Heritage Assets**

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in Note 10.

Oxford Palace Gatehouse was granted on a 99 year peppercorn lease to the Archbishop's Palace Conservation Trust to allow the Trust to develop their objectives with a 5 year review period.

At present the Council has no other material heritage assets and these are valued for insurance purposes only.

### **Note 39. Highway Infrastructure Assets (Transport Infrastructure Assets Code)**

The Council owns two roads and some footpaths, however these components do not form a network of Highways Infrastructure Assets and have therefore not been recognised in the balance sheet as Highways assets.

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### THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income and expenditure relating to Council Tax and Non-Domestic Rates on behalf of Central Government, precepting authorities and the Council's own General Fund. The costs of administering collection are accounted for in the General Fund and the Collection Fund balance sheet is incorporated into the Council's consolidated balance sheet.

2018/19			2019/20				
Council Tax £000	NDR £000	Total £000	Note	Council Tax £000	NDR £000	Total £000	
<b><u>Income</u></b>							
89,614	-	89,614	Billed to Council Tax Payers	1	95,802	-	95,802
-	36,279	36,279	Income from Business Ratepayers	2	-	36,466	36,466
54	-	54	Reduction in Bad Debts Provision		768	-	768
-	522	522	Reduction in Provision for Appeals		-	466	466
-	530	530	Transitional Protection		-	252	252
-	-	-	Reimbursement of previous year's estimated Collection Fund deficit	3	-	-	-
<b>89,668</b>	<b>37,331</b>	<b>126,999</b>			<b>96,570</b>	<b>37,184</b>	<b>133,754</b>
<b><u>Expenditure</u></b>							
Precepts & Demands:							
61,764	20,509	82,273	Kent County Council		65,975	3,125	69,100
8,441	-	8,441	Police & Crime Commissioner for Kent		9,807	-	9,807
3,768	348	4,116	Kent & Medway Fire & Rescue Authority		3,948	347	4,295
10,420	13,904	24,324	Sevenoaks District Council		10,917	13,889	24,806
4,227	-	4,227	Town & Parish Councils		4,415	-	4,415
Business Rates:							
-	-	-	Payments to Government		-	17,361	17,361
-	163	163	Cost of Collection Allowance		-	159	159
-	-	-	Transitional Protection		-	-	-
Bad and Doubtful Debts:							
537	69	606	Provision for Non Payment		573	67	640
-	1,310	1,310	Provision for Appeals		-	1,759	1,759
110	40	150	Write Offs		413	308	721
1,519	379	1,898	Contribution towards previous year's estimated Collection Fund surplus	3	-	554	554
<b>90,786</b>	<b>36,722</b>	<b>127,508</b>			<b>96,048</b>	<b>37,569</b>	<b>133,617</b>
<b>(1,118)</b>	<b>609</b>	<b>(509)</b>	<b>(DEFICIT)/SURPLUS FOR YEAR</b>	<b>3</b>	<b>522</b>	<b>(385)</b>	<b>137</b>
<b>COLLECTION FUND BALANCE</b>							
1,162	329	1,491	Balance at beginning of year		44	938	982
<b>(1,118)</b>	<b>609</b>	<b>(509)</b>	(Deficit)/Surplus for year		<b>522</b>	<b>(385)</b>	<b>137</b>
<b>44</b>	<b>938</b>	<b>982</b>	<b>BALANCE AT END OF YEAR</b>	<b>4</b>	<b>566</b>	<b>553</b>	<b>1,119</b>



**Note 1 Council Tax**

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. A different ratio is applied to a small number of properties in band A that have been adapted for use by a disabled person. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Police and Crime Commissioner for Kent, Kent & Medway Fire and Rescue Authority and the District Council for the forthcoming year and dividing this by the tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings). This gives rise to the basic amount of council tax for a band D property. Taxes for other bands are derived by applying the ratio in the following table to the band D tax.

The tax base for 2019/20 was approved by Cabinet in January 2019 as follows:

Band	2018/19			2019/20		
	Estimated no. of taxable properties	Ratio	Band D equivalent dwellings	Estimated no. of taxable properties	Ratio	Band D equivalent dwellings
A*	3.06	5/9ths	1.70	2.06	5/9ths	1.10
A	1,017.37	6/9ths	678.20	1,049.41	6/9ths	699.60
B	1,947.96	7/9ths	1,515.10	2,009.84	7/9ths	1,563.20
C	8,437.97	8/9ths	7,500.40	8,636.07	8/9ths	7,676.50
D	9,951.51	9/9ths	9,951.50	10,024.82	9/9ths	10,024.80
E	6,640.51	11/9ths	8,116.20	6,753.49	11/9ths	8,254.30
F	5,429.43	13/9ths	7,842.50	5,532.67	13/9ths	7,991.60
G	7,158.47	15/9ths	11,930.80	7,296.12	15/9ths	12,160.20
H	1,324.95	18/9ths	2,649.90	1,352.20	18/9ths	2,704.40
	<u>41,911.23</u>		<u>50,186.30</u>	<u>42,656.68</u>		<u>51,075.70</u>
Contributions in lieu for Crown property			15.90			2.90
			<u>50,202.20</u>			<u>51,078.60</u>
Collection rate adjustment			99.40%			99.40%
<b>Council Tax Base</b>			<u><b>49,902.89</b></u>			<u><b>50,772.34</b></u>

A\* - Concessionary rate for adapted homes

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The tax rate for a band D property in 2019/20 was £1,785.34, excluding Town and Parish Council taxes (2018/19 = £1,691.14).

	2018/19	2019/20
	£	£
Kent County Council	1,237.68	1,299.42
Police & Crime Commissioner for Kent	169.15	193.15
Kent & Medway Fire & Rescue Authority	75.51	77.76
Sevenoaks District Council	208.80	215.01
	<u>1,691.14</u>	<u>1,785.34</u>
Town & Parish Councils (Average)	84.71	86.96
<b>TOTAL (including an average town &amp; parish rate)</b>	<u><b>1,775.85</b></u>	<u><b>1,872.30</b></u>

### Note 2 Non-Domestic Rates (NDR)

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due. When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding.

This Council joined with all of the other councils in Kent, including Kent County Council and Medway Council, in a successful bid to take part in a government pilot for 100% business rates retention in 2018/19. For 2019/20, this ceased and the Council reverted to the 50% business rates retention scheme. It remained as a shadow member of the Kent Business Rates Pool, receiving growth benefits as if it had been part of the Pool.

Non-domestic rates are calculated on a national basis. For 2019/20, the Government specified a "rate poundage" of 50.4p (2018/19: 49.3p) for large businesses or 49.1p (2018/19: 48.0p) for small businesses and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The NDR income after relief and provisions of £36,466,000 for 2019/20 (2018/19: £36,279,000) was based on the total rateable value for the Council's area, which at 31 March 2020 was £96,767,673 (31 March 2019: £93,946,679). A revaluation of all non-domestic properties took effect from 1 April 2017.

### Note 3 Contributions to Collection Fund surpluses and deficits

In January each year the Council must estimate the amount of the surplus or deficit expected to arise on the Collection Fund for the coming 31 March in respect of council tax and, from the financial year 2013/14 onwards, in respect of NDR. The estimated surplus or deficit is then shared between Kent County Council, the Police and Crime Commissioner for Kent, Kent & Medway Fire & Rescue Authority, Central Government and the District Council as appropriate.

In January 2019, the estimated balance at 31 March 2019 in respect of council tax transactions was zero. Had there been an estimated surplus or deficit, it would have been shared between Kent County Council, the Police and Crime Commissioner for Kent, Kent & Medway Fire & Rescue Authority and the District Council in proportion to their precepts on the Collection Fund in 2018/19 and taken into account by the respective authorities in the calculation of their council taxes for 2019/20. The actual position at 31 March 2019 was a surplus of £43,682.

The actual surplus of £566,060 at 31 March 2020 in respect of council tax and the actual surplus of £553,187 in respect of NDR will be taken into account when estimating the surplus or deficit for 2020/21.

**Note 4 Allocation of arrears, prepayments and other balances**

Each of the bodies share of the arrears, pre-payments/refunds and other balances for both council tax and NDR is shown in the table below.

	KCC £000	PCC £000	KMFRA £000	Gov't £000	SDC £000	Total £000	
2018/19	<b>Council Tax:</b>						
	Arrears	3,655	543	219	-	849	5,266
	Provision for Bad Debts	(1,706)	(254)	(102)	-	(396)	(2,458)
	Prepayments & Refunds	(1,707)	(254)	(102)	-	(397)	(2,460)
	Cash	(211)	(31)	(13)	-	(49)	(305)
	(Surplus)/Deficit	(30)	(5)	(2)	-	(7)	(44)
	<b>NDR:</b>						
	Arrears	1,134	-	19	-	769	1,922
	Provision for Bad Debts	(321)	-	(5)	-	(218)	(544)
	Provision for Appeals	(3,757)	-	(64)	-	(2,547)	(6,367)
	Prepayments & Refunds	(923)	-	(16)	-	(626)	(1,564)
Cash	4,445	-	75	(25)	2,996	7,491	
(Surplus)/Deficit	(578)	-	(9)	25	(375)	(938)	
<b>Total</b>	-	-	-	-	-	-	
2019/20	<b>Council Tax:</b>						
	Arrears	3,820	574	224	-	878	5,496
	Provision for Bad Debts	(1,573)	(236)	(92)	-	(361)	(2,263)
	Prepayments & Refunds	(1,785)	(268)	(105)	-	(410)	(2,568)
	Cash	(69)	(10)	(4)	-	(16)	(99)
	(Surplus)/Deficit	(393)	(59)	(23)	-	(90)	(566)
	<b>NDR:</b>						
	Arrears	221	-	25	1,230	984	2,460
	Provision for Bad Debts	(55)	-	(6)	(306)	(245)	(612)
	Provision for Appeals	(689)	-	(77)	(3,830)	(3,064)	(7,660)
	Prepayments & Refunds	(90)	-	(10)	(499)	(399)	(998)
Cash	855	-	74	3,490	2,945	7,364	
(Surplus)/Deficit	(242)	-	(6)	(84)	(221)	(553)	
<b>Total</b>	-	-	-	-	-	-	

### GLOSSARY OF TERMS

Most terms are explained within the “Explanatory Foreword” and “Statement of Accounting Policies” sections of the accounts

**Accounting Period.** The period of time covered by the accounts, normally 12 months starting on 1st April for Local Authority accounts.

**Accrual.** Item relating to, and accounted for in, one accounting period but actually paid in another.

**Actual.** The final amount of expenditure or income which is recorded in the Council's accounts.

**Agency and Contracted Services.** Services purchased from another public body or external organisation and subject to a contract. Includes the services provided by Direct Services.

**Assets Held for Sale.** Where there is reasonable certainty that an item of property, plant or equipment is likely to be disposed of via a sale in the next twelve months.

Bexley. London Borough of Bexley

**Budget.** A statement of the Council's plans for net revenue and capital expenditure over a specified period of time.

**Budget Requirement.** Broadly the authority's estimated net revenue expenditure after allowing for movement in reserves and the addition of parish precepts, to be met from revenue support grant, retained non-domestic rates and council tax income.

**Business Rate Retention Scheme.** A scheme introduced in April 2013 under which billing authorities are able to retain a proportion of the business rates they collect.

**Capital Expenditure.** The acquisition, construction, enhancement or replacement of tangible fixed assets (i.e. land, buildings, structures etc.), the acquisition of investments and the making of grants, advances or other financial assistance towards expenditure by other persons on tangible fixed assets or investments.

**Capital Financing Requirement.** The difference between Capital Expenditure and the resources available to finance such expenditure from grants/contributions, capital receipts or revenue funds. This indicates the fundamental requirement to borrow.

**Capital Programme.** The capital projects the Council proposes to undertake over a set period of time.

**Capital Receipts.** Money obtained on the sale of a capital asset.

CO. Cabinet Office

**Code of Practice on Local Authority Accounting in the United Kingdom 2019/20** (The Code)  
This specifies the principles and practices of accounting required to prepare a Statement of Accounts which represents a 'true and fair view' of the financial position and transactions of the Council.

**CIPFA.** Chartered Institute of Public Finance and Accountancy.

**Collection Fund.** The fund into which council tax and non-domestic rates are paid, and from which we meet demands by preceptors and central government.

**Contingent Liabilities.** Contingent liabilities are either:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and Democratic Core.** Costs involved in corporate policy making, representing local interests (including civic ceremonials), support to elected bodies and duties arising from public accountability.

**Cost Centre.** An individual unit to which items of income or expenditure are charged for managerial or control purposes.

**Council Tax.** A local tax set by Councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, some people with disabilities and some other special cases.

**Council Tax Base.** The measure of the taxable capacity of an area. It represents the estimated full year equivalent number of chargeable dwellings in an area, expressed as the equivalent number of band D dwellings, after allowing for disabled reduction (relief) and discounts, adjusted for an allowance for non-collection.

**Creditors.** People or organisations from whom we have received goods or services and as a consequence owe money.

**Current Liabilities.** Those amounts which will become payable or could be called upon within the next accounting period e.g. creditors and cash overdrawn.

**Debtors.** People or organisations who owe money to the Council.

**Deferred Capital Receipts.** Capital Receipts which will accrue in the future, such as mortgage repayments.

**Depreciation.** A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.

**DfT.** Department for Transport.

**DWP.** Department for Work and Pensions.

**ECL.** Expected credit loss. Credit loss in relation to a financial instrument is a cash shortfall measured by the difference between the net present value of all contractual cash flows that are due to an authority in accordance with the contract for the instrument and the net present value of all the cash flows that the authority expects to receive, discounted at the original effective interest rate.

**Employee Costs.** This includes the full costs of employees including salaries, employer's contributions to national insurance and superannuation, and the costs of leased cars.

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**Events after the Reporting Period.** The occurrence of a material event between the balance sheet date and the date the accounts are authorised for issue, which might have a bearing on the financial results of the organisation. In such cases the event should be reflected in the Statement of Accounts as a note or amendment.

**FIAC.** Finance & Investment Advisory Committee.

**Fees and Charges.** In addition to income from council tax payers, business ratepayers and the government, local authorities charge for some services, e.g. local land charge searches and car parking.

**FVCOI.** Fair value through other comprehensive income, a class of Financial Assets.

**FVPL.** Fair value through profit or loss, a class of Financial Instruments.

**General Fund.** The main revenue fund of the Council from which payments are made to provide services and into which receipts are paid, including the District Council's share of council tax and non-domestic rates income.

**Government Grants.** Payments by government towards either the revenue or capital cost of local authority services. These may be either in respect of particular services called specific grants, e.g. housing benefits, or in aid of local services generally, e.g. revenue support grant.

**Group Accounts.** A consolidation of the activities of subsidiaries controlled by the holding company and shown as part of the group's total activities

**Heritage Assets.** Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for their contribution to knowledge and culture.

**Impairment.** A downward revaluation of an asset.

**KCC.** Kent County Council.

**KMFRA.** Kent and Medway Fire and Rescue Authority.

**LASAAC.** Local Authority (Scotland) Accounts Advisory Committee An organisation that jointly with CIPFA forms the Local Authority Code Board. This board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.

**Leasing.** A method of financing the acquisition of equipment, vehicles etc. The items concerned do not belong to the user (or lessee) but are the property of the lessor to whom the lessee pays an annual rental for a specific period of time.

**MBC.** Maidstone Borough Council.

**MHCLG.** Ministry of Housing, Communities and Local Government (formerly DCLG)

**MRP.** Minimum Revenue Provision.

**Non-Domestic Rate (NDR).** Non-domestic rates are levied on business properties based on the rateable value of the property multiplied by a rate in the pound set nationally by the Government. Local authorities retain a proportion of the total collectable rates

**PCC.** Police and Crime Commissioner.

**Prior year adjustments.** Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal corrections or adjustments of accounting estimates made in prior years.

**PCT.** Primary Care Trust

**Precept.** The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Sevenoaks). Precepts on Sevenoaks are also made by the Police and Crime Commissioner for Kent, Kent & Medway Fire & Rescue Authority, plus Town and Parish Councils in the District.

**Premises Expenses.** Includes expenditure on repairs, buildings, grounds and plant maintenance, energy, rents, rates, water services and cleaning of council buildings.

**Provisions.** Funds to provide for liabilities or losses which are known obligations, but are uncertain as to amounts or dates.

**Recharges.** The transfer of costs from one account to another.

**REFCUS (Revenue Expenditure Funded from Capital Under Statute).** Expenditure which legislation classifies as capital but which does not result in the creation of a fixed asset belonging to the authority. An example is where the Council pays a grant to a private householder for adaptations required by a person with disabilities; the work done is capital in nature, but the resultant asset does not appear on the Council's balance sheet because it belongs to the private householder. These were previously defined as deferred charges.

**Related Party Transactions.** The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

**Reserves.** The general capital and revenue balances of the Council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside, surpluses or delayed expenditure can be spent or earmarked at the discretion of the Council. The usable capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the reserves brought about by the capital accounting requirements namely the capital adjustment account and the revaluation reserve.

**Revenue Expenditure.** Expenditure to meet the continuing cost of services including wages and salaries, purchase of materials and financing charges on capital expenditure.

**Revenue Support Grant (RSG).** The general Government grant to some local authorities. It can be payable to local authorities in support of expenditure in their area.

**Revised Estimates.** The approved estimates for the current year as amended e.g. by supplementary estimates and virement.

**SMT.** Strategic Management Team

**SDC.** Sevenoaks District Council

**Specific Grant.** Government grant for specific purposes. The Authority does not have the power to apply such grants for other purposes

**Supplies and Services.** Includes expenditure on equipment and materials.

**Support Services.** The charges made by central functions for the services they provide to other departments. These are services which support the provision of services to the public, other support services and the corporate and democratic core. This includes the provision of accommodation, IT, administrative items purchased centrally, (e.g. telephones, stationery and bank charges), central professional services (Human Resources, Legal and Property, and Finance support) and the cost of providing some centrally provided services e.g. post distribution and contact centre.

**Transfer Payments.** Payments to other bodies where no goods or services are received in return e.g. Housing Benefit grants.

**TMBC.** Tonbridge and Malling Borough Council.

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**TWBC.** Tunbridge Wells Borough Council.

**Valuation Bands.** To calculate the relative value of dwellings for council tax purposes each dwelling is placed on a valuation list in one of eight bands ranging from A to H. Within a local area, the Council tax will vary between the different bands according to proportions laid down by law. The bands are based on property values as at April 1991.

<b>Band</b>	<b>Value</b>	<b>Proportion</b>
A*	Up to £40,000	5/9
A	Up to £40,000	6/9
B	Over £40,000 and up to £52,000	7/9
C	Over £52,000 and up to £68,000	8/9
D	Over £68,000 and up to £88,000	9/9
E	Over £88,000 and up to £120,000	11/9
F	Over £120,000 and up to £160,000	13/9
G	Over £160,000 and up to £320,000	15/9
H	Over £320,000	18/9

**Virement.** A transfer of budget provision from one budget to another.



## ANNUAL GOVERNANCE STATEMENT 2019/20

### 1. Background

1.1 Further to the Accounts and Audit (England) Regulations 2015, the Council is required to produce an Annual Governance Statement (to be published with its financial statements) which sets out its arrangements for delivering good governance within the framework of sound internal controls.

1.2 The Annual Governance Statement (AGS) is a corporate document involving a variety of people charged with developing and delivering good governance including:

- the Leader of the Council and the Chief Executive (Head of Paid Service) as signatories;
- Chief Officers, Heads of Service and relevant managers assigned with the ownership of risks and the delivery of services;
- the Chief Officer - Finance and Trading who is responsible for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972;
- the Monitoring Officer in meeting statutory responsibilities of ensuring the legality of Council business;
- the Council's Internal Audit function, in particular the Annual Audit Opinion;
- Members (for example, through the committees such as the Governance, Audit and Scrutiny Advisory Committees); and
- others responsible for providing assurance, in particular Grant Thornton, in their role as the Council's External Auditor.

1.3 Thus the AGS is owned by all Senior Officers and Members of the Council, because governance itself relies on all Officers and Members. A shared approach was taken in compiling the AGS with the objective of engaging all managers integrally involved in the delivery of services covering the whole authority within the process and also encouraging a high degree of reflection and corporate learning. This increases the statement's significance and encourages managers to objectively assess their responsibilities.

1.4 The system of corporate governance highlighted in the AGS, together with the system of internal control, is reviewed continually throughout the year as part of routine governance and managerial processes; examples being the authority's performance management and risk management frameworks.

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1.5 Although corporately owned, the AGS requires internal control assessments and assurance statements from individual Heads of Service and relevant managers, Chief Officers, the Internal Audit Manager, the Head of Paid Service, the Monitoring Officer and the Section 151 Officer (Chief Officer - Finance and Trading), all of which were obtained as part of this process.

### **2. Scope of Responsibility**

2.1 Sevenoaks District Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded from waste, extravagance or misappropriation. The Council seeks to ensure that its expenditure and activities are transparent and properly accounted for. Under the Local Government Act 1999 the Council has a duty to make proper arrangements to secure continuous improvement in the way in which it carries out its functions, having regard to ensuring economy, efficiency, effectiveness and fairness in the exercise of its responsibilities. In discharging this overall responsibility, to ensure its business is conducted in accordance with the law, proper standards and delivering continuous improvements. Sevenoaks District Council is also responsible for ensuring that there is a system of corporate governance which facilitates the effective and principled exercise of the Council's functions and which includes arrangements for the effective management of risk. The Council seeks to conduct these responsibilities within the framework of high quality service provision to enhance and facilitate community wellbeing and engagement.

2.2 The roles of the Chief Executive (as Head of Paid Service), the Section 151 Officer and the Monitoring Officer are defined within Part 13 of the Council's Constitution. The Executive Role of Members is defined within Part 4 of the Council's Constitution.

2.3 Officers and Members are expected to conduct themselves in a proper manner in accordance with the Constitution and both are expected to declare interests that may impact on the objectivity of the Council's decision making process. These interests are held on a register and are reviewed on a regular basis by the Monitoring Officer.

2.4 Sevenoaks District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. A copy of the code can be obtained from the Internal Audit Team, or via the Council's website. This statement explains how Sevenoaks District Council has implemented both the code and the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement. This was last adopted by the Audit Committee on 18 July 2019.

### **3. The Purpose of the Governance Framework**

3.1 The governance framework comprises the systems and processes, culture and values, by which the Council informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and empowers the community. It enables the authority to evaluate the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and to assess the impact should they be realised, and to manage them efficiently, effectively and economically. It also seeks to maximise available opportunities in achieving good value for money and delivering objectives and priorities.

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

### **4. The Governance Framework**

4.1 The following represent the key elements of the Council's governance framework:

- The Council's vision and promises are set out in its Council Plan which was approved by Council on 20 November 2018. The Council Plan sets out the actions that the Council has committed to undertake to deliver on its promises. The Sevenoaks District Community Plan Priorities document covers the period from 2019-22. Every three years the Community Plan is comprehensively reviewed in consultation with residents and other interested stakeholders. Progress against each of the actions is reviewed quarterly with an Annual Report produced each year.
- The existing plans above are subject to considerable Member review and challenge by Cabinet, or the appropriate Advisory/Scrutiny Committee and ultimately by the full Council. The governance arrangements put in place on 21 May 2019 operated well during the year. The arrangements continue to include an Audit Committee, whose terms of reference is consistent with CIPFA standards. The promises and priorities within the plans are also cascaded to individuals within the Council through Service Plans and individual action plans via the staff appraisal process.

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- Policy and decision-making is facilitated through reports from officers to Cabinet and Council. Each Cabinet Member has responsibility for a specific portfolio and will take decisions on matters relevant to that portfolio. Each portfolio also has an Advisory Committee, which will consider officer reports in advance of them being considered by Cabinet and provide their recommendations on the policy direction or decision making of the Cabinet or Council. The Scrutiny Committee has the opportunity to ‘call-in’ the decisions of Cabinet and to recommend changes to decisions or policies.
- The Council’s Constitution specifies the roles and responsibilities of Members and Officers and the financial and procedural rules for the efficient and effective discharge of the Council’s business.
- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

### a) Internal Audit

The Council’s Internal Audit service is provided in partnership with Dartford Borough Council.

During 2019/20, the Internal Audit Team have worked to deliver and achieve the annual audit plan, approved by the Audit Committee in March 2019. The service has provided regular updates to Members on the outcomes of audit work, progress on implemented audit actions, and also updates regarding our internal self-assessment and forthcoming External Quality Assessment, against the Public Sector Internal Audit Standards.

Internal audit has issued one adverse audit conclusion in 2019/20 to date. The audit actions arising from this review have already been fully implemented. The Audit Committee request details of outstanding or deferred high priority actions, and while the Committee has not expressed any concerns over 2019/20, they have the power to invite Officers to attend meetings to provide updates directly.

Individual audit reports continue to be issued and distributed to relevant Chief Officers, with copies to the Chief Executive and Section 151 Officer.

The effectiveness of the Internal Audit service was assessed via an internal self-assessment in 2019/20 against the Public Sector Internal Audit Standards. A procurement exercise for a full independent external quality assessment is currently underway, with the intention of this external assessment being completed later in 2020.

The outcomes, along with any actions will be reported to the Audit Committee as soon as practically possible. These outcomes from the External Quality Assessment will be used to create an audit strategy and action plan.

The newly appointed Audit Manager joins the Internal Audit Partnership in May 2020.

The Audit Committee, as those charged with governance, will provide continued oversight and direction as required. As such, the operation of the service will also be monitored by the Strategic Management Team, and the Section 151 Officer.

### b) External Audit

The external audit service is provided by Grant Thornton. The External Auditor's reports are sent to management and Members (via the Audit Committee). Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations.

Unqualified opinions were issued in relation to both financial statements and value for money for 2018/19.

### c) Financial Management

The Section 151 Officer is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves. Assurance on these factors is included in the Annual Budget Report to Council.

A robust budgetary control system is in place and regular monitoring reports are produced for the Strategic Management Team, Heads of Service and relevant managers, Cabinet and the Finance and Investment Advisory Committee. The Finance Team conduct monthly client liaison meetings with responsible budget holders.

### d) Performance Management

Monitoring of progress towards the achievement of the Council's promises and objectives is undertaken through the Council's performance management system. Performance is monitored monthly and enhanced with commentaries from Heads of Service and Managers where performance is behind target. Strategic information is regularly reported to the Strategic Management Team, Cabinet, Scrutiny Committee and Advisory Committees.

### e) Arrangements for Partnerships

The Council enhances value for money in service delivery through innovative and cost-effective partnership working. The Council engages in extensive discussion and planning to develop efficient working arrangements while protecting quality of services. Decisions to enter into partnership working are supported by a detailed business case and cost-benefit analysis, and are subject to scrutiny and approval by Members. The Council has partnerships in place for the delivery of services including Licensing, Revenues and Benefits, Internal Audit, Environmental Health and Building Control.

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### f) Risk Management

The Council's risk management processes are reviewed by the Risk Management Group and reported to the Audit Committee as appropriate.

Strategic risks are aligned to the Council's promises and objectives and are actively monitored and updated throughout the year. In 2019/20 the strategic risk register was reviewed and updated, and was reported to Strategic Management Team and the Audit Committee. In 2019/20 Audit Committee Members were also provided with Risk Management training.

### g) Relationships and Ethics

Good co-operative relationships exist between the Council and its external auditors and inspectors, and between officers and Members. Relationships between officers and Members are guided by a protocol embedded in the Council's Constitution. The Council has clear Codes of Conduct for Members and Officers embedded within its Constitution, underpinned by a culture of integrity and ethical behaviour. Member conduct is scrutinised by the Standards Committee.

### h) Service Delivery by Trained and Experienced People

The Council has a robust recruitment policy and relevant procedures in place. The Council holds Platinum status in the Investors in People (IiP) scheme, re-conferred by an external inspection regime in January 2019. The Council was the first local authority nationally to achieve this standard. Staff appraisals take place annually and are aligned to the values, behaviours and objectives of the Council. Training and development plans are part of the appraisal process and are used to identify any training needs over the year. As part of the ongoing commitment to develop and nurture staff the Council continued to design, deliver and develop bespoke training courses over the year through the 'Talent in Me' (TIM) programme which is available to all staff and consists of over 60 bite-sized courses.

### i) Monitoring Officer

The Council's Monitoring Officer oversees compliance with laws and statutory obligations. The Monitoring Officer reports to the Council's Standards Committee.

### j) Anti-Fraud and Corruption

The Council has an Anti-Fraud and Corruption Strategy and a Whistle Blowing Policy. The Council also has a Counter Fraud Team and a 'fraud hotline', available to both staff and members of the public, which allows individuals to report anonymously any suspected cases of fraud and corruption. As part of fraud risk management, all staff and Members are required to complete annual declarations of interests. The risks of fraud and corruption are assessed within the strategic risk register and appropriate measures put in place to mitigate these risks. There were no disclosures or internal investigations during the year.

The Internal Audit Partnership is currently in the process of reviewing and updating the Council's Anti-Fraud and Corruption Strategy and Whistle-blowing policy and will also be completing a health-check of the Council's counter fraud arrangements.

### k) Arrangements for Group Companies

Three Chief Officers are directors of Quercus 7 Ltd and Quercus Housing Ltd and other Council staff are also involved in the operation of the companies. However, there is a clear segregation of duties to ensure that the operation and decision making processes for the council and the companies are acted on separately. To ensure that the companies operate in a consistent manner to the Council, where appropriate Council policies have been adopted by the companies.

The governance arrangements for the companies also stipulate that the Boards report to Trading/Guarantor Boards which consist of Cabinet Members. There are also Annual General Meetings where the Board report to Members as representatives of the Council which is the only shareholder of the companies.

### 5. Role of the Section 151 Officer

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigned this responsibility to the Chief Officer - Finance and Trading during 2019/20.

5.2 CIPFA has issued a Statement on the Role of the Chief Financial Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate the role of the Section 151 Officer. The Council has considered this Statement, and believes that, during the financial year 2019/20, it has complied fully with the governance requirements of the Statement. The Council's Financial Procedure Rules codified within Appendices D and E of the Constitution ensure that all the appropriate responsibilities are delegated and reserved to the Section 151 Officer as the Statement recommends.

### 6. Covid-19 Governance Impacts

6.1 From March 2020 there has been a significant impact on Council services as a result of the Covid-19 pandemic. The Council has co-ordinated a response, as well as directly responding itself, to ensure that resources have been prioritised to those most in need with essential assistance being provided right across all parts of the District. Despite the challenges, the Council has also maintained essential services. The robust response to the pandemic has added assurance to the effectiveness of the Council's business continuity plans, communications strategy and governance arrangements.

6.2 The Council is responding and adhering to government guidance in response to the pandemic. Priorities have been changed to focus on the need to distribute

## Agenda Item 5

emergency food and essential services to vulnerable residents and to provide support to local businesses and protect jobs in the District.

6.3 The Council has been conducting meetings and taking decisions in ways other than face to face so that lawful decisions can still be made to maintain good governance, principles of openness and accountability. The Council has adapted its approach by assessing which decisions need to be made quickly to deal with the pandemic and which can be delayed and re-scheduled. Virtual meetings now occur to ensure that transparency and good governance continues, and we are taking full advantage of the flexibilities that the Coronavirus Act 2020 gives us.

### 7. Review of Effectiveness

7.1 Sevenoaks District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the outcome of the work of the Council's internal audit service during the year and by Chief Officers who have responsibility for the development and maintenance of the internal control environment. It also considers comments made by the external auditors and other external review agencies and inspectorates.

7.2 The review of effectiveness of the Council's companies, Quercus 7 Ltd and Quercus Housing Ltd is also considered as part of this exercise as three Chief Officers are also directors of both companies.

7.3 The External Auditor concluded that, for 2019/20, the Council had effective arrangements in place to ensure value for money was achieved. An unqualified opinion was issued in relation to the Council's financial statements. The Council is not aware of any issues arising from the current work being undertaken by the External Auditor.

7.4 Internal audit reports are available to the Audit Committee upon request, and the outcomes of audit work is reported regularly. Each year the Committee receive the Annual Internal Audit Report, which includes the Annual Opinion on the Council's internal control, risk management and governance arrangements. The interim opinion for 2019/20 indicates that the Council's control environment is effective.

7.5 The Head of Paid Service and Section 151 Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the relevant Codes of Conduct.

7.6 There were no significant governance issues raised in last year's AGS.

7.7 One significant governance issue has been raised through the AGS process which relates to the Covid-19 pandemic which is included in the table below.



Certification

Signed:

Signed:

Dr. Pav Ramewal

Cllr Peter Fleming

Chief Executive

Leader of the Council

Date:

Date:

## Issues Identified

Identified from	Issue	Description	Responsible Officer(s)
Covid-19 Pandemic	Response to the impacts of Covid-19	An ongoing assessment of the impact of the Covid-19 pandemic on council services and council systems and lessons learned will be undertaken in order to ensure good governance. Council plans and the 10-year budget to be reviewed in the light of the impact of Covid-19.	SMT

# Local Government audit and financial reporting – the Redmond Review

Grant Thornton  
September 2020



# The Redmond Review – scope and purpose

## Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

## Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

## Publication

- 8 September 2020

# Context

## Why the need for a review?

- Local audit is facing an unprecedented set of challenges
  - Accounts have grown far more complex
  - Authorities are engaging in more innovative / unusual transactions
  - Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
  - Audit fees have fallen to an unsustainably low level
  - The sign off date of 31 July is too tight (even without Covid 19 pressures)
  - Retention of audit staff is very difficult in this environment
  - Authorities are not getting the service they deserve
  - Radical and urgent reform is needed!

## Areas of focus

### A wide ranging review

- The Expectations Gap
  - Audit and Wider Assurance
  - Audit Quality
  - The Financial Reporting framework
  - Auditor Reporting
- 
- 156 responses
  - Over 100 interviews
  - 83 pages
  - 23 recommendations



# The system is not working



The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

## Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new audit firms to the local authority market has not been realised.



# Detailed findings

## Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman)
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

# Detailed findings

## Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors including other parts of the public sector have significantly risen
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

# Detailed findings

## The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff

# Detailed findings

## Financial reporting is overly complex / not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting e.g:
  - asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value
  - going concern disclosures are perceived to be less relevant in a local authority context than financial resilience

# Detailed findings

## Governance and transparency of reporting needs improvement

- The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

# Detailed findings

## There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves, Auditors coming through the system are not developing a wider understanding of LG context
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/ LASAAC

# Sir Tony's Recommendations

## A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

# Sir Tony's Recommendations

## A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries.**



# Where next?

## A call for action

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation

## Grant Thornton's View

**Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.**



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## MEMBERS' ALLOWANCE SCHEME MONITORING 2019/2020

Audit Committee - 3 November 2020

**Report of:** Monitoring Officer

**Status:** For Consideration

**Key Decision:** No

**This reports support the Key Aim of:** The effective management of Council resources

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officer:** Martin Goodman, ext. 7245

**Recommendation to Audit Committee:** That Members note the contents of this report.

**Reason for recommendation:** This report is further to the Committee's monitoring of the Members' Allowance Scheme' and sets out payments which have been made.

### Introduction and Background

- 1 Within the terms of reference of the Audit Committee, the committee is required 'to monitor the implementation of the Members' Allowance Scheme'.
- 2 The Governance Committee is required 'to receive the recommendation of the Joint Independent Remuneration Panel and make recommendations for changing the Members' Allowance Scheme to the Council and, if required, to the Joint Independent Remuneration Panel'. This process took place during 2017/18 and an updated scheme came into force from May 2019.

### Members' Allowance Scheme - 2019/20

- 3 Members' allowances for 2019/20 were published during the summer and can be viewed, alongside past years' information, here: [https://www.sevenoaks.gov.uk/downloads/download/32/councillor\\_allowance\\_and\\_expense\\_payments](https://www.sevenoaks.gov.uk/downloads/download/32/councillor_allowance_and_expense_payments)
- 4 Basic allowances were paid to all Members but one asked not to receive the full amount. It should be noted that allowances were paid to 72 Members as there was an election during the year.

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- 5 Travel expenses were claimed by 31 out of 72 Members (43%).
- 6 The IT allowance was consolidated with the basic allowance from May 2019.
- 7 Appendix G from the Constitution of Sevenoaks District Council containing the Members' Allowance Scheme (2019/20) is attached as this report's Appendix.
- 8 All Members' expenses claims are checked by Democratic Services. Under the Constitution it is for the Chief Executive or the Monitoring Officer to decide any question of interpretation.
- 9 A routine internal audit of the arrangements took place during 2020/21, which does not alter the content of this report.

### **Key Implications**

#### Financial

The cost of the Members' Allowance Scheme is contained within the approved budget.

#### Legal Implications and Risk Assessment Statement

None.

#### Equality Assessment (Compulsory heading - do not delete)

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

### **Conclusions**

This report is for noting the operation of the scheme in the year 2019/20.

#### **Appendices**

Appendix A - Members Allowance Scheme

#### **Background Papers**

None.

**Martin Goodman**  
**Monitoring Officer**

# APPENDIX G: Members' Allowances Scheme (2019/20)

## 1. INTRODUCTION

The Members' Allowances Scheme is made under the provisions of the Local Authorities (Members' Allowances) (England) Regulations 2003 (the 2003 Regulations) and other Regulations which may come into force from time to time.

In making this Scheme, the Council must have regard to the recommendations made by the Joint Independent Remuneration Panel.

This Scheme has effect for the financial year appertaining to the year it is introduced and continues until amended or revised.

This Scheme may be amended at any time having regard to the recommendations of the Joint Independent Remuneration Panel.

For the avoidance of doubt, where the only change to this Scheme is effected by annual updating of allowances, this Scheme shall be deemed not to have been amended.

## 2. STATUTORY MEMBERS' ALLOWANCES SCHEME

### 2.1 Basic Allowance

Every District Council Member shall be paid an annual basic allowance as set out in Schedule 1 below. It will be paid in instalments of one-twelfth on the 15th of each month, with minor adjustments where necessary to ensure that the total annual sum is correct. The allowance is subject to annual updating - see paragraph 2.8 below.

The basic allowance covers time incurred by a District Council Member in carrying out his/her ordinary duties for the Council. However, it excludes travel and subsistence allowances for approved duties which are referred to separately below. Furthermore, the Council makes available to Members a certain amount of equipment over and above the basic allowance. Again, this is referred to separately below.

### 2.2 Special Responsibility Allowances

An annual special responsibility allowance (SRA) will be paid to certain Members. SRAs will be paid in monthly instalments. They are not payable when a Member temporarily steps into another's role (say, when the Vice-Chairman chairs a meeting). The special responsibility allowances are set out in Schedule 1 below.

### 2.3 Child and Dependant Carer's Allowance

Members may claim an allowance in respect of expenses necessarily incurred in relation to the provision of care for their children and other dependants while

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carrying out approved duties. Approved duties are listed in a separate section below. Claims should be made monthly in arrears, by attaching the receipt(s) to the submitted Member's claim form and entering the amount claimed on the form. Claims will not be paid without documented receipts.

The allowance to be paid per dependent child per hour during normal daytime working hours (8am to 6pm on Mondays to Fridays) and a single maximum payment per hour as set in Schedule 1 for child care arranged outside normal working hours, accompanied by an official receipt.

The dependent adults carer's allowance will be paid up to the figure in Schedule 1 per hour for the employment of a replacement carer for whom the Member is normally a full time carer. This will also apply where the Member has to arrange care for a disabled dependent child. In either case, the definition of dependant being as set out in the Employment Rights Act 1996 (s.57A), such claims to be supported by a doctor's letter confirming that the dependant is in need of constant or specialist care/supervision; (NB Carer's allowance and the allowance payable in respect of a disabled dependent child, is not payable in respect of the same child for the same period.).

### 2.4 Pensionable Allowances

Statutory regulations allow local authorities to make certain allowances pensionable, but only if so recommended by their independent remuneration panel. At Sevenoaks it has been agreed that the option to allow Members to participate in the Local Government Pension Scheme should not be introduced at this time.

### 2.5 Renunciation of Allowances

A Member may choose to forego all or part of his/her entitlement to basic or special responsibility allowances under this scheme. If this is the case, he/she should give notice of this in writing to the Chief Executive or Monitoring Officer, stating what element of his/her allowance entitlement he/she does not wish to claim. The notice should also state whether this is for the current municipal year or the remainder of the Member's term of office - if the notice does not specify a time period then it will be assumed to mean the remainder of the term of office.

A Member not wishing to claim the expenses described in section 3 below need not give notice in writing - he/she simply does not submit any expenses claim forms.

### 2.6 Publicising Allowances and Expenses Paid

As soon as reasonably practicable after determining a Scheme of Allowances, a copy of the Scheme will be made available for inspection and publication will take place in accordance with the 2003 Regulations.

As soon as practicable after 1<sup>st</sup> April each year arrangements will be made for the publication of the total paid to each Member in each category of allowance specified in this Scheme, in the preceding year.



## 2.7 Suspension of Allowances

Any Member/Co-optee who is suspended or partially suspended from his/her responsibilities or duties as a Member of the Council in accordance with legislation or regulations that may come into force from time to time may have his/her allowances withdrawn for the period of any suspension.

Where any payment allowance under this Scheme has already been made in respect of any period during which a Member/Co-optee is suspended or partially suspended or ceases to be a Member or Co-optee of the Council or is in any other way not entitled to receive the allowance in respect of that period the Council may require that such allowance or part of as relates to any such period be repaid to the Council.

## 2.8 Annual Updating

Members' allowances except for travelling expenses are updated annually in line with the National Joint Council for Local Government Services pay award.

## 3. **PAYMENT OF EXPENSES**

### 3.1 Approved Duties

Members/Co-optee members may claim reimbursement of travel, subsistence, Child and Dependent Carer's Allowance and conference expenses incurred whilst undertaking an approved duty. No expenses claimed more than three months after they were incurred will be paid.

Attendance at any of the following is an approved duty:

- (a) The attendance at a meeting of the District Council or of any committee or sub-committee or Working Group of the District Council, or of any body to which the Council make appointments or nominations, or any committee or sub-committee of such a body (If the outside organisation will pay travel and/or subsistence costs, then the Member should claim against that organisation and cannot claim from the District Council.);
- (b) The attendance at any meeting, the holding of which is authorised by the District Council, or a committee or sub-committee of the District Council, or a joint committee of the District Council and one or more local authority within the meaning of section 279(1) of the 1972 Act, or a sub-committee of such a joint committee provided that: -
  - (i) where the authority is divided into two or more political groups, it is a meeting to which members of at least two groups have been invited, or
  - (ii) if the authority is not so divided, it is a meeting to which at least two members of the authority have been invited;
- (c) the attendance at a meeting of any association of authorities of which the District Council is a member

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- (d) the attendance at a meeting of the executive (Cabinet) or a meeting of any of its committees;
- (e) the attendance at pre-meeting briefings by Chairmen and Vice-Chairmen of Committees;
- (f) the performance of any duty in pursuance of any standing order made under section 135 of the 1972 Act requiring a Member or Members to be present while tender documents are being opened;
- (g) the performance of any duty in connection with the discharge of any function of the District Council by or under any enactment and empowering or requiring the District Council to inspect or authorise the inspection of premises (including site visits for planning matters); and
- (h) the attendance of any pre-arranged meetings with Officers relating to issues within the Members' responsibilities. This would encompass Portfolio Holder briefings etc. In the event of any question of interpretation, the Chief Executive, or, in his absence, the Monitoring Officer, will decide.
- (i) The attendance at meetings, training or other events where the Member is an official Council representative or requested to attend by the Leader, relevant Cabinet Member or Chief Officer.

### **Further Clarification of Approved Duties:**

In-house training and development seminars including Members' Induction, Staff Induction and service-specific seminars

Conferences or seminars arranged by a Chief Officer.

Expenses will not be paid for attendance at national and regional bodies if the Member was not appointed to the organisation or event by the District Council.

Travel and subsistence allowances for co-opted and lay/expert members of committees and panels will be paid, at the same level as for elected Members.

Schedule 2 sets out tables of examples of what are approved duties. In specific cases not covered by this schedule Members should contact the Democratic Services Team. A decision will be made by the Chief Executive or the Monitoring Officer and the table updated accordingly

### **3.2 Travelling, Subsistence and other Expenses**

#### **Travelling Allowances**

Travelling allowances are payable in accordance with the HMRC maximum tax free allowance from time to time:

Per mile up to and including 10,000 miles	45 pence
Over 10,000 miles	25 pence

Bicycles:

20 pence per mile tax free as per HMRC’s maximum tax free allowance for claims.

Motorcycles:

24 pence per mile tax free as per HMRC’s tax free allowance for claims.

Public Transport:

Authorised journeys taken using public transport should be reimbursed at the cost of standard travel.

Travelling allowances may be claimed by Members for attendance at meetings of the bodies or for the purposes listed in 3.1 above.

Car sharing is encouraged by the Council for duties involving more than one Member. Any claim should be made by the vehicle driver only.

Travel by taxi should only be used in exceptional circumstances and, if it is necessary, should involve more than one Member if possible.

### 3.3 Subsistence Expenses and Council Refreshments

- A Member may claim reimbursement of subsistence costs incurred personally while on approved duties. The latter are described at a separate section below. In order to qualify for reimbursement:
- the Member must be away from his/her usual residence for a minimum of four hours (this time period applying only to the time spent in travel to and from, and attendance at, the approved duty outside the District)
- there must be no meal provided at the approved duty, either by the Council or any other organiser for the event
- claims will only be reimbursed for subsistence purchased in the close vicinity of a local event, or in the vicinity of, or whilst travelling to or from, an event more distant.
- the Member should attach a receipt to his/her expenses claim form to show that a meal was purchased (and the amount paid will be the amount incurred and shown on the receipt up to the maximum limit shown below).

The rates payable are set annually when the annual pay award is agreed. They are currently as set out in the table below.

Subsistence type	Details	Payment amount
Lunch allowance	Covers the period from 12 noon to 2 p.m.	£9.86

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Evening meal allowance	For a period of absence ending after 7 p.m.	£12.21
Absence overnight	To cover hotel and associated expenses - but note that, in these cases, the Council will book and pay for hotel accommodation directly (see 'conferences' at separate section below)	£79.82 (increased to a maximum of £91.04 in certain circumstances, e.g. for meetings in London and for LGA meetings)

If a meal is taken on a train, this is taken to relate to the subsistence allowance which it most closely equates to (i.e. lunch or evening). The above conditions still apply.

The Council may provide refreshments for 'approved duty' meetings which last over the lunchtime period or which start between 4.30 p.m. and 6 p.m.

The District Council requires that Members ensure that any overnight stay bookings for approved duties and conferences are made by Council Officers. The Council will then pay for the cost of the accommodation and breakfast. Lunch and evening meal costs up to the subsistence amounts shown above and travel will be claimable.

### 3.6 Child and dependant carer's allowances

Members may claim an allowance (set out in Schedule 1 below) for the use of childminders, babysitters or other sitters for dependants while carrying out approved duties. See section 2.3 above for details. Claims must be supported by receipts for payments made.

### 3.7 ICT and other equipment

Members are securely able to access all Council information and communications from any internet access point, including a home computer, through the Members' Electronic Portal. In order to recognise that part of the cost of provision of such equipment is for the performance of Members' duties, Members may make claim for the following financial support:

- (a) In exceptional circumstances where a Member is unable to afford the purchase cost of a suitable computer the Council would consider assisting the Member by advancing a lump sum which would then be recovered via repayments from this allowance;
- (b) where a Member has been provided with a Council funded computer, no allowance will be paid; and
- (c) all such allowances are subject to tax along with Basic and Special Responsibility Allowances in the normal way.

### 3.8 Claims procedure

Claims for travel, subsistence and dependant carer's allowances must be made each month using the Members' claim form. Members can either submit a claim in writing or on-line. If any Member wishes to submit claims on-line, he/she is required to sign a 'request to submit forms via e-mail' and return it to the Head of Legal & Democratic Services or Democratic Services Team Leader so that a members' claim form can be sent electronically for completion. All claims must be received by the Democratic Services Team by the twentieth day of the month. This is essential as they must be verified and approved by the twenty third day of the month in time for the monthly payroll run on the fifteenth of the following month. Any claims received after these dates will be paid on the subsequent pay run.

Members should ensure that they submit claims each month as claims stretching back over several months may be delayed owing to the increased difficulty of verifying them. Claims over 3 months old will not be paid. All claims to be finalised within one month of the start of the financial year.

The claim form must include receipts for all expenses claimed other than car mileage, and must be signed by the Member to declare that he/she is entitled to all amounts claimed and has not already been reimbursed for these amounts by the Council or any other organisation. For those claims submitted electronically, all relevant receipts must also be submitted to support the claim.

If a Member wishes to reclaim tax paid on subsistence allowances, he/she must provide relevant receipts to HMRC. If a Member applies for benefit, he/she must declare any allowances and expenses received from the Council on his/her application form.

Should it ever arise that the Council incurs expenditure on behalf of a Member's spouse or partner, then a debtor's account will be sent to the Member to recover all additional costs and a copy of the accounts will be placed with the file of payments to Members.

## 4. GUIDANCE FOR OFFICERS IN RESPECT OF PAYMENT TO MEMBERS

All Officers must adhere to the above scheme when verifying and making payments to Members. The Head of Legal & Democratic Services or Democratic Services Team Leader must verify all Member claims prior to passing them for payment taking particular note of Schedule 2. The Finance Team will maintain a file of payments to Members. For all payments under the Members' Allowances Scheme, this must show the name of the recipient, together with the amount and nature of each payment. It is open for inspection free of charge by electors in the area, who may copy any part of it.

The scheme also applies to Officers incurring expenditure on a Member's behalf - if an Officer spends more than the prescribed limits shown above for a Member's travel and/or subsistence then *the Officer cannot claim the excess, but must bear the cost personally*. If an Officer wishes to make a claim for Member travel and/or subsistence, he/she must complete an employee travel and subsistence expenses claim form in the usual way, but stating clearly which Member(s) were paid for,

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and the details of the payment (cost, time of day incurred) which will allow it to be checked against the prescribed subsistence scheme. A copy must be sent immediately to the Finance Team for recording in the file of payments to Members.

If any other issue of payment to a Member arises, other than one covered by the above Members' allowance scheme or a normal service issue, then prior written approval should be obtained from the Chief Executive or Monitoring Officer.

When a department arranges any seminar, conference, course or visit which will incur costs on behalf of a Member, the lead officer must liaise with the Chief Finance Officer to ensure that only permitted expenditure is incurred. The lead Officer of the event should keep a list of Members attending an approved event, and forward it immediately afterwards to the Head of Legal and Democratic Services or Democratic Services Team Leader and the Finance Team to ensure that any subsequent Member claims for travelling and/or subsistence can be verified.

Tours outside the Sevenoaks District may be arranged by the relevant department. They will still require formal committee/cabinet approval and adequate budgetary provision. Any overnight stop, unless paid for directly by the Council, and any lunch or evening meals purchased for the Members involved must adhere to the subsistence rates shown above. If air tickets are reserved, the cheapest rate of public air travel must always be used.

Any proposed payment or commitment of civic funds must be referred to the Chief Executive or Monitoring Officer for prior approval. These Officers must ensure all payments so made remain within budgeted levels of expenditure, and that any payments to or on behalf of Members are recorded in the file of payments to Members.

**Schedule 1****Members' Allowances Scheme (2019/20)**

Description of Allowance	2019/20 Allowance per Member £
Basic Allowance (all Members)	5,467
<b><u>Special Responsibility Allowances:</u></b>	
Cabinet Chairman (Council Leader)	20,000
Deputy Leader	12,000
Cabinet members	7,000
Deputy Cabinet Members	1,600
<b>Opposition Group Leaders:</b>	
Independent (3 Members)	810
Liberal Democrat (3 Members)	810
<b><u>Chairmen</u></b>	
Advisory Committees (x7)	2,500
Audit	2,500
Community Infrastructure Levy (CIL) Spending Board	2,500
Development Control	5,000
Governance	2,500
Health Liaison Board	2,500
Licensing	2,500
Scrutiny	2,500
Sevenoaks Joint Transportation Board	2,000
Standards	1,600
<b><u>Vice-Chairmen</u></b>	
Advisory Committees (x7)	0
Audit	0
Community Infrastructure Levy (CIL) Spending Board	0
Development Control	1,000
Governance	0
Health Liaison Board	0
Licensing	0
Scrutiny	0
Sevenoaks Joint Transportation Board	0
Standards	0
<b><u>Committee Members</u></b>	

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Development Control members	500
Licensing Committee members	135
<u>Other</u>	
Standards co-optees	480
Child Care (p/h/p/child max)	7.20
Dependent Carers (p/h max)	16.00



## Schedule 2

### Members' Allowance Scheme - Approved Duties Specific Examples

- Attendance at a meeting of Council
- Attendance at a meeting of Cabinet (all Members)
- Attendance at a meeting of any Committee/Sub-Committee/Working Group/Board/Hearing of which you are a Member (attendance at Committee meetings as an observer is not considered an approved duty, the only exception to this being meetings of the Cabinet).
- Attendance at a meeting of any outside organisation that you are appointed to by the Executive or the Council
- Attendance at any Development Control Meeting and Development Control Site Meeting as agreed by the Chairman or Vice-Chairman of Development Control, if you are a member of Development Control or a local member for the ward concerned
- Attendance of any other site visit approved by Council, the Executive or any Committee/Sub-Committee/Working Group/Board/Hearing, if you are a member of the relevant body
- Attendance by a member of the Executive at any Committee/Sub-Committee/Working Group/Board/Hearing that is discussing matters within that member's Portfolio
- Attendance at any meeting organised by Officers of the Council to which at least two political groups have been invited
- Attendance at any training session organised by Officers of the Council to which the Member has been invited
- Attendance at any service-specific seminar organised by Officers of the Council to which the Member has been invited
- Attendance at any Conference or Seminar where prior agreement has been made by a Chief Officer of the Council
- Attendance at pre-meeting briefings by Chairman/Vice-Chairman of Committees/Sub-Committees/Working Groups/Boards/Hearings
- Attendance of members of the Executive at Briefing meetings
- Attendance of a member of the Executive that is required to attend a tender opening
- Attendance at any meeting pre-arranged by Officers of the Council relating to issues within the Member's responsibilities

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## INTERNAL AUDIT PROGRESS REPORT

Audit Committee - 3 November 2020

**Report of:** Audit Manager

**Status:** For Consideration

**Also considered by:** None

**Key Decision:** No

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officer:** Francesca Chivers, Ext. 7053

**Recommendation to Audit Committee:**

- a) To note the contents of the report
- b) To agree the removal of Waste Management from the 2020/21 Internal Audit Plan

**Reason for recommendation:** Reporting the outcomes of the internal audit service is a requirement under the Public Sector Internal Audit Standards. As those charged with governance, the Audit Committee is required through its Terms of Reference to provide oversight, support and challenge to gain assurance over the effectiveness of internal control, risk management and governance.

### Introduction and Background

- 1 The Audit Committee receives regular updates from the Internal Audit Partnership. Principally the focus on these updates is to track progress, findings, and key insights from delivery of the Internal Audit Plan. The Committee provides a key oversight role, and as those charged with governance, must be satisfied that the Council is operating effective internal control, risk and governance processes.
- 2 The Audit Committee also has a critical role to play in quality oversight of the internal audit function. As such, the report also provides Members with performance information and an update on the procurement of an External Quality Assessment (EQA) of the service.

### Other options Considered and/or rejected

None

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### Key Implications

#### Financial

There are no direct financial implications associated with this report.

#### Legal Implications and Risk Assessment Statement.

Under the Accounts and Audit Regulations, the Council is required to maintain an adequate and effective system of internal audit.

Links to the Corporate Risk Register are provided within Appendix A.

#### Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

### Conclusions

This report provides Members with an update on the Internal Audit's outcomes and performance, including Internal Audit progress towards delivery of the 2020/21 Audit Plan.

#### **Appendices**

Appendix A - Internal Audit Progress Update

#### **Background Papers**

[Internal Audit Plan 2020/21](#)

**Francesca Chivers**  
**Audit Manager**

**DARTFORD & SEVENOAKS AUDIT PARTNERSHIP**

# **Internal Audit Update Report**

**3 November 2020**



# Agenda Item 7

## Introduction

1. Internal Audit is an independent and objective assurance and consulting function. The shared team undertake reviews over the course of the year that are designed to evaluate and improve the Council's internal control, governance and risk management processes.
2. This report provides Members with an update on internal audit activity, and, crucially, its outcomes, against the Plan that was agreed by Members of this Committee in July 2020.
3. It also seeks to enable the Committee to discharge its responsibility to provide oversight of the Internal Audit Partnership through performance information and an update on the forthcoming External Quality Assessment (EQA).

## Internal Audit Progress Update

4. Members will recall that due to the Coronavirus pandemic, both the completion of the 2019/20 Plan and the start of the 2020/21 Plan were delayed. The 2020/21 Internal Audit Plan was approved by Members in July 2020; at the same meeting the Annual report for 2019/20 was presented but at that stage, some audits for the previous financial year had not yet been finalised.

## Internal Audit Plan 2019/20

5. Since the Annual Report, we have completed the 2019/20 Plan and have issued the remaining two audit reports (Animal Welfare and HR Policy Compliance). Both of these audits received 'Substantial' assurance (summaries are provided in **Annex B**) and therefore they do not have any detrimental impact on my conclusion in the 2019/20 Annual Report that overall systems of control are sound.

## Internal Audit Plan 2020/21

6. Members will recall that the 2020/21 Internal Audit Plan was divided into two; Plan A contains the audits that are priorities for completion and Plan B contains additional audits that will be completed if resources allow.
7. An overall summary of Internal Audit progress against both Plans as at 12 October 2020 is shown below in **Annex A**. We have made steady progress against Plan A with two pieces of work fully completed and a further five in fieldwork. Nonetheless, it will be important to maintain momentum and work as efficiently as possible in the remaining months of the year in order to complete the Plan. This is a key focus of the Internal Audit Management Team.

## Amendments to the 2020/21 Plan

8. Within the Audit Plan report presented in July, I did note that the Audit Plan may have to be continually revised throughout the year as needs and risks would be likely to change. To date, we propose one amendment to the Internal Audit Plan for which Member approval is requested. We

had planned to undertake an audit of Waste Management in this financial year, however the service has separately commissioned a consultant to undertake a review to benchmark performance and provide an options appraisal for possible future service delivery models. I have reviewed the scoping document and consider that an internal audit review would involve some duplication. Therefore, in the interests of efficiency, I propose to remove that audit from the 2020/21 Plan.

**Internal Audit Outcomes**

9. The table below shows all final audit reports issued and the outcomes since the last report to Audit Committee in July 2020. Summaries of these audits can be found in **Annex B**. Definitions of our assurance ratings are provided in **Annex E**.
  
10. One of the primary functions of Internal Audit is to provide assurance that identified risks are being effectively managed and to this end, the table below also provides links between Internal Audit work and the current Strategic Risk Register (which is presented as a separate agenda item). This does not mean that all controls have been covered as part of our audit but simply shows Members where they may be able to gain some assurance over the management of risk through our work.

<b>Audit Year</b>	<b>Audit</b>	<b>Assurance Level</b>	<b>Links to Strategic Risk Register</b>
2019/20	HR Policy Compliance	Substantial	SR04 – Knowledge, Capacity and Culture
2019/20	Animal Welfare	Substantial	NA
2020/21	Members’ Expenses & Allowances	Substantial	SR07 – Legal Compliance, Governance and Ethics
2020/21	Private Sector Housing Enforcement	N/A	SR13 – Temporary Accommodation

11. The three assurance pieces of work received a ‘Substantial’ rating which is a strong set of results. For these three audits, we found that for the majority of areas reviewed, robust controls were in place for the core process which we found to be working effectively in practice. We did find for all three audits, however, that controls to either detect or monitor and address exceptions could be enhanced. These controls are of course important to ensure that associated risks are identified and managed.
  
12. We have issued one consultancy audit report relating to Private Sector Housing – Enforcement and we have also provided advice and consultancy services on an ad hoc basis. To date, this work has largely been related to either Covid-19 or to Procurement. We have completed post-payment assurance checks on 35 Business Support Grants (across Dartford and Sevenoaks); these checks did not identify any significant discrepancies. We have also reviewed and commented upon proposed Procurement waivers and we are currently involved in the Council’s Procurement Task Group. The remit of this group is to develop the Council’s procurement arrangements to ensure that commissioners are equipped with the knowledge and skills to follow compliant and best-

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practice routes to market. Once these arrangements are in place, then value for money through procurement arrangements will be further enhanced.

### Follow Up

13. Internal Audit follows up all Critical, High, Medium and Low priority findings as they fall due. **Annex C** shows the results of our follow up process to date this financial year. There are currently no Critical or High priority issues that are due and outstanding.
14. We have however closed one non-implemented Medium priority action as 'risk accepted'. This is the action raised in our 2018/19 Food Safety audit to reduce the backlog of new food premises inspections. Progress had been made prior to March, but due to the impact of the pandemic (including inability to undertake face to face inspections and large numbers of new food businesses registering), the service accepts that it will need to operate with a backlog for some time yet.

### Internal Audit Performance

15. Audit Committee have an important role to play in monitoring the performance of Internal Audit, in order to assure themselves that Internal Audit makes an effective contribution to governance and that reliance can be placed on its conclusions.

### Key Performance Indicators

16. To facilitate performance monitoring, a suite of Key Performance Indicators (KPIs) exist and the results for August 2020 (the most recent available at the time of writing) are shown at **Annex D**. Our key challenge at the moment is delivering audits to budget (as well as time and quality) which we are addressing through analysis to understand where and why budget over-runs occur and therefore how we may reduce these.
17. Currently, no figure for compliance with PSIAS is shown. This is because I am currently working through a full self-assessment in preparation for the External Quality Assessment (EQA).

### External Quality Assessment (EQA)

18. The External Quality Assessment (EQA) is an important mechanism for Members to receive assurance on the effectiveness of Internal Audit. At the July Audit Committee, Members were advised of the plan to procure an EQA in the form of a validated self-assessment in the current financial year. Since that time, under the sponsorship of the s151 Officers at SDC and DBC, we have requested, received and evaluated quotes and we have appointed the Institute of Internal Auditors (the IIA) to undertake this work. The review is provisionally booked for January 2021.
19. The Institute of Internal Auditors are the standard setters for the profession and are therefore very well qualified to undertake this work. The Lead Reviewer, John Chesshire, is a Chartered Fellow of



the IIA and has over 20 years' internal audit, governance and risk management experience. Quality Assurance will be undertaken by Liz Sandwith, the IIA's Chief Professional Practices Advisor.

20. John Chesshire undertakes a lot of training for the IIA and as such, in 2013 and 2015, I attended training courses as part of my own professional qualification that he delivered. John was also my nominated tutor for one module of my (distance learning) qualification. I do not believe that this constitutes a conflict of interest but nonetheless wished to bring this to Members' attention in the interests of transparency.
21. The EQA report, together with the Action Plan, will be presented to the next available Audit Committee after the report has been finalised.

### **Conclusion**

22. The outcomes of Internal Audit work have been largely positive and in the majority of cases, where findings have highlighted potential weaknesses, officers have put plans in place to address.
23. Clearly, these are volatile times for Councils up and down the country and it will therefore be important over the coming months that risks are continually acknowledged and assessed and that Internal Audit is able to respond in a dynamic way to the situation as it evolves.
24. We would like to thank Officers, Managers and Members for their ongoing support and co-operation to enable us to deliver our work, particularly in the light of the ongoing pandemic.

**Francesca Chivers, CMIIA**

**Audit Manager**

## Annex A – Internal Audit Plan 2020/21

Plan A	Audit Title	Type	Current Status
1	Annual Governance Statement	Consultancy	Not yet started
2	Cyber Security	Compliance	Planning
3	Covid-19 Response and Recovery	Risk-Based	Fieldwork
4	<i>Domestic Waste &amp; Recycling</i>	<i>Risk Based</i>	<i>Cancelled</i>
5	Contact Centre (Phones)	Risk Based	Planning
6	Housing Benefits	Risk Based	Not yet started
7	Members Expenses & Allowances	Risk Based	Complete
8	Contract Management	Risk Based	Planning
9	Local Land Charges	Risk Based	Fieldwork
10	Recruitment Process	Risk Based	Not yet started
11	Communication Strategy	Risk Based	Not yet started
12	Local Air Quality Management	Risk Based	Fieldwork
13	Corporate Health and Safety	Risk Based	Not yet started
14	Licensing Administration & Fees	Risk Based	Not yet started
15	Housing Allocations Policy	Risk Based	Planning
16	Disabled Facilities Grants	Risk Based	Not yet started
17	Tree Maintenance	Risk Based	Planning – draft brief issued
18	Planning Enforcement	Risk Based	Planning – draft brief issued
19	VAT Management (Make Tax Digital)	Consultancy	Planning
20	Counter Fraud - Assessment against FFCL	Consultancy	Fieldwork
21	Private Sector Housing - Enforcement	Consultancy	Complete
22	Budget Control and Monitoring	Finance	Fieldwork
Plan B	Audit Title	Type	Current Status
23	Bank Reconciliation	Finance	Not yet started
24	Insurance	Finance	Not yet started
25	Emergency Planning	Risk Based	Not yet started
26	Safety Advisory Group	Risk Based	Not yet started
27	Car Park – Season Tickets	Risk Based	Not yet started
28	Fleet Management	Risk Based	Not yet started
29	Freedom of Information	Risk Based	Not yet started
30	KCC Funding Agreement – Fraud & Error	Risk Based	Not yet started
31	Revenues and Benefits Shared Service Performance	Finance	Not yet started
32	Pre-application Planning Advice	Risk Based	Not yet started
33	Community Grants	Risk Based	Not yet started
34	Shared Services - Value for Money Review	Consultancy	Not yet started
35	Local Strategic Partnership	Consultancy	Not yet started

## Annex B - Summaries of Audit Reports issued

### HR Policy Compliance 2019/20 (Substantial Assurance) – Issued in August 2020

This audit review examined the arrangements in place for review, updating and compliance with the following Human Resources policies:

- [Disciplinary Policy](#)
- [Grievance Policy](#)
- [Probation Policy](#)

We were advised that the policies had been prepared by officers from the Human Resources Team who are experienced HR professionals and hold the Chartered Institute of Personnel Development (CIPD) qualification.

The Advisory Conciliation and Arbitration Services (ACAS) provides guidance for preparing grievance and disciplinary policies. Fieldwork confirmed the ACAS guidance had been incorporated into the policies.

There are effective consultation arrangements with Strategic Management Team and staff consultation groups before an HR policy is finalised. We were able to evidence these arrangements for the two most recent policies but not for the Grievance Policy (dated 2015).

Sample testing found that cases had been conducted in compliance with the Disciplinary policy. There was only one relevant grievance; this had been dealt with timely but successfully resolved informally. Therefore we have been unable to test application of the full policy.

Sample testing also identified a few exceptions with the probation policy. In two cases, the first one or two meetings had not taken place (although the final ones had been held) because the line manager had left or was otherwise unavailable and there were no contingency arrangements. We have recommended that contingency should be in place but managers have accepted the risk of not taking action.

The table below shows the recommendations raised, the priority level and whether they have been accepted by management:

Priority Ranking	Number of audit actions	Audit Actions Agreed	Risks accepted by management
Medium	1	0	1
Low	0	NA	NA
Advisory	1	0	1
<b>Total</b>	<b>2</b>	<b>0</b>	<b>2</b>

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### Animal Welfare 2019/20 (Substantial Assurance) – Issued in September 2020

We conclude based on our audit work that the controls in place over the management and maintenance of Animal Licensing provide **SUBSTANTIAL** assurance.

In October 2018 the Government introduced a new [licensing regime](#) to control the following licensable activities:

- Selling animals as pets
- Providing or arranging for the provision of boarding for cats or dogs
- Hiring out horses
- Breeding dogs
- Keeping or training animals for exhibition

Since October 2019 the Environmental Health Partnership has taken over responsibility for issuing all animal licences. There are currently 70 licenced establishments which require monitoring, inspecting and renewing.

Our review found there is an experienced team consisting of inspectors and support officers who are responsible for Animal Welfare. Officer roles are clearly defined between support and operational.

We found processes in place to deal with new licence applications, inspections and renewals. Records detailing existing licence holders are managed on Uniform and Idox, and monitored using spreadsheets. However, our testing identified inconsistencies in the storing of applications and supporting documentation.

Inspections are carried out in a timely manner by experienced, qualified officers, with adequate documentation to support applications. However, we identified improvements to enhance existing controls over the monitoring and follow up of improvement notices.

There is a system in place for recording and managing complaints. We noted that a number of concerns have been raised by members of the public (nationally as well as locally) regarding alleged illegal breeding and selling of animals. This is an area where the service takes proactive action to identify establishments operating without a licence, resource permitting.

A summary of the actions raised in the review are set out below:

Priority Ranking	Number of audit actions	Actions agreed	Risk accepted by management
Medium	2	2	0
Low	1	1	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>

**Members’ Expenses & Allowances 2020/21 (Substantial Assurance) – Issued in September 2020**

We conclude based on our audit work that the controls in place to manage the Members’ Expenses and Allowances provide Substantial assurance.

Our review found the arrangements in place to process and pay expense claims are robust in design and effective in practice. All expense payments tested were authorised, valid, supported by evidence, and paid timely. We were able to confirm that where claims had been rejected, this was appropriate.

We also found that the process in place to set up Members on the payroll and process their allowances was largely robust. However, analysis and review of the payroll records identified two instances where the special responsibility allowance had not been accurately paid (this has now been rectified) due to changes which had not been processed.

We did not find any significant opportunities for process efficiencies although we did observe that the process is heavily paper based and the service may wish to consider more use of electronic authorisations and records in line with new corporate ways of working.

The table below shows the recommendations raised:

Priority Ranking	Number of audit actions	Actions agreed	Risk accepted by management
Medium	1	1	0
Advisory	2	2	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>

**Private Sector Housing Enforcement 2020/21 (Consultancy) – Issued in September 2020**

We undertook a consultancy piece of work to review the draft Private Sector Housing Enforcement Strategy against both legislation and best practice from other organisations.

We have provided the Service with our detailed analysis and there are no significant risks to bring to Members’ attention.

**Annex C - Audit actions**

We raise recommendations to assist management in addressing control failings, or to suggest service improvements following the results of our testing. In accordance with our follow-up process all audit actions are tracked and followed up when they fall due. The table below shows the current actions, and progress against implementation:

Project	Service Manager	Report Issue Date & Rating	Agreed actions in Final Report	Actions due in Q1 & Q2	Not yet due	Closed in Q1 & Q2	Agreed Deferrals this Qtr.	Total actions complete to date	Total actions outstanding <sup>1</sup>
Environmental Health (Food Safety) 2018/19	Annie Sargent	December 2018 <b>Substantial Assurance</b>	3	1 (M)	0	1 (M)	0	2	0
Post GDPR Review 2018/19	Martin Goodman	June 2019 <b>Substantial Assurance</b>	6	1 (M)	0	1(M)	0	6	0
Business Continuity Planning 2018/19	Alex Dawson	August 2019 <b>Substantial Assurance</b>	3	1 (M)	0	1 (M)	0	3	0
Corporate Complaints 2019/20	Amy Wilton	January 2020 <b>Full Assurance</b>	1	1 (L)	0	1 (L)	0	1	0
Animal Welfare (shared review) 2019/20	Annie Sargent	September 2020 <b>Substantial Assurance</b>	3	0	2 (M), 1 (L)	0	0	0	3
Members' Expenses & Allowances	Martin Goodman	September 2020 <b>Substantial Assurance</b>	1	0	1 (M)	0	0	0	1
<b>TOTAL</b>			<b>17</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>12</b>	<b>4</b>

<sup>1</sup> Projects with 0 actions outstanding will be removed from future reports and be closed

\*Actions due for implementation at the end of September, which is after the report deadline. A verbal update will be provided at the meeting.

**Closed Action**

Project	Action (including priority)	Original agreed date	Action closed	Times deferred	Update on Progress
Environmental Health (Food Safety) 2018/19	Address the outstanding backlog of new premise food inspections. <b>(Medium)</b>	31/01/19, 01/04/19, 31/08/19, 31/04/20	22/9/20	<b>4</b>	<p><b>Audit Comments:</b> Risk accepted by management, therefore this action is closed.</p> <p><b>Manager Update:</b> Environmental Health were making progress on reducing the backlog but it was not possible to continue with inspections during lockdown plus, significant numbers of new businesses have started up in recent months, adding to the backlog. On top of this, Environmental Health have considerable extra work as a direct result of the pandemic. Whilst the public health emergency remains ongoing it is simply not possible to say when this can be effectively addressed. I think we have to take our lead from the Food Standards Agency and they have accepted that the pandemic has had significant impact on Environmental Health’s ability to undertake inspections and on businesses ability to respond to inspections.</p>

### Annex D – Key Performance Indicators for Q2 Progress (July and August)

Finance: Associated performance indicators	Q2 (Jul – Aug)	Internal processes: Associated performance indicators	Q2 (Jul – Aug)
<b>F1:</b> Projects Completed within budgeted days  Indicator measures any variance between the days agreed on the final brief vs. the actual time coded on Teammate TEC	0/3 0%	<b>I1:</b> Time taken between issue of the DRAFT and FINAL Audit Brief  Indicator measures the effectiveness of our project planning and time taken to prepare the work programme	10 days (average)
<b>F2:</b> Chargeable days (time)  Indicator measures the actual chargeable activities against the assumptions made in the audit plan	Q2 Average 67%	<b>I2:</b> Time taken between the issue of the FEEDBACK and DRAFT report  Indicator measures the currency of our audit finding and effective engagement between Auditors and Clients	15 days (average)
<b>F3:</b> PSIAS conformance  Indicator measures effectiveness of the Quality Assurance & Improvement Programme (QIAP) to ensure compliance with professional Standards	TBC	<b>I3:</b> Time taken between issue of the DRAFT report and FINAL report  Indicator measures the effectiveness of our process to finalise audit reports and issue the report in a timely manner	14.8 days (average)
Client satisfaction: Associated performance indicators	Q2 (Jul – Aug)	Learning & Development: Associated performance indicators	Q2 (Jul – Aug)
<b>C1:</b> Overall client satisfaction with the audit experience  Indicator measures overall satisfaction levels, taking into account the audit approach, conduct, findings and competence of the auditor	4/4 100%	<b>L1:</b> Audit actions fully implemented within agreed timescales  Indicator measures the successful implementation of audit actions and the effectiveness of our follow-up process	SDC 1/1 100%
<b>C2:</b> Respondents agreement with the audit actions  Indicator measures Client agreement to the audit findings and resulting actions from our audit work	5/6 83%	<b>L2:</b> Training & development days  Indicator measures our investment and time spent on training and development against the assumptions made in the audit plan	13.24 Days (of 58 days)



**Annex E - Definitions of Assurance ratings:**

OPINION	DEFINITIONS
<p><b>Full Assurance</b>  (no High or Medium priority actions)</p>	<p>A sound framework of control is in place that meets Council or service objectives. All expected controls tested are in place and are operating effectively.</p> <p>A review with this level of assurance will generally have no actions, or very few <b>LOW</b> priority actions. Agreed actions will be followed up as they fall due.</p>
<p><b>Substantial Assurance</b>  (no High priority actions)</p>	<p>There is generally a sound framework of control in place that meets Council or service objectives. However, there are isolated weaknesses in design of controls, or inconsistent application of controls, which puts the achievement of a limited number of objectives at risk.</p> <p>A review of this level of assurance may raise a number of <b>MEDIUM</b> priority actions. Agreed actions will be followed up as they fall due.</p>
<p><b>Limited Assurance</b></p>	<p>There are weaknesses within the framework of control or evidence of non-compliance with Council procedures or good practice, which puts the achievement of the Council's or service objectives in many of the areas reviewed at risk.</p> <p>A review with this level of assurance will raise one or more <b>HIGH</b> priority actions. Actions with a high priority should be acted on as soon as practical and will be followed up as soon as they fall due.</p>
<p><b>No Assurance</b></p>	<p>Key controls are absent from the framework of control. There are fundamental weaknesses identified with both the design and operation of the system under review. As a result, it is unlikely that Council or service objectives will be achieved.</p> <p>A review of this level may include a number of <b>HIGH</b> or <b>CRITICAL</b> priority actions. Actions of a critical level will be reported as soon as they are identified and escalated to the relevant Senior Manager. Actions to address the findings will be followed up as soon as they fall due.</p>

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## COUNTER FRAUD POLICIES

Audit Committee - 3 November 2020

**Report of:** Deputy Chief Executive and Chief Officer - Finance and Trading

**Status:** For Consideration

**Also considered by:** None

**Key Decision:** No

**Executive Summary:** This report introduces the revised Counter Fraud and Corruption Strategy and Whistleblowing Policy for consideration.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officer:** Francesca Chivers, Ext. 7053

**Recommendation to Audit Committee:**

- a) Review and note the Counter Fraud and Corruption Strategy
- b) Review and note the Whistleblowing Policy
- c) Note that Internal Audit will be unable to provide independent assurance on the effectiveness of Whistleblowing arrangements due to conflict of interest and that third party assurance may need to be procured periodically
- d) Note the proposals for International Fraud Awareness Week

**Reason for recommendation:** The Counter Fraud and Corruption Strategy and the Whistleblowing Policy are key components of the Council's effective response to fraud and corruption risks. Audit Committee is responsible for monitoring and oversight of these policies and is therefore requested to review and note the revised policies.

### Introduction and Background

- 1 The Counter Fraud and Corruption Strategy and the Whistleblowing Policy are key components of the Council's response to fraud risks. The Strategy is designed as a high level framework which sets out the Council's approach towards fraud (prevention, detection and investigation) including the desired culture. The Whistleblowing Policy is a key part of the control framework to detect fraud. It is intended to be comprehensive, encouraging

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staff (and other relevant individuals) to raise concerns whilst providing them with all the information that they need to do so.

- 2 The policies were last reviewed in 2017 and therefore an update is now due. Whilst the essence of both policies has been retained, they have both been extensively refreshed and revised in line with best practice, including that produced by the National Audit Office, CIPFA, the Whistleblowing Commission and the UK Government.
- 3 Key areas in which the policies have been strengthened are clarity of roles and accountabilities throughout the organisation and the creation and maintenance of a strong counter fraud culture, where staff feel empowered to speak up if they suspect wrongdoing.
- 4 The role of Internal Audit within the Whistleblowing Policy has also been strengthened to include overall responsibility for maintenance of both the policy and whistleblowing arrangements. As a result, Internal Audit will be unable to provide Members of this Committee with independent assurance on the effectiveness of these arrangements; the Committee may wish to consider commissioning a third party review in the future. This could be a peer review or a contract auditor, for example.
- 5 Through its Terms of Reference, Audit Committee reviews and monitors counter fraud related policies and activity; it is therefore asked to consider and note both of these policies.

### **International Fraud Awareness Week**

- 6 International Fraud Awareness Week runs from 15 - 21 November. During this week, we are planning to run a 'light touch' fraud awareness campaign for both staff and public. The messaging will highlight some key fraud risks and the Council's response to fraud. It will also provide further information on what staff should do if they suspect fraud. The campaign will include social media messaging, communications to staff and information on the internal website for staff. We will also use this opportunity to launch the revised policies to staff.

### **Other options Considered and/or rejected**

None

### **Key Implications**

#### Financial

There are no direct cost implications however the Counter Fraud and Corruption Strategy and the Whistleblowing Policy are intended to reduce the risk of financial losses through fraud.

Legal Implications and Risk Assessment Statement.

Whilst a whistleblowing policy is not mandatory, the existence of such a policy helps to demonstrate the Council's compliance with, and commitment to, whistleblowing law as located in the Employment Rights Act (as amended by the Public Interest Disclosure Act 1998).

Both documents are designed to mitigate both the likelihood and the impact of the Council's exposure to fraud risks.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

**Conclusions**

The Counter Fraud and Corruption Strategy and the Whistleblowing Policy have been extensively refreshed in line with the latest good practice. They are designed to strengthen the Council's counter fraud culture and promote accountability for counter fraud throughout the Council.

As those charged with governance of counter fraud matters, Audit Committee is requested to review both of these revised policies.

**Appendices**

Appendix A - Draft Counter Fraud and Corruption Policy

Appendix B - Draft Whistleblowing Policy and Procedure

**Background Papers**

[Government Whistleblowing Guidance for Employers](#)

[Whistleblowing Commission Code of Practice](#)

[CIPFA Counter Fraud Code of Practice](#)

[NAO Whistleblowing Good Practice](#)

**Adrian Rowbotham**  
**Deputy Chief Executive and Chief Officer - Finance and Trading**

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# Counter-Fraud and Corruption Strategy

**SEVENOAKS DISTRICT COUNCIL**

Author	Date	Approved by	Date	Date of next review
Francesca Chivers, Audit Manager	September 2020	Strategic Management Team	28 September 2020	September 2022
		Audit Committee	<b>Date</b>	

**Counter-Fraud and Corruption Strategy**

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## 1. POLICY STATEMENT

- 1.1. The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council. The Council's expectation of propriety and accountability is that Members and Officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. The Council also expects that individuals and organisations (e.g. suppliers, contractors, service providers) with whom it comes into contact will act towards the Council with integrity and without thought or actions involving fraud and corruption.
- 1.2. The purpose of this Counter-Fraud and Corruption Strategy is to set out the Council's commitment towards the prevention of fraud and corruption (including bribery) from both internal and external sources. It is primarily designed to improve resilience to fraud and to create a strong counter-fraud culture which highlights the Council's zero-tolerance approach to all stakeholders. Specifically it aims to:
  - Encourage prevention,
  - Promote detection; and
  - Identify a clear pathway for reporting and investigation.
- 1.3. The Council's Counter-Fraud and Corruption Strategy is based on a series of elements, which when in place will contribute towards a strong anti-fraud culture and practice across the Council. The Council also supports the Fighting Fraud and Corruption Locally Strategy.
- 1.4. This document has been made publicly available via the Council's website and intranet and all staff have been informed of its existence and revision.

## 2. DEFINITIONS

- 2.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud as "any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss."
- 2.3. Under the Fraud Act 2006, a person can be guilty of fraud by:
  - False representation - *for example providing false information when applying for Single Person Discount, or staff falsely claiming to be sick*
  - Failure to disclose information - *for example failing to disclose a financial interest in a company the Council is trading with*
  - Abuse of position - *for example ordering goods through Council accounts for personal use*
- 2.4. Transparency International UK defines corruption as 'the abuse of entrusted power for personal gain'

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2.5. This includes the offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person to act inappropriately.

2.6. In the UK, the Bribery Act 2010 creates the following offences:

- Offering, promising or giving a bribe
- Requesting, agreeing to receive or accepting a bribe
- Bribing a foreign official to obtain or retain business
- Failure by an organisation to prevent bribery by those acting on its behalf

### 3. ROLES AND RESPONSIBILITIES

3.1. The Council expects and requires all its officers, members, contractors and all who associate with the Council to act with propriety and accountability. Specific responsibilities are set out below:

STAKEHOLDER	RESPONSIBILITIES
Chief Officer - Finance and Trading (s151 Officer)	<p>The Chief Officer - Finance and Trading has overall responsibility for:</p> <ul style="list-style-type: none"> <li>• developing, maintaining and implementing this strategy</li> <li>• maintaining adequate and effective internal control arrangements</li> <li>• ensuring that all suspected irregularities are reported to the Audit Manager or the Chief Executive and Chief Officer - Finance and Trading who will advise on the most appropriate course of action.</li> </ul>
Chief Officers and Chief Executive	<p>All Chief Officers and the Chief Executive are responsible for:</p> <ul style="list-style-type: none"> <li>• embedding a strong counter-fraud culture with an ethos of honesty and integrity</li> <li>• embedding an open and transparent culture where staff feel empowered to report suspicions of wrong-doing</li> <li>• maintaining the internal control system including those designed for the prevention and detection of fraud and other illegal acts</li> <li>• ensuring that all suspected irregularities or financial improprieties are reported to the Audit Manager and the Chief Officer - Finance and Trading</li> <li>• instigating the Council's disciplinary procedures where the outcome of an Internal Audit or similar investigation indicates improper behaviour</li> <li>• maintaining and regularly reviewing a service register of staff disclosures of financial or commercial interests in the Council's functions.</li> </ul>
Counter Fraud Manager	<p>The Counter Fraud Manager is responsible for:</p> <ul style="list-style-type: none"> <li>• proactively using appropriate tools and techniques and working with other relevant agencies to identify potential fraud</li> <li>• investigating and reporting on external cases of alleged or potential fraud (primarily Revenues and Benefits)</li> <li>• promoting counter fraud awareness within the organisation</li> </ul>

STAKEHOLDER	RESPONSIBILITIES
Audit Manager	<p>The Audit Manager is responsible for:</p> <ul style="list-style-type: none"> <li>• reviewing and updating the Counter Fraud and Corruption Strategy on behalf of the Chief Officer - Finance and Trading</li> <li>• maintaining the Council’s Whistleblowing policy and arrangements</li> <li>• investigating and reporting of internal cases of alleged or potential fraud</li> <li>• promoting counter fraud awareness within the organisation</li> <li>• ensuring that fraud risks are considered as part of the annual audit planning process and during the course of individual internal audits</li> </ul>
Money Laundering Reporting Officer	<p>The Council’s Money Laundering Reporting Officer (MLRO) is responsible for disclosing all known or suspected money laundering offences to the National Crime Agency. This role is filled by the Principal Accountant.</p>
Audit Committee	<p>Audit Committee is responsible for monitoring the Council’s strategies and policies and considering the effectiveness of the arrangements for Whistleblowing and Counter-Fraud and Corruption Procedures.</p>
All Council Officers & Members	<p>All Council Officers and Members are responsible for:</p> <ul style="list-style-type: none"> <li>• leading by example in ensuring adherence to legal requirements, rules, procedures and practices</li> <li>• declaring all potential conflicts of interest that may affect their independence within their role as Members or officers</li> <li>• acting with integrity and conducting their business in a forthright and honest manner</li> <li>• paying regard to the requirements of the Bribery Act 2010 when acting on behalf of the Council or doing business with the Council</li> <li>• familiarising themselves with the Council’s Whistleblowing Policy</li> <li>• reporting any suspicions of fraud or improper behaviour.</li> </ul>

#### 4. CULTURE

4.1. The Council is committed to a strong counter-fraud and corruption culture and has a zero-tolerance approach towards fraud, bribery and corruption activity.

4.2. The Council is determined that its ethos will be one of honesty and integrity. The Council supports the Seven Principles of Public Life (the ‘Nolan Principles’) as set out below:

- **Selflessness** - Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity** - Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

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- **Objectivity** - In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
  - **Accountability** - Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
  - **Openness** - Holders of public office should be as open as possible about all the decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
  - **Honesty** - Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
  - **Leadership** - Holders of public office should promote and support these principles by leadership and example.
- 4.3. To promote this culture all managers, supported by Council policies, are expected to create and embed an environment in which employees feel they can raise concerns without recrimination and are confident that all concerns will be thoroughly investigated.
- 4.4. Whistleblowing arrangements exist to enable concerns to be raised and for the whistleblower to be protected.

### 5. PREVENTION - FRAUD, BRIBERY AND CORRUPTION RISKS

- 5.1. The Council and other Local Authorities face a range of risks regarding fraud, bribery and corruption.
- 5.2. Chief Officers and Service Managers are expected to ensure that fraud risks are considered as part of their risk management processes, both in terms of identification and mitigation measures.
- 5.3. The Internal Audit Team can support this process by providing advice and guidance on risks and controls as requested and providing assurance on the effectiveness of these controls in practice.
- 5.4. Some key fraud, bribery and corruption risks that the Council faces are set out below (this list is not exhaustive):

#### Member and Employee Fraud

- False representation or failure to disclose information in order to gain employment at the Council
- Abuse of position in order to award a contract to a relative or friend without declaring an interest

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- Offering or accepting a bribe in order to ignore a liability or award a grant or contract
- Offering or accepting a bribe in order to allow planning permission that does not meet the agreed criteria
- Abuse of position to make payments to someone who is not entitled to receive them

**Contractor Fraud**

- Charging for goods and services that have not been delivered or received

**External**

- False representation or failure to disclose information in order to gain social housing
- False representation or failure to disclose information to obtain Council Tax or Business Rates discounts or exemptions
- False representation or failure to disclose information in order to receive parking permits
- Submission of false invoices or false changes to bank details for existing suppliers
- Cybercrime, such as ransomware attacks
- Phishing, for example emails purporting to be from a senior officer requesting a payment to be made

**6. PREVENTION - INTERNAL CONTROL**

6.1. The Council has a series of policies and codes which form part of the internal control framework and a key part of the fight against fraud. These are communicated to all employees and Members to ensure they are aware of activities that are permitted and prohibited, including relevant actions that will be taken if requirements are breached. Key relevant policies are detailed below:

Employees	Members
<ul style="list-style-type: none"> <li>• Code of Conduct</li> <li>• Disciplinary Procedure</li> <li>• Standing Orders on Declarations of Interest</li> <li>• Financial Procedure Rules</li> <li>• Contract Standing Orders</li> <li>• Local Taxation/Council Tax Support Fraud and Compliance Strategy</li> <li>• Whistleblowing Policy</li> </ul>	<ul style="list-style-type: none"> <li>• The Constitution</li> <li>• Member Code of Conduct</li> <li>• Gifts and Hospitality Protocol</li> <li>• Standing Orders on Declarations of Interest</li> <li>• Financial Procedure Rules</li> <li>• Contract Procedure Rules</li> <li>• Whistleblowing Policy</li> </ul>

6.2. The Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential employees, in terms of their

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propriety and integrity. In this regard temporary and contract employees should be treated in the same manner as permanent employees.

- 6.3. Employee recruitment must comply with HR Policy. In particular references will be obtained regarding the honesty and integrity of all prospective employees prior to commencing employment with either Council. Also where appropriate, a Disclosure and Barring Services (DBS) check will be undertaken before commencement of employment for certain roles.

### **7. DETECTION AND INVESTIGATION**

- 7.1. The array of preventative measures, including internal control systems within the Council, has been designed to deter fraud. Monitoring controls, if properly applied, should facilitate the identification of any unusual activity.
- 7.2. Managers should be alert to the possibility that unusual events or transactions could be symptoms of fraud or attempted fraud. Fraud may also be highlighted as a result of specific management checks or be brought to management's attention by a third party.
- 7.3. All Officers and Members have a duty to report any allegations or suspicions of fraud, bribery or corruption, as follows:

### **8. External Fraud**

- 8.1. Suspicions about external fraud (Revenues and Benefits) should be reported to the Counter Fraud Manager for investigation.
- 8.2. An investigation will be carried out in accordance with the Sanctions and Prosecution Policy.

### **9. Internal Fraud**

- 9.1. Employees may report their suspicions to their line manager or Chief Officer, or can utilise the arrangements set out in the Whistleblowing Policy, which exists to provide further support and guidance to employees regarding raising concerns and to provide protection to these employees.
- 9.2. The line manager, Service Head or Chief Officer who receives the allegation (whether from a Councillor or a Council employee) must refer the matter to the following people, to determine how the potential irregularity will be investigated:
  - Chief Executive
  - Chief Officer - Finance and Trading
  - Audit Manager
- 9.3. If an investigation is required, an investigating officer will be appointed who will carry out an investigation in line with the Council's investigation processes. This

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investigation will seek to confirm or refute the allegation of fraud, bribery and corruption but will also look to identify any improvements to prevent similar incidents occurring.

- 9.4. On conclusion of the investigation, a report will be presented to the Chief Officer - Finance and Trading and the Chief Executive for a decision on the next steps.
- 9.5. Where a fraud has occurred, management must subsequently make any necessary changes to systems and procedures to minimise the risk of similar frauds recurring. The investigation may have identified where there has been a failure of supervision, breakdown or an absence of control.

## 10. **SANCTIONS**

- 10.1. The Council considers all fraudulent activity to be unacceptable and operates a 'zero tolerance' approach to fraud. As such, on the conclusion of an investigation with regard to both internal and external fraud it will consider applying the full range of sanctions available including prosecution. Decisions on sanctions will take into account relevant legislation and internal policies, the Code for Crown Prosecutors and the aggravating and mitigating factors in the case. The Council will also consider referral to the police.
- 10.2. Where the outcome of an investigation indicates improper behaviour by a Council employee, this will be dealt with through the Disciplinary Policy. Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the Council may also refer the matter to the police.
- 10.3. The Council will also pursue the repayment of any financial gain from individuals involved in malpractice and wrongdoing.

## 11. **WORKING WITH OTHERS**

- 11.1. In view of the rapid increase in fraud perpetrated against local authorities and benefits agencies, including fraudsters having multiple identities and addresses, there is a need to liaise and share information with other agencies and regulators in the fight against fraud and corruption.
- 11.2. Arrangements are in place to develop and encourage the exchange of information between other external agencies on national and local fraud and corruption activity, to help both prevent and detect these activities.
- 11.3. This includes data sharing and matching using records from other public sector bodies through the National Fraud Initiative and the Kent Intelligence Network. Other bodies with whom the Council works includes the Police, the Department for Work and Pensions, and the Kent Investigating Officers Group.
- 11.4. Whilst the ethos and required outcome of this Strategy is expected to remain constant, the procedures and processes by which this is undertaken may alter

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over time due to the changing nature of fraud, improvements in investigation techniques, and alterations to legislation.

### **12. REPORTING**

- 12.1. The Audit Committee will receive reports on counter fraud activity and outcomes and are responsible for approving and monitoring this strategy. These reports will be publicly available on the Council's website.

### **13. TRAINING AND AWARENESS**

- 13.1. The Council recognises that the continuing success of its Counter-Fraud and Corruption Strategy and its general credibility will depend largely on the effectiveness of awareness, training and responsiveness of employees throughout the organisation.
- 13.2. This strategy will be available to all Members, officers and the public on the Council's internal and external website.
- 13.3. Counter fraud awareness will be promoted periodically throughout the organisation.

### **14. STRATEGY REVIEW**

- 14.1. This strategy will be reviewed and updated on a two-yearly basis, unless earlier changes are required. All changes will be subject to approval and endorsed by the Audit Committee.





# Whistleblowing Policy and Procedure

SEVENOAKS DISTRICT COUNCIL

Author	Date	Approved by	Date	Date of next review
Francesca Chivers, Audit Manager	September 2020	Strategic Management Team	28 September 2020	September 2022
		Audit Committee	Date	

## Whistleblowing Policy

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## 1. Background

- 1.1. Whistleblowing is defined by the Whistleblowing Commission's Code of Practice as "the raising of a concern, either within the workplace or externally, about a danger, risk, malpractice or wrong-doing which affects others."
- 1.2. The [Public Interest Disclosure Act 1998](#) gives statutory protection to employees who "blow the whistle" on their employer's malpractice.
- 1.3. The Act makes clear the important role that a whistleblowing mechanism can play in helping organisations and employers to comply with the law. To this effect, the Council has developed a whistleblowing policy and procedure. This has been designed to align with the Whistleblowing Commission's Code of Practice 2013, which sets out a best practice whistleblowing framework for the Public Sector.
- 1.4. This policy underpins the Counter Fraud and Corruption Strategy and is complementary to the Officer and Member Codes of Conduct.

## 2. Policy statement and objectives

- 2.1. Sevenoaks District Council takes seriously its responsibilities for safeguarding public funds and assets and for operating in an ethical manner that ensures the well-being of its employees, suppliers, service providers and customers.
- 2.2. To this end, the Council is committed to having effective whistleblowing arrangements in place in order to support, encourage and protect individuals who have genuine cause for raising concerns and to promote good governance and safeguard the public interest.
- 2.3. The Council will take all reports of improper activity seriously and will investigate all concerns raised fairly and consistently.
- 2.4. The Council will protect the person raising the concerns against victimisation, harassment and / or recrimination and recognises they may wish to raise concerns on a confidential basis.
- 2.5. The overarching objective of the Whistleblowing policy is to outline a framework which encourages potential whistleblowers to communicate their concerns within a safe environment without fear of recrimination. Specifically, it aims to:
  - encourage employees to feel confident in raising serious concerns and to question and act upon concerns in practice
  - provide avenues for employees to raise those concerns and receive feedback on any action taken

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- reassure employees that they will be protected from possible reprisals or victimisation, if they have a reasonable belief that they have made any disclosures in good faith

### 3. Responsibility

- 3.1. **Strategic Management Team** is responsible for approving and endorsing the Policy and for embedding an open and supportive culture where employees feel empowered to whistleblow without fear of reprisals. They are also responsible for assuring themselves that the policy is operating effectively and that concerns are investigated properly and fairly.
- 3.2. **Audit Committee** are responsible through their Terms of Reference for reviewing and monitoring the Policy.
- 3.3. The **Audit Manager** has overall responsibility for the maintenance and operation of this Policy and for keeping a record of all allegations received, their outcomes and the feedback provided.
- 3.4. **All staff** are responsible for raising relevant concerns they may have under this policy.
- 3.5. **All managers** are responsible for ensuring that concerns raised with them are taken seriously, treated appropriately and investigated fairly.
- 3.6. The **Monitoring Officer's** Annual Report to Members will incorporate a summary of whistleblowing events and their outcomes.
- 3.7. The **External Auditor** will also be advised at least annually, of all proven whistle-blowing events and their outcomes.

### 4. SCOPE

- 4.1. This Policy applies to all employees (including temporary and agency staff), Councillors, co-optees, volunteers, contractors, their agents and/or subcontractors, consultants, suppliers and service providers in the course of their work for the Council.
- 4.2. Disclosures may be made under the Whistleblowing policy relating to the following concerns:
  - Conduct of a criminal nature or a breach of the law
  - Miscarriage of justice
  - Bullying, harassment or victimisation of a third party
  - Disclosures related to miscarriages of justice
  - Health and safety risks, including risks to the public as well as other employees
  - Damage to the environment

- Covering up or concealing any of the above
- The unauthorised use of public funds
- Possible fraud and corruption including offences falling under the Bribery Act 2010
- Sexual or physical abuse of customers
- Breach of Council procedures; or
- Other unethical conduct or malpractice.

4.3. Any serious concerns that employees have about any aspect of service provision or the conduct of officers, councillors, co-optees, partners or others acting on behalf of the Council, can be reported under this Policy. This may be about something that:

- makes you feel uncomfortable in terms of known standards, your experience or the standards you believe the Council subscribes to; or
- relates for example to a breach of the Council's Standing Orders, Financial Regulations, policies, practices and procedures; or
- falls below established standards of practice; or
- amounts to improper conduct.

4.4. The Whistleblowing policy does not replace the Corporate Complaints and Grievance procedures. Concerns relating to individual complaints or personal grievances, including employment matters, are likely to fall under complaints and grievance policies. Employees must not use this Policy to deal with day to day problems, such as, mistakes, errors, or general differences of view that arise in the workplace. Operational matters should be raised with management first.

## **5. Safeguards and Support**

5.1. The Council expects employees and others that they deal with who have serious concerns about any aspect of the Council's work, to come forward and voice those concerns. Employees are often the first to realise that there may be something seriously wrong within the Council.

5.2. Nonetheless, the Council recognises that the decision to report a concern can be a difficult one to make, such that employees may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment, victimisation or recrimination from the Council.

5.3. Provided they believe they are acting in the public interest and are making disclosures in good faith, employees raising a disclosure are protected by both employment law and this policy. 'Confidentiality' or other clauses in settlement agreements do not prevent employees from making disclosures in the public interest.

5.4. The Council has a strong commitment to good practice and high standards in protecting its employees from harassment, victimisation and

## Agenda Item 8

recrimination when raising a whistle-blowing disclosure. It will not tolerate any harassment, victimisation or recrimination when a concern is raised in good faith or in order to deter someone from making a disclosure. Any such instances amount to serious misconduct and will be dealt with under the Disciplinary policy.

- 5.5. The above provisions apply regardless of the outcome of the investigation including where the concern is unfounded or unsubstantiated, provided that the allegation is made in good faith.
- 5.6. The Council is also committed to providing support for whistleblowers. The person with whom you are raising your concern will discuss with you options available for support, which could include, for example, mentoring or a referral to Employee Assistance.
- 5.7. If you believe you have suffered or are under threat of suffering victimisation or harassment as a result of raising concerns, you may also report this concern as set out under section 9 below.

## 6. Confidentiality

- 6.1. Where requested, the Council will use its best endeavours to treat in confidence all concerns raised and will do its utmost not to reveal your identity without your agreement. However, the Council cannot guarantee that any investigation process will not reveal the source of the information, particularly in matters of criminal or civil law. If it is necessary to disclose your identity, the Council will make every effort to discuss this with you first, including arrangements that can be put in place to support you.

## 7. Anonymous Allegations

- 7.1. Whilst you are encouraged to put your name to your allegation whenever possible, it is recognised that in some instances, individuals may have genuine concerns about their safety, security or well-being which may prevent them from revealing their identity. Under such circumstances, the policy allows for anonymous disclosures and these are always preferable to remaining silent.
- 7.2. Before you choose to remain anonymous however, you should carefully consider the following:
  - Anonymity may limit the actions that the Council is able to take as, for example, it may not be able to contact you for any follow-up information
  - You are unlikely to be able to receive feedback on your concern
  - Invoking legal protections for whistleblowers may be more difficult as there will not be any documentary evidence to link you to the concern raised.

## **8. False Allegations**

- 8.1. If you make an allegation in good faith but the investigation finds this to be unsubstantiated or unfounded, no action will be taken against you. If, however, you make a false or malicious allegation for an ulterior motive, disciplinary action may be taken against you. It is therefore important that any allegation is made in good faith.

## Whistleblowing Procedure

### How to raise a concern

#### 9. Who to contact

- 9.1. Depending on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice, you are encouraged in the first instance to raise concerns with your immediate manager or your supervisor.
- 9.2. If you believe that your line manager may be involved, if you do not feel comfortable discussing the issue with your line manager or if you are not satisfied with the response that you receive, you may raise your concern with any of the individuals or contacts below. Key contact details are provided at **Appendix A - Key Contacts**.
  - Head of Service
  - Chief Officer
  - The Audit Manager (or member of the Audit Team)
  - The Chief Executive
  - The Council's whistleblowing reporting line / email address
- 9.3. If you are not an employee, you may raise your concern using any of the contacts given in **Appendix A - Key Contacts**.
- 9.4. Anyone who receives a report of a concern must notify the Audit Manager (unless the concern relates to Internal Audit). This ensures that all concerns are recorded, that they are treated fairly and consistently and that any patterns of behaviour are identified.
- 9.5. If your concerns are about Internal Audit, or a Chief Officer, you must contact the Chief Executive in the first instance.
- 9.6. If your concerns are about the Chief Executive, you must contact the Chief Officer - Finance and Trading (s151 Officer) in the first instance.
- 9.7. For all concerns, you may also contact the Chairman of the Audit Committee, as a last resort, if you believe that your concerns have not been appropriately dealt with.

#### 10. How to report a disclosure

- 10.1 Concerns may be raised verbally (in person or on the telephone), in writing or by email.
- 10.2. A dedicated Freephone telephone number has been set up to allow you to speak in confidence to the Internal Audit Team (0800-496-3245). Alternatively you can email [whistleblowing@sevenoaks.gov.uk](mailto:whistleblowing@sevenoaks.gov.uk).



- 10.3. Please provide the following information when making a whistleblowing disclosure:
- The background and history of the concern (giving relevant dates and evidence where available)
  - The reason why you are particularly concerned about the situation.
- 10.4. The earlier you express the concern, the easier it is to take action, as delays may make it more difficult to obtain the relevant evidence.
- 10.5. You are not expected to provide evidence or to prove the truth of an allegation, however you should ensure that there are reasonable grounds for your concern.
- 10.6. Where concerns are raised in person, you may invite your trade union representative, or a work place colleague to be present during any meetings or interviews in connection with the concerns you have raised.

## **11. What we will do**

- 11.1. The Council will take every whistleblowing concern seriously and will investigate appropriately.
- 11.2. Where appropriate, the matters raised may:
- be investigated by senior management and / or the Internal Audit Team
  - be referred to the police
  - be referred to the external auditor or
  - form the subject of an independent inquiry.
- 11.3. In order to protect individuals and those accused of misdeeds or possible malpractice, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take.
- 11.4. The overriding principle which the Council has in mind, is the public interest.
- 11.5. Concerns or allegations which fall within the scope of specific procedures (for example discrimination issues) will normally be referred for consideration under those procedures.
- 11.6. Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required, this will be taken before any investigation is conducted.
- 11.7. Within ten working days of a concern being raised, provided you have supplied your contact details, the investigating officer will write to you:
- Acknowledging that the concern has been received

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- Indicating how we propose to deal with the matter and who will investigate
- Giving an estimate of how long it will take to provide a final response
- Advising you how and to whom you should report if you feel you are being treated unfairly as a result of the disclosure
- Supplying you with information on staff support mechanisms
- Advising you that you are entitled to independent advice.

11.8. The Council will take steps to minimise any difficulties which you may experience as a result of raising a concern.

11.9. The Council accepts that you need to be assured that the matter has been properly addressed. Subject to legal constraints, you will be informed of the outcomes of any investigation.

## 12. If you are not satisfied

12.1. If you are not satisfied with how a whistle-blowing disclosure has been managed, please speak to the Audit Manager or the Chief Executive.

## 13. External Disclosures

### ‘Prescribed’ Disclosures

13.1. If you feel that the Council has not responded to your concern satisfactorily, or if you feel unable to raise the matter internally, the law allows for disclosures to be made externally to ‘prescribed people or bodies’ whilst maintaining whistleblower protections for the individual. The relevant ‘prescribed person’ depends on the subject matter of the concern and a full list can be found, by clicking on this [hyperlink](#) to the relevant Government website page.

13.2. The most likely relevant bodies for the Council’s business are set out in **Appendix B - External Contacts**.

13.3. You may also contact the police or seek advice from a legal professional.

### ‘Non prescribed’ Disclosures

13.4. These are disclosures made to other people or bodies, such as the media. Whistleblower protections would only apply to these disclosures in exceptional circumstances and therefore you are encouraged to seek independent, specialist advice prior to making any such disclosure.

## **14. External Advice**

14.1. If you wish to seek advice outside the organisation you can also contact:

- Protect (formerly Public Concern at Work) on 0203 117 2520  
whistle@protect-advice.org.uk
- The Council's External Auditor (Grant Thornton) on 0207 383 5100
- Relevant professional bodies or regulatory organisations
- Your trade union representative

## **15. Policy review**

15.1. The Whistleblowing policy will be reviewed and updated every 2 years, or as and when amendments are needed.

## **16. Training**

16.1. As part of the Council's Counter-Fraud and Corruption Strategy, appropriate training will be offered to officers on key aspects of the whistleblowing policy and how it should be implemented. The policy will be available on the Council's website for easy access by staff. Guidance will be provided to managers on how to respond to concerns raised.

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### Appendix A - Key Contacts

Name	Job Title	Contact details
Pav Ramewal	Chief Executive	<a href="mailto:pav.ramewal@sevenoaks.gov.uk">pav.ramewal@sevenoaks.gov.uk</a> 01732 227298
Adrian Rowbotham	Chief Officer - Finance and Trading	<a href="mailto:adrian.rowbotham@sevenoaks.gov.uk">adrian.rowbotham@sevenoaks.gov.uk</a> 01732 227153
Sarah Robson	Chief Officer - People and Places	<a href="mailto:sarah.robson@sevenoaks.gov.uk">sarah.robson@sevenoaks.gov.uk</a> 01732 227129
Jim Carrington-West	Chief Officer - Customer and Resources	<a href="mailto:jim.carrington-west@sevenoaks.gov.uk">jim.carrington-west@sevenoaks.gov.uk</a> 01732 227286
Richard Morris	Chief Officer - Planning and Regulatory Services	<a href="mailto:richard.morris@sevenoaks.gov.uk">richard.morris@sevenoaks.gov.uk</a> 01732 227139
Francesca Chivers	Audit Manager	<a href="mailto:fran.chivers@dartford.gov.uk">fran.chivers@dartford.gov.uk</a> 01732 227053 or 01322 343004
Whistleblowing hotline		<a href="mailto:whistleblowing@sevenoaks.gov.uk">whistleblowing@sevenoaks.gov.uk</a> 0800 496 3245

Appendix B - External Contacts

Prescribed body	Scope of disclosures	Contact details
<p><b>The Comptroller and Auditor General</b></p>	<p>Contact them about the proper conduct of public business, value for money, fraud and corruption in relation to the provision of public services.</p>	<p>The Comptroller and Auditor General National Audit Office 157-197 Buckingham Palace Road London SW1W 9SP  Tel: 020 7798 7999 Website: <a href="http://www.nao.org.uk/contact-us/whistleblowing-disclosures/">www.nao.org.uk/contact-us/whistleblowing-disclosures/</a></p>
<p><b>The Information Commissioner</b></p>	<p>Contact them about compliance with the requirement of legislation relating to data protection and to freedom of information.</p>	<p>The Information Commissioner's Office Wycliffe House Water Lane Wilmslow SK9 5AF  Tel: 0303 123 1113 Email: <a href="mailto:casework@ico.org.uk">casework@ico.org.uk</a>  <a href="http://www.ico.org.uk">www.ico.org.uk</a></p>
<p><b>Grant Thornton (the Council's External Auditors)</b></p>	<p>Disclosures relating to local authorities</p>	<p>0207 383 5100</p>
<p><b>The Health and Safety Executive</b></p>	<p>The industries and work activities for which the Health and Safety</p>	<p>Tel: 0300 003 1647 Online form: <a href="http://www.hse.gov.uk/contact/concerns.htm">www.hse.gov.uk/contact/concerns.htm</a></p>

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Prescribed body	Scope of disclosures	Contact details
	<p>Executive is the enforcing authority under the Health and Safety (Enforcing Authority) Regulations 1998</p> <p>the health and safety of individuals at work, or the health and safety of the public arising out of or in connection with the activities of persons at work</p>	

## STRATEGIC RISK REGISTER

Audit Committee - 3 November 2020

**Report of:** Deputy Chief Executive and Chief Officer - Finance and Trading

**Status:** For Consideration

**Also considered by:** None

**Key Decision:** No

**Executive Summary:** This report presents the most recent version of the Strategic Risk Register for consideration by Audit Committee.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officer:** Francesca Chivers, Ext. 7053

**Recommendation to Audit Committee:**

To consider and note the contents of the Strategic Risk Register

**Reason for recommendation:** The Audit Committee, through its Terms of Reference, has responsibility for maintaining an overview of risk management development and operations. Regular oversight of the Strategic Risk Register is an important part of discharging this responsibility.

### Introduction and Background

- 1 Audit Committee is required, through its Terms of Reference, to maintain oversight of risk management arrangements and operations. As such, it receives periodic updates on risk management, including the Strategic Risk Register.
- 2 The Strategic Risk Register was most recently updated in September 2020, having previously been presented to Audit Committee in September 2019. Since September 2019, there have been several changes to the internal and external environments and therefore, there have been some commensurate changes to the risk register.
- 3 Overall, since the last update, the Council's risk profile has increased. This is largely due to an increased likelihood of events that are, to a certain extent, beyond the Council's ability to control. Members will note from the table on Page 3 of Appendix A that the net score for five of the risks has increased since the last update; this is reflective of the uncertainty and volatility of the current environment.

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- 4 There is currently one risk (SR01 - Finance) that is rated as 'High' even after controls have been applied. This is not to imply that existing controls are ineffective; rather, that there are many uncertainties that will impact on our ability to deliver a balanced budget. These uncertainties are currently being worked through as part of the budget setting process; once this process is complete we would expect this risk to reduce to 'Medium'.
- 5 Members will also note that two risks have been added to the Strategic Risk Register (SR12 - Temporary Accommodation and SR13 - Covid-19) and that two have been removed (Customer Re-design and Local Plan).
- 6 It is important that the Strategic Risk Register is a dynamic document, able to respond to risks as they emerge or to reduce or remove risks that are no longer significant. To this end, the Risk Register will be formally reviewed by Strategic Management Team on a quarterly basis.

### **Risk Management Framework**

- 7 The overall risk management framework does require updating to ensure that it fully reflects the needs of the Council. This includes the overall format of the Strategic Risk Register but also mechanisms for capturing operational and projects risks, ensuring that these are escalated where appropriate and that any interdependencies are identified and addressed.
- 8 The framework review was due in the 2019/20 financial year but was delayed, principally due the lack of a permanent Audit Manager. It is important, however, that this work is undertaken and the new framework will be brought to a future meeting of this Committee for approval.

### **Other options Considered and/or rejected**

None

### **Key Implications**

#### Financial

There are no direct financial implications associated with this report, however financial risk is considered as part of the Strategic Risk Register.

#### Legal Implications and Risk Assessment Statement.

The Strategic Risk Register is the core mechanism used by the Council to identify, assess and monitor key risks. There are no direct legal implications associated with this report, however compliance risk is considered as part of the Strategic Risk Register.

#### Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.



## Conclusions

Since the last update to Audit Committee in September 2019, there have been several changes to the Strategic Risk Register. As part of its governance and oversight role regarding the Council's risk management, Audit Committee is asked to review and consider the updated Strategic Risk Register.

### Appendices

Appendix A - Strategic Risk Register

### Background Papers

None

**Adrian Rowbotham**

**Deputy Chief Executive and Chief Officer - Finance and Trading**

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# Strategic Risk Register

September 2020



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### Introduction

Risk management is the process of identifying, assessing and managing the risks that we face in attempting to achieve our objectives.

The Council's [Risk Management Strategy](#) sets our approach to managing risks. The Strategy recognises that we will need to take risks in order to achieve our objectives, yet in doing so we will ensure that the risks we take are well informed and that any negative consequences are managed to an acceptable level.

We manage risks at two levels:

- **Strategic level:** These risks are directly linked to the delivery of the [Corporate Plan](#). Being more strategic in nature means they are inherently more risky, with impacts that could be felt Council wide. As such, these risks are closely monitored, updated and reported.
- **Operational level:** These risks are more directly linked with the day to day operation of Council services, and are mainly identified and monitored through the service planning process. Operational risks are monitored and updated locally by our Managers and Officers, however they should be escalated where appropriate through to the Risk Management Group.

The **Risk Management Group** is a working group made up of a cross section of Officers within the Council. The Group has oversight of the risk management process. The purpose of the Group is to ensure that we have effective risk management arrangements in place and that we continue to develop and improve them and keep up with good practice. In addition, the Group takes an active role to monitor and update the strategic risks, and identify actions needed to manage them to an acceptable level. The current membership of the group is under review due to personnel changes.

### Purpose

This document sets out our strategic risks. The register (detailed below) shows the triggers for each risk, the impact to the Council if the risk materialises, and the internal controls we have in place to manage the risk. In response to these risks, we have also identified any further actions that we need to take to keep the risk to an acceptable level.

The impact matrix is shown at the end of this document.

## Strategic Risk Profile

We assess risks based on **impact and likelihood** to gain an overall view of whether the risk poses a significant threat to the achievement of objectives. These are multiplied to give an overall score which is used to inform our response to the risk. The table below summaries the net score (after controls have been applied) for each risk including changes since the last update. The matrix shows Council’s overall risk profile, again based on net risk.

Ref	Risk Title	June 2019 Score	September 2020 Score
SR01	Finance	10 Medium	15 High
SR02	Property Investment Strategy	9 Medium	9 Medium
SR03	Asset management & maintenance	9 Medium	9 Medium
SR04	Knowledge, capacity & culture	8 Medium	12 Medium
SR05	Technology	9 Medium	9 Medium
SR06	Information & data management	8 Medium	10 Medium
SR07	Legal compliance, governance & ethics	6 Low	6 Low
SR08	Capacity of community partners	6 Low	6 Low
	<i>Customer Re-Design</i>	8 Medium	<i>Risk Removed</i>
SR09	Health & Safety (incl. Staff Wellbeing)	8 Medium	12 Medium
SR10	Emergency planning & severe weather events	6 Low	8 Medium
SR11	Safeguarding	4 Low	4 Low
	<i>Local Plan</i>	8 Medium	<i>Risk Removed</i>
SR12	Covid-19	NA	8 Medium
SR13	Temporary Accommodation	NA	8 Medium

		Impact				
		Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Critical (5)
Likelihood	Very Likely (5)					
	Likely (4)					
	Possible (3)			SR02 SR03 SR05	SR04 SR09	SR01
	Unlikely (2)			SR07 SR08	SR10, SR12 SR13	SR06
	Very Unlikely (1)				SR11	

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The summary below maps each of the strategic risks to the Council's Corporate Plan:

No.	Risk	Net Risk Rating	Value for Money	Keep the District Safe	Provide high quality services	Protect the Green Belt	Support and grow the local economy
01	Finance	15 High	✓	✓	✓	✓	✓
02	Property Investment Strategy	9 Medium	✓		✓		✓
03	Asset management & maintenance	9 Medium	✓		✓		✓
04	Knowledge, capacity & culture	12 Medium	✓	✓	✓	✓	✓
05	Technology	9 Medium	✓	✓	✓	✓	✓
06	Information & data management	10 Medium	✓	✓	✓	✓	✓
07	Legal compliance, governance & ethics	6 Low	✓	✓	✓	✓	✓
08	Capacity of community partners	6 Low	✓	✓	✓		✓
09	Health & Safety (incl. Staff Wellbeing)	12 Medium	✓	✓	✓	✓	✓
10	Emergency planning & severe weather events	8 Medium	✓	✓	✓	✓	✓
11	Safeguarding	4 Low		✓	✓		
NEW 12	Covid-19	8 Medium	✓	✓	✓	✓	✓
NEW 13	Temporary Accommodation	8 Medium	✓	✓	✓		

## Strategic Risk Register

The strategic risks are detailed below. Each risk has a lead officer who is best placed to co-ordinate the response to the risk. The impact and likelihood of each risk are first assessed gross (without existing controls in place) and then re-assessed following the identification of key controls (net). Actions have been identified to further enhance controls, and progress will be updated quarterly through the Risk Management Group.

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR01: Finance - Failure deliver a balanced budget</b> <b>Lead Officer: Adrian Rowbotham &amp; Alan Mitchell</b>								
<ul style="list-style-type: none"> <li>• Impact of Covid-19 on Council income and expenditure</li> <li>• Limited opportunity to generate income through the business rates retention scheme and New Homes Bonus</li> <li>• Effect of council tax referendum limits Low, decreasing and uncertain level of government grant</li> <li>• Uncertainty of the timing and outcome of the Government spending and fair funding review</li> <li>• Potential for negative government funding (local authority to make payments to Government)</li> <li>• Effect of cost of external borrowing on the Council's budgets</li> <li>• Loss of external funding</li> <li>• Accuracy of budget assumptions</li> <li>• Ability to identify increase in savings requirement to deliver a balanced 10-year budget</li> <li>• Failure to meet savings targets</li> <li>• Poor financial plans and strategies</li> <li>• Ineffective financial governance</li> </ul>	<ul style="list-style-type: none"> <li>• Poor financial health</li> <li>• Inability to maintain services and deliver Council Vision and Promises</li> <li>• Requirement to issue S114 notice</li> <li>• Reputational damage</li> <li>• Negative impact on staff morale and potential recruitment and retention difficulties</li> <li>• Poor outcome for the Audit of Accounts or Value for Money assessment</li> <li>• Potential for increased intervention</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>• Self-sufficient budget position; no reliance on direct government funding</li> <li>• Long term 10 year budget framework</li> <li>• Savings Plan</li> <li>• Flexible use of reserves</li> <li>• Property Investment Strategy</li> <li>• Strong financial and scenario planning over the short, medium and long term</li> <li>• Effective budget setting and financial monitoring processes embedded</li> <li>• Financial and budget risk management process in place</li> <li>• Effective financial governance including reports to FAIC, Cabinet, Audit Committee and Scrutiny Committee</li> <li>• Qualified and experienced officers in post</li> <li>• Annual Internal and External Audit reviews</li> </ul> <p><i>Note: The net score is still high because of the current volatility of the external situation and because the net impact could be more than £1m. We would expect to be able to revise this down when we have greater financial certainty or once the new 10 year budget is in place</i></p>	3	5	15

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR01: Finance - Failure deliver a balanced budget</b> <b>Lead Officer: Adrian Rowbotham &amp; Alan Mitchell</b>								
<ul style="list-style-type: none"> <li>Lack of capacity and skilled professionals within the finance team</li> <li>Failure to maintain proper financial and budgetary controls</li> </ul>								



Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR02: Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b>								
<b>Lead Officer: Adrian Rowbotham &amp; Detlev Munster</b>								
<ul style="list-style-type: none"> <li>Ability to seek appropriate investment opportunities</li> <li>Appetite for risk within investment strategy to enable the Council to generate target returns</li> <li>Ability to deliver sufficient funds to maximise the opportunities presented through the Property Investment Strategy</li> <li>Appetite to prudentially borrow over the medium to long term</li> <li>The cost of interest payments</li> <li>Lack of capacity or skilled professionals to advise on investment and borrowing strategies</li> <li>Ineffective governance processes that could result in opportunities being missed or being ineffectively scrutinised</li> <li>Ineffective use of Quercus 7 to support the Council's investment strategy</li> <li>Ability to borrow funds including the effect of government legislation changes</li> <li>Covid-19 / Economic conditions - ability to find or retain tenants, collect lease or rental income, reduction in asset values</li> </ul>	<ul style="list-style-type: none"> <li>Lack of diversity in investments</li> <li>Cost of interest payments</li> <li>Negative impact on budgets, reserves and the ability to deliver Council projects</li> <li>Poor financial health</li> <li>Unable to maintain low increases in council tax levels</li> <li>Reputational damage</li> <li>Poor outcome for the Audit of Accounts or Value for Money assessment and potential for increased intervention</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>Council approved Property Investment Strategy, with defined rates of return demonstrating risk appetite</li> <li>Governance arrangements defined with appropriate delegations agreed</li> <li>Qualified and experienced officers in post</li> <li>Professional, external advisers engaged to support the development of strategies and fill skills gaps</li> <li>Effective budget setting and financial monitoring processes embedded</li> <li>Effective financial governance including reports to FIAC, Cabinet, Audit Committee and Scrutiny Committee</li> <li>Regular Quercus 7 Board and Trading Board meetings - including regular review of investment parameters to monitor market fluctuations</li> </ul>	3	3	9

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<p><b>SR03: Asset Management &amp; Maintenance - Losing the ability to:</b></p> <p>a) Dispose of surplus land;                      b) Maintain and develop assets and land holdings;                      c) Secure tenants for vacant or part-vacant assets</p> <p>Lead Officers: Adrian Rowbotham &amp; Detlev Munster and Alex Dawson</p>								
<ul style="list-style-type: none"> <li>Lack of finance to deliver asset management plans and maintenance programmes</li> <li>Lack of capacity to appropriately manage, maintain and invest in the council's assets</li> <li>Failure to maximise the benefit from asset disposals</li> <li>Lack of tenants to occupy vacant or part-vacant assets</li> <li>Lack of buyers for surplus Council land</li> <li>Failure to adopt effective governance procedures</li> <li>Project management skills to ensure cost effective and robust developments</li> <li>Failure to identify partners to take forward projects and initiatives</li> <li>Loss of contracted providers to manage and operate assets</li> <li>Covid-19 / Economic conditions - ability to find or retain tenants, collect lease or rental income, reduction in asset values</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in asset values placing increased pressure on council budgets</li> <li>Failure to maximise the opportunity to raise income from investment in assets</li> <li>Increased insurance premiums</li> <li>Adverse impact on service delivery</li> <li>Loss of investment or income opportunities</li> <li>Reputational damage</li> <li>Closure of public assets and loss of community facilities</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>Property / Asset Register (record of land in Council ownership)</li> <li>Annual review of Asset Management Plan</li> <li>Asset maintenance budgets reviewed annually</li> <li>Ongoing strategic review of council owned property</li> <li>Inventory registers in place</li> <li>Financial procedure rules and disposal policy in place</li> <li>Economic Development &amp; Property team in place</li> <li>Professional, external advisers engaged to support the development of strategies and fill skills and capacity gaps</li> <li>Capital Programme and Asset Maintenance 2019-22 plan in place</li> <li>Surveys of all Council buildings completed and reflected in Asset Maintenance plan</li> <li>Long term leases in place with providers with regular monitoring</li> </ul>	3	3	9

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR04: Knowledge, capacity &amp; culture - Management of the Council's human resources fails to protect the Council's culture, making it difficult to address gaps in capacity and knowledge</b> <b>Lead Officer: Jim Carrington-West &amp; Graeme Taylor</b>								
<ul style="list-style-type: none"> <li>Continuing reductions to Council budgets</li> <li>National and local pay constraint</li> <li>Employment and retention of high quality staff</li> <li>Amendments to the Local Government Pension Scheme</li> <li>Increased demand for services and high levels of work with reduced capacity and resources</li> <li>Requirement for new skills to deliver the Council's Corporate Plan promises</li> <li>Lack of capacity within the Human Resources team to develop policy and support the workforce</li> <li>Ineffective succession planning</li> <li>High staff turnover</li> <li>Loss of IIP Platinum status</li> <li>Impact of Covid-19 on working practices and greatly increased working from home</li> </ul>	<ul style="list-style-type: none"> <li>Lack of resources to employ, develop and support the wellbeing of staff</li> <li>Impact of poor mental health across the organisation</li> <li>Reduced morale and staff satisfaction</li> <li>Reduced productivity</li> <li>Reduced quality of staff and work / services</li> <li>Unable to recruit or retain high quality staff</li> <li>Increased absence levels</li> <li>Unable to continue to deliver the range and quality of services currently experienced</li> <li>Skills gaps that inhibit the ability to deliver Council projects</li> <li>Reputational damage as an employer and a service provider</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>10 year budget minimises the need for short notice changes to the workforce</li> <li>HR Strategy including workforce development plan, recruitment and retention policies</li> <li>Managing Attendance Policy supported by return to work and staff wellbeing initiatives</li> <li>Staff Appraisal Scheme and Personal Development Plans</li> <li>Regular Staff Surveys and Investors in People Assessments to benchmark effectiveness as an employer</li> <li>Management and Staff Development programmes to support staff and protect the organisational culture</li> <li>Ability to engage professional, external advisers to support the organisation and fill skills and capacity gaps</li> <li>Investors in People Platinum status maintained (re-assessed in February 2019), demonstrating the Council is a high quality employer</li> </ul> <p>ACTION: Re-evaluate HR strategies, training, development and retention plans and internal communications to address the post Covid working environment</p>	3	4	12

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR05: Technology - The Council's Information Technology doesn't meet the needs of the Council, Members, Officers and the local community</b> <b>Lead Officer: Jim Carrington-West &amp; Matt Mitchell</b>								
<ul style="list-style-type: none"> <li>Lack of finance to effectively procure and develop IT infrastructure and solutions across the Council</li> <li>Lack of capacity and skilled professionals to procure, implement and develop IT infrastructure and solutions across the Council</li> <li>Failure to identify areas where IT solutions could improve service delivery and reduce costs</li> <li>Failure to implement robust IT security arrangements in existing and new infrastructure and software</li> <li>Failure to meet the demands of partnership working in the delivery of solutions and on-going IT support</li> <li>Poor data management preventing the implementation of new services</li> <li>User base may not have sufficient broadband to work from home</li> </ul>	<ul style="list-style-type: none"> <li>Failure to effectively deliver Council services and objectives</li> <li>Failure to benefit from the service efficiencies good use of IT would deliver e.g. channel shift, demand management, digital services</li> <li>Failure to maximise the cost savings and value for money efficient use of IT would deliver</li> <li>Security lapse could compromise the Council IT network and render systems inoperable</li> <li>Data loss</li> <li>Reputational damage</li> <li>Failure to deliver projects within required timescales</li> <li>Failure to provide adequate day to day support to customers</li> <li>Failure to prioritise projects effectively as financial resources reduce</li> </ul>	3	4	15	<ul style="list-style-type: none"> <li>IT Strategy and Action Plan</li> <li>IT Security Policy</li> <li>Business Continuity Plan</li> <li>Disaster recovery plans in place</li> <li>Network security measures in place including firewall and access level controls</li> <li>Risk management and procurement practices in place within the IT Service</li> <li>Experienced staff in post</li> <li>Effective budget setting and financial monitoring processes embedded</li> <li>Officer groups in place to support progress of digital services</li> </ul>	3	3	9

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR06: Information &amp; Data Management - Failure to properly protect, preserve and make best use of the data and information resources that the Council holds</b> <b>Lead Officer: Jim Carrington-West &amp; Martin Goodman</b>								
<ul style="list-style-type: none"> <li>Lack of capacity or skills within the workforce to implement a knowledge management system</li> <li>Lack of IT capacity to support a knowledge and information management system</li> <li>Ensuring compliance with the requirements of the Code of Connection</li> <li>Ensuring security levels are appropriate to protect data and information without preventing effective and efficient service delivery</li> </ul> Breach / non-compliance with General Data Protection Regulations (GDPR)	<ul style="list-style-type: none"> <li>Breach of regulations and potential for significant financial penalties</li> <li>Impact on residents / customers</li> <li>Failure to meet the Council's objectives</li> <li>Failure to continue to deliver high quality services across the Council</li> <li>Increased costs from recruitment and staff training</li> <li>Negative impact on the organisations culture and on staff morale</li> <li>Reputational damage</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>Data Protection policies in place and available to all staff</li> <li>Training for all staff on Data Protection</li> <li>IT Strategy, Plan and related policies in place</li> <li>Annual assessment against the Code of Compliance</li> <li>Disaster recovery plans in place</li> <li>Business Continuity Plan in place</li> <li>Information Governance Policy endorsed by SMT</li> </ul>	2	5	10

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR07: Legal compliance, governance &amp; ethics - Failure to recognise and adapt to changes in legislation and to deliver proper governance, scrutiny and internal control to protect the Council from poor practice and mismanagement</b> <b>Lead Officer: Jim Carrington-West &amp; Martin Goodman</b>								
<ul style="list-style-type: none"> <li>Lack of capacity in the workforce to identify and adhere to legislative changes</li> <li>Lack of finance to adjust to changes in legislation</li> <li>Lack of Member or Senior Management support to deliver service changes in response to new legislation</li> <li>Breakdown in relationships between Members and Officers</li> <li>Lack of capacity and skilled professionals within the Legal, Democratic and Internal Audit teams</li> <li>Lack of financial resources to deliver high quality governance arrangements</li> <li>Governance arrangements which may not provide effective oversight of shared service arrangements</li> <li>Lack of skills and resources to provide Counter-Fraud and Corruption service</li> <li>Ineffective support for Councillors in relation to governance, legal compliance and ethics</li> <li>Procurement undertaken outside of / in breach of the Rules</li> </ul>	<ul style="list-style-type: none"> <li>Failure to fulfil statutory duties resulting in government intervention and an increase in legal liabilities</li> <li>Failure to continue to deliver high quality services</li> <li>Increase in customer complaints and falling satisfaction levels</li> <li>Increase in incidences of fraud and error</li> <li>Failure to maximise the opportunities changes to legislation may bring</li> <li>Ineffective political and management leadership</li> <li>Ineffective scrutiny of decision making and performance</li> <li>Failure to deliver statutory requirements including an up to date constitution, an effective Internal Audit function and an Annual Governance Statement</li> <li>Reputational damage</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>Dedicated Lexcel accredited in house Legal team with qualified and experienced officers in place</li> <li>Professional managers within service areas</li> <li>Council's Constitution including Codes of Conduct, Officer / Member Protocol and Standards regime</li> <li>Cabinet and Committee Structure including Advisory, Governance, Audit, Scrutiny &amp; Standards Committee's</li> <li>Monitoring Officer and Section 151 officers in post</li> <li>Effective budget setting and financial monitoring processes embedded</li> <li>Annual review of Committee Terms of Reference</li> <li>Members Handbook and Training</li> <li>Annual Governance Statement and action monitored and plan reported to Audit Committee</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li><b>Reframe procurement group and framework</b></li> <li><b>Review risk management framework including operational risk management</b></li> </ul>	2	3	6

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR08: Capacity of Community Partners - The impact of austerity and reduced public spending on the workloads and budgets of community partners and the voluntary sector</b> <b>Lead Officer: Sarah Robson</b>								
<ul style="list-style-type: none"> <li>• Reductions in Government funding of partners such as housing, health, leisure, Police and Fire &amp; Rescue services</li> <li>• Increased demand on partner resources and services as a result of Covid-19, against historic reductions in government funding</li> <li>• Changes to the way Government grant is distributed inhibiting the delivery of local priorities e.g. health funding</li> <li>• Reductions in Council grant constraining the funding available for community grants</li> <li>• Reduction in the number of voluntary sector organisations operating in the District as a result of funding difficulties or lack of willing volunteers</li> </ul>	<ul style="list-style-type: none"> <li>• Unable to deliver the priorities and actions set out in the Community Plan, Community Safety Action Plan and Health Action Plan</li> <li>• Unable to deliver on the priorities and actions set out in the Council's health and housing strategies</li> <li>• Increased hardship in the District</li> <li>• Greater health inequalities across the District</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>• Robust budget setting processes in place which considers the benefits of the Council's community grant scheme and Service Level Agreements</li> <li>• Representation on the Kent and Medway COVID-19 District and Communities Recovery Cell</li> <li>• Continue regular interaction with advisers at the MHCLG</li> <li>• COVID-19 Communities and Economy Recovery Plans adapted and being delivered</li> <li>• Ability to attract external funding to sustain community projects</li> <li>• Strong relationships with local community and voluntary groups</li> <li>• Community Awards Scheme to celebrate the success of local residents and community projects and promote the benefits of volunteering</li> <li>• Local Strategic Partnership for the District</li> <li>• Robust monitoring</li> <li>• Voluntary Sector Forum for the District</li> <li>• Partnership Agreement in place and monitored with West Kent Housing Association</li> </ul>	2	3	6

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR09: Health &amp; Safety - Breach / non-compliance with Health &amp; Safety legislation and practices resulting in harm to workforce</b>								
<b>Lead Officer: Richard Morris, Adrian Rowbotham, Annie Sergeant, Alex Dawson and Trevor Kennett</b>								
<ul style="list-style-type: none"> <li>Ineffective or lack of Health and Safety Policy, guidance and training for staff</li> <li>Ineffective controls for the management of Health and Safety</li> <li>Ineffectiveness of health and safety risk assessments</li> <li>Lack of awareness of health and safety controls and practices at work</li> <li>Lack of capacity and skills to ensure continuous provision of high quality health and safety in the work place</li> <li>Property standards decline</li> <li>Threats posed by the pandemic - both in the office and - how we use everything</li> <li>Increased home working in the light of Covid-19 - equipment and facilities - staff not have equipment to work from home</li> <li>Covid - ways of working in the office</li> </ul>	<ul style="list-style-type: none"> <li>Poor working practices</li> <li>Increased absence from work</li> <li>Work place accidents and near misses</li> <li>Health and Safety Executive inspections and fines</li> <li>Reputational damage as a service provider and as an employer</li> <li>Corporate Manslaughter</li> <li>Financial impact</li> <li>Non-compliance with statutory requirements</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>Health and Safety Policy regularly updated</li> <li>Health and Safety guidance</li> <li>Health and Safety risk assessments</li> <li>Health &amp; Safety risks included within Operational Risk Registers</li> <li>Regular review and monitoring of risk assessments and safe working practices</li> <li>Health and Safety training</li> <li>Health monitoring</li> <li>Accident recording, monitoring and action planning</li> <li>Qualified Officers undertake H&amp;S risk assessments</li> <li>Occupational health service</li> <li>Effective risk assessments for Covid-19 to protect staff, customers and Members, that are regularly reviewed and communicated</li> <li>Corporate Health and Safety update reported to SMT quarterly</li> <li>Staff wellbeing (Health, Safety and Security) is a standing item on the SMT agenda.</li> </ul>	3	4	12



Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR10: Emergency planning &amp; severe weather events - Ability to respond effectively in the event of a prolonged major incident while maintaining the ability to keep services running</b> <b>Lead Officer: Adrian Rowbotham &amp; Alex Dawson</b>								
<ul style="list-style-type: none"> <li>Adequacy of emergency plan &amp; business continuity plans</li> <li>Ability to appropriately implement emergency plans in response to any given event</li> <li>Capacity or specialist skills within the workforce to co-ordinate and respond to a major emergency</li> <li>Controls for major emergency hazards</li> <li>Security - responding to national threat levels (move to critical plans within the major) emergency plan)</li> <li>Resilience in the face of a long-term event</li> <li>Multiple successive and/or simultaneously occurring events i.e. EU exit, Covid and a severe weather event</li> </ul>	<ul style="list-style-type: none"> <li>Disruption to the community and to community services</li> <li>Inability to maintain Council services</li> <li>Excessive non-recoverable expenditure on response</li> <li>Loss of Council information</li> <li>Reputational damage</li> <li>Inability to adequately respond to multiple occurring events either separately or concurrently</li> <li>Insufficient staffing capacity to deal with a long term and/or major /or concurrent event(s)</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Emergency Planning Officer Group</li> <li>Expertise to formulate and co-ordinate the Council's emergency response</li> <li>Programme of training delivered to staff on Emergency Planning &amp; BCP</li> <li>District Major Emergency Plan (including BCP) in place, regularly updated, enhanced and tested</li> <li>Community Risk Register</li> <li>IT Disaster Recovery Plan in place &amp; tested</li> <li>Collaborative arrangements and plans agreed with other Category 1 and 2 responders, Town and Parish Councils, the voluntary sector and others</li> <li>Access to support resources from across the Council, including Direct Services</li> <li>Applied learning from experience of emergency and flooding incidents</li> <li>Council is a member of the Kent Resilience Forum which gives access to expertise and resources</li> <li>Business continuity impact assessments undertaken identifying priority services</li> <li>Mutual aid provision via CCA</li> </ul>	2	4	8

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR11: Safeguarding - Failure to identify and act on a Safeguarding concern</b> <b>Lead Officer: Sarah Robson &amp; Jim Carrington-West</b>								
<ul style="list-style-type: none"> <li>Failure by the organisation or a member of staff to take action to refer a child or vulnerable adult to the appropriate agency when we become aware that they may be at risk</li> <li>Training and awareness of Safeguarding duties and processes</li> </ul> <p>Increased interaction with potentially vulnerable children and adults</p> <p>Reductions or loss of resources, capacity and knowledge / expertise</p>	<ul style="list-style-type: none"> <li>Could result in domestic homicide, suicide or other death, injury or continuing neglect, continuing modern slavery, human trafficking, terrorism</li> <li>Damage to public confidence and Council reputation</li> </ul>	2	4	8	<ul style="list-style-type: none"> <li>Safeguarding Policy</li> <li>DBS checks in place for relevant staff</li> <li>Training for staff</li> <li>Promotion of safeguarding to all staff through posters, Safeguarding newsletters and Grapevine</li> <li>Simple reporting arrangements</li> <li>A corporate Safeguarding Group to continually review and update policy and processes, and monitor strategic risk</li> <li>Workload management process and analysis kept up to date to ensure staff capacity to respond</li> <li>Staff trained as trainers</li> <li>Trained Designated Safeguarding Officers</li> <li>Lead Chief Officer reports regularly to SMT</li> <li>Deputy Lead is also a Chief Officer</li> <li>Annual Section 11 Audits to provide external assurance</li> <li>Good working relationship with KCC and the Kent Safeguarding Boards</li> <li>Rollout of Net-Consent to evidence communication and awareness of Policies and Procedures</li> <li>Staff sign up to the policy online and complete online training as soon as they join the organisation.</li> </ul>	1	4	4

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Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR12: Covid-19 - impact on SDC - The impact of the current pandemic on the ability to operate the Council effectively and to continue to provide services to residents and businesses</b>								
<b>Lead Officers: SMT</b>								
<ul style="list-style-type: none"> <li>Ability to provide a Covid-secure work environment</li> <li>Loss of staff through illness, self-isolation and shielding</li> <li>Impact on suppliers and partners</li> <li>Impact on Council finances and budgets</li> <li>Increased needs of residents and demands on services</li> <li>Managing new responsibilities to support residents and businesses</li> </ul>	<ul style="list-style-type: none"> <li>Loss of staff essential to the provision of services</li> <li>Temporary closure of council offices</li> <li>Temporary pause on Council services</li> <li>Insufficient budget to maintain all services</li> <li>Interruptions to supply chain causing disruption to services</li> <li>Insufficient resources to meet increased demand for new or existing services</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Covid-19 Health and Safety Policy to implement and sustain a Covid-secure work environment in place and regularly reviewed</li> <li>Covid-19 health and safety risk assessments in place and regularly reviewed</li> <li>Business Continuity Plans in place to prioritise service delivery and allocation of council resources</li> <li>Tested and effective home working arrangements in place</li> <li>Flexible working practices adopted to assist colleagues with national or local measures such as school closures</li> <li>Increased cleaning and hygiene protocols and practices implemented</li> <li>10 year budget in place, with effective budget monitoring to address short term impact on council finances</li> <li>Ability to seek alternative suppliers in the event of disruption to supply chains</li> <li>Effective use of technology to enable the continuation of officer and Member aspects of the organisation</li> </ul>	2	4	8

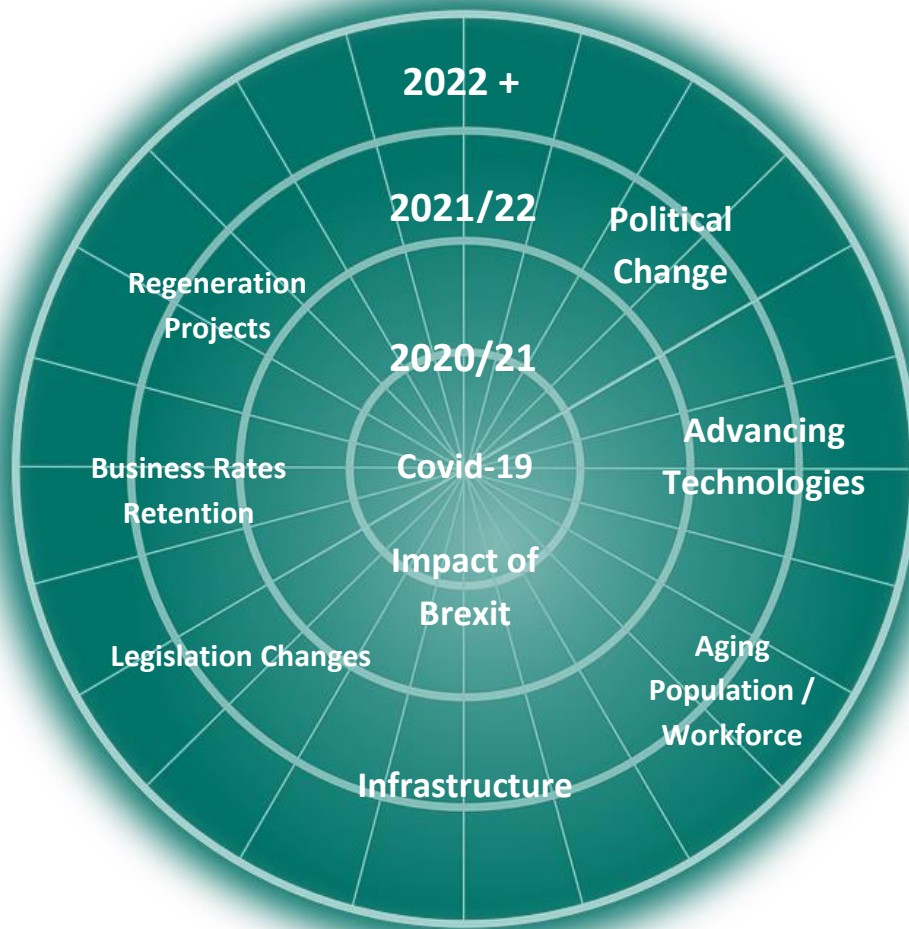
Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
SR13: Temporary Accommodation - <i>Inability to effectively manage the volume of people presenting themselves as homeless and the additional pressures placed on the homeless budgets.</i>								
Lead Officers: <b>Sarah Robson</b>								
<ul style="list-style-type: none"> <li>Changes in government funding</li> <li>Rising numbers of placements</li> </ul>	<ul style="list-style-type: none"> <li>Failure to fulfil statutory obligations</li> <li>Impact on life chances and outcomes for individuals and families in temporary accommodation</li> <li>Increased risk of legal challenge due to provision of unsuitable accommodation (including shared accommodation)</li> <li>Pressure on other services</li> </ul>	4	4	16	Focus on preventing homelessness and diversion to alternative housing options through: <ul style="list-style-type: none"> <li>- Landlord and Tenancy advice, support and sustainment</li> <li>- Assistance, (including financial aid) to access the private rented sector</li> <li>- Access to employment and training</li> <li>- Debt, money, budgeting and welfare benefits advice, including assistance to resolve rent and mortgage arrears</li> <li>- Effective contract monitoring arrangements to ensure acceptable quality of service provision and value for money</li> <li>- Implementation of the Quercus Housing Business Plan to ensure the supply reduces the reliance on nightly paid accommodation</li> <li>- Implementing the Homelessness Strategy</li> <li>- Incentive campaign for private sector landlords embedded and benefits being realised</li> </ul>	2	4	8

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### Strategic Risk Radar

Long-term horizon scanning allows us to be aware of key risks which are, as yet, too uncertain to assess or quantify. By keeping our eye on and tracking these issues we are able to draw them down into the strategic risk register when the timing is right. Having a longer-term view of strategic risk also enables us to be aware of local, sector-wide and even global issues. The chart below shows some of issues we are keeping on our radar



## Sevenoaks Impact Matrix

	Financial	Service Delivery & Capability	Reputation	Legal & Regulatory	People & culture
Impact Headings	<i>Relating to uncontrolled expenditure or loss of income</i>	<i>Relating to operational delivery of services / objectives</i>	<i>May cause harm to public confidence or embarrassment</i>	<i>Related to breaches of law, rules or governance</i>	<i>May impact negatively on our workforce, culture or values</i>
Critical (5)	Uncontrolled financial losses in excess of multiple <b>£m's</b>	Failure to deliver <i>statutory</i> service / service disruption for <b>&gt;14 days</b>	National adverse publicity perceived as failing in a significant area of responsibility	Breach of law, regulations leading to significant sanctions  Breakdown of governance / internal control resulting in fraud	Significant staff dissatisfaction / increased long term absence & staff turnover  Loss of culture and value framework
Major (4)	Uncontrolled financial losses in excess of <b>£1m+</b> overspend in budget by <b>&gt;£1m+</b>	Unable to deliver <i>discretionary</i> service / service disruption for <b>&gt;14 days</b>	Sustained negative local media attention & damage to public confidence	Breach of law or regulation leading to some sanction  Breakdown of internal controls open to abuse	Adverse staff dissatisfaction / likely increased absence and turnover of staff  Negative impact on culture & value framework
Moderate (3)	Uncontrolled financial losses between <b>£500k - £1m</b> / overspend in budget by <b>&gt;£500k</b>	Unsatisfactory service performance / service disruption of <b>&gt;5 days</b>	Isolated negative local publicity	Breach of regulation or internal standard (limited sanctions)  Isolated internal control weaknesses	Declining staff dissatisfaction  Isolated instances of behaviours outside of value framework
Minor (2)	Uncontrolled financial losses between <b>£100k - £500k</b> / overspend in budget by <b>&gt;£100k</b>	Reduced service delivery / service disruption for <b>7 hours</b>	Local publicity, but manageable through communication channels	Breach of internal policies  Internal controls partially effective	Isolated areas of staff dissatisfaction / likely impact on absence and turnover
Minimal (1)	Uncontrolled financial losses less than <b>£100k</b> / overspend in budget less than <b>£100k</b>	Disruption managed within normal day to day operations	Unlikely to cause adverse publicity	Breaches of internal procedures / working practices	Loss of staff morale but unlikely to result in absence or turnover of staff

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**Audit Committee 2019/21 - Work Plan (as at 22/10/20)**

	3 November 2020	26 January 2021	30 March 2021	Summer 2021
<b>Internal Audit</b> (Irregularities to be reported confidentially as & when necessary)	Internal Audit Progress Report 2020/21  Counter Fraud Policies	Internal Audit Progress Report 2020/21  External Quality Assessment		
<b>Risk Management</b>	Strategic Risk Register			
<b>Accounts and External Audit</b>	Statement of Accounts 2019/20	External Audit - Annual Audit Letter 2019/20  External Audit - Housing Benefit Subsidy 2019/20		
<b>Other</b>	Members' Allowance Scheme Monitoring 2019/20			

	3 November 2020	26 January 2021	30 March 2021	Summer 2021
Members Development Briefings				