

# Auditor's Annual Report on Folkestone and Hythe District Council

2020-21

March 2023



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

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



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

# Executive summary



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

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2020/21 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment
Financial sustainability	Risk identified because of the Council's low level of reserves	No significant weaknesses in arrangements identified
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Improving economy, efficiency and effectiveness	Risk identified because of the Council's low level of reserves	No significant weaknesses in arrangements identified, but improvement recommendations made.

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



## Financial sustainability

We assessed the arrangements concerning Financial Sustainability and raised no indications of potential significant weaknesses. We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.



## Governance

We assessed the arrangements concerning Governance and raised no indications of potential significant weaknesses.

We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.



## Improving economy, efficiency and effectiveness

We assessed the arrangements concerning EEE and identified one area of significant weakness in 2020-21 arrangement on procurement. One key recommendation has been raised

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

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

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

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

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



## Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 14. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Council:

1. identifies all the significant financial pressures it is facing and builds these into its plans
2. plans to bridge its funding gaps and identify achievable savings
3. plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
4. ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
5. identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 1. identifies all the significant financial pressures it is facing and builds these into its plans

The MTFS identified that the Council faced a budget shortfall of £3.5m in 2021/22. The Corporate Leadership Team, Assistant Directors and Chief Officers have reviewed current budget allocations and savings proposals. Budget growth of £296k was added to this. The Council have set a balanced budget which includes a 1.99% rise in council tax, a 50% rates retention in the Kent pool and £1.1mil of internally generated savings as identified in the budget strategy process. We have no concerns that funding going forwards has not been appropriately reflected in the business plans.

There are no concerns that the Council is leaning too heavily on its' investment properties to ensure financial stability. We can see that they have budgeted consistent; not growing income from interest and investment properties into 21/22. This is consistent with our understanding of the value of the properties. There are no indications that finances are being managed in the short-term only, with the Council investing heavily in long-term capital projects.

Having reviewed the Council's budgets and section 25 report we conclude that there is no evidence that the Council's financial plans are based on key assumptions that are unrealistic, e.g. are over-reliant on uncertain income streams that are significant to the delivery of the plans, or not backed by appropriate supporting evidence. Examples of this include recognition about the finite lifespan of the new homes bonus and the lack of predicted income growth through commercial ventures in-year.

Cashflow forecasting has been undertaken and for a sufficient time period; there are no projected cashflow gaps in the foreseeable future, hence this does not pose a significant weakness to the Council.

Arrangements in place to keep the body's financial plans under review, with budgets being set on a "controllable factor" basis only. There is no indication from our work that budgets are fixed and inflexible to changing environments.

## 2. plans to bridge its funding gaps and identify achievable savings

Combined with the aforementioned savings targets the Council plans to draw on its' reserves in year. Given the Council have £20mil in reserves this is an appropriate and not imprudent use of them. There is no lack of plan to address the gap in the medium term.

The borrowing at Folkestone and Hythe increased significantly in 2011 but as a total figure has been decreasing since, it is placed 5th of 10 in comparable Kent districts for borrowing which to some extent is a factor of its' ambitious capital development plan. There is no indication of defaulting on these loans, all of which are with the PWLB and as such are low risk. From our work we found no evidence that these loans are being used to prop up the revenue position.

the Council has a strong financial history and a stable reserves position. They are not reliant on non-recurrent savings to achieve targets. The use of reserves is minimal and equates to <5% of useable reserves, this is not an unsustainable use.

# Financial sustainability

the Council, has to this point, not relied heavily on non-recurrent savings to bridge their financial gap. This means that they have potential capacity to do this should they need additional headroom, this includes not filling existing vacancies. There is however no intention to sell off assets or lend to bridge the gap. To assist with mitigating the risks associated with budget preparation there is a centralised contingency within the budget to allow for unforeseen events and to assist with ensuring corporate priorities are delivered.

We do not consider this to be an indicator of a significant weakness. This is due to the fact that the Council has significant reserves which are designed to be drawn upon in difficult times, there is unlikely to be a period of time which counts as more 'difficult' than the pandemic and so use of the reserves, rather than for instance cutting services is a sensible choice. The Council have continued to fund community hubs and other resources such as council tax support scheme, this is a more practical and long term approach to financial and service sustainability than cutting services to benefit the bottom line rather than drawing upon reserves.

We considered whether appropriate stakeholders were consulted during the development of savings plans and concluded that they were. Depending on the nature of the savings plans, stakeholders included include staff, local residents, service users, the voluntary sector and local businesses. The arrangements in place for approving and monitoring these schemes is sufficient.

### 3. plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The financial planning demonstrates a clear understanding of the cost of delivering core statutory services as distinct from discretionary areas of spend. It is clear that discretionary spend has been prioritised to support the corporate strategy (creating tomorrow together) and managed within the available funding envelope, this includes investing in the high street and increased recycling income. Therefore we see a coherent link between stated corporate strategic priorities and the design of the budget, particularly in regard to investment in services, and the approach to financial sustainability.

Identifiers of significant weakness in the Council's ability to deliver these plans could include significant issues with; ICT infrastructure, financial skills, chain of budget responsibility, supervision, authorisation and review of financial processes, poor senior management challenge of performance, holding budget holders to account, and making decisive interventions, and positive financial culture and a 'tone from the top'. We have found no issues to note with any of these areas throughout our engagement with the Council.

### 4. ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

the Council does not have a workforce plan, which is something we may expect for an organisation of this size. However the elements of workforce planning, for example monitoring of vacancy rates and planned new posts are completed in other documents ie the MTFs and the corporate plan. Specific posts are mentioned in the growth and savings proposals for 21/22 with values assigned to these. We therefore consider this to be appropriate and not a signifier of a significant weakness.

We can see through the increase in the Minimum Revenue Provision (MRP) and the recognition of interest repayments that the ongoing revenue costs of major capital investments been properly reflected in the revenue budget.

the Council has been able to use short term liquid cash to meet its underlying borrowing need through internal borrowing, reducing its exposure to credit risk. Secondly, the return from the strategic investments in pooled funds have continued to provide cash returns in excess of inflation. This is appropriate and prudent and mitigates risk whilst optimising the contribution that borrowing and investment can offer.

### 5. identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

the Council has appropriate arrangements for incorporating risks into its financial plans and discussing them with Cabinet. These risks take into account uncertainty, volatility and other financial risks.

As previously mentioned the Council has sufficient reserves to draw on should unplanned changes occur in year or if savings and income plans are not achieved.

## No significant weaknesses have been identified in relation to Financial Sustainability.

# Governance



## We considered how the Council:

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

## 1. monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

the Council has arrangements in place to identify strategic risks, understand them, record them within their risk management system and assess them. the Council used the traditional risk scoring matrix which is prepared and reviewed internally by management before presentation at committee. the Council has appropriate arrangements in place to report risks to Cabinet. Risks are identified and reviewed to provide assurance that they are being appropriately managed and the risk management process enables Cabinet to focus on the key corporate risks, i.e. not reporting on too many risks. The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition the committee reviews the Council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption. This is appropriate preparation and chain of scrutiny.

the Council runs a 'tolerate, treat, transfer or terminate' system to dictate the type of mitigating actions it should take. However within this there is not a clear link to the assurances or key controls applied. We judge this to not be a risk of significant weakness as there are mitigations and action plans, they are just not the best practise as we have viewed at comparative councils. This is not an indication that the Council is not acting on risks or mitigations, but is a manifestation that the Council have several very high level risks which are mitigated against in very high level ways.

**Improvement Recommendation A: the Council should consider how to present its mitigating actions or assurances of change against risk areas in a more linear and direct fashion. This will provide scrutineers with assurance that management are mitigating risks and will provide a basis for challenge of the effectiveness of those mitigations.**

There is an adequate and effective internal audit function in place to monitor and assess the effective operation of internal controls, the Internal audit function has delivered a sufficient portion of its plan and there is no evidence of significant gaps in the assurance provided.

Throughout our engagement with the Council we have found no evidence of pervasive and significant weaknesses in internal controls, especially where these have had a significant financial/service-delivery impact or exposed the body to fraud.

The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework is currently in the process of being reviewed by the Section 151 Officer and Monitoring Officer however this to merely ensure it is up to date; not an indication of a failure or breach of the policies.

## 2. approaches and carries out its annual budget setting process

There is evidence of consideration of trends including analysis and extrapolation and their impact on the projected final out-turn throughout the reporting at the Council. Additionally we have viewed several instances of forecasts being subject to risk and sensitivity analysis. Such items are especially prevalent in treasury management, capital projects and quarterly budget monitoring. The Council includes a list of risks alongside its budget. These risks include the knock-on financial impact to the budget of one of these risks coming into fruition. Where alternative actions are possible the impact of these is also presented for discussion, again this is especially prevalent in capital projects.

There is evidence that the impact of expected investment and borrowing activity is reflected in the annual budget; Financial planning for both revenue and capital expenditure is integrated with Treasury Management as part of the annual budget setting process. The Council has adopted a strategic and integrated approach to asset management with an Asset Management Board, which has included the Cabinet Member for Property Management and Environmental Health, a Corporate Director and the Council's Corporate Property Officer amongst other key players overseeing the delivery of the Asset Management Strategy.

There are no concerns that the Council is leaning too heavily on its' investment properties to ensure financial stability. We can see that the Council have budgeted consistent rather than growing income from interest and investment properties into 21/22. This is consistent with our understanding of the value of the properties. Our headline review of these budgets indicates that they are reviewed by various levels and chains of management thoroughly before submission to scrutiny.

It is clear from our work that the annual budget setting process is informed by the medium-term financial strategy (MTFS) which lists 4 core corporate aims. There is a clear linkage between the priorities in the annual budget and these overarching ambitions in the MTFS. Our interviews and document reviews show there is adequate internal and external engagement in the budget setting process, including revenue and capital expenditure. This includes but is not limited to service area management, service user consultations and specific advisory boards. The chain of review by management and scrutineers is sufficient, timely and appropriate.

## 3. ensures effectiveness processes and systems are in place to ensure budgetary control

Arrangements are in place for the finance team to engage with budget holders to review financial performance and identify actions to resolve adverse variances by providing

accurate and timely profiled financial monitoring reports for budget holders. Regular budget monitoring took place in 2020-21 in order to manage the Council's net revenue budget. Regular meetings were held virtually between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Overview & Scrutiny Committee or Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to have an additional focus on the Council's revenue budget monitoring during 2020/21 due to the unprecedented impacts of the pandemic on council finances. Therefore in addition to the regular monitoring that was undertaken papers were also tabled in November to Cabinet (in addition to the Finance & Performance Sub-Committee) noting the action required in year, the current reserves position and potential call upon reserves required in year.

Financial monitoring reports and minutes demonstrate that in year forecast variances are being picked up promptly, and budget holders are being held to account for delivering to budget and/or developing adequate mitigating action.

the Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.

Keeping within budget is featured in the Job descriptions of budget holders. Through conversation with the CEO it is clear that there is a focus on this when appraising staff members. The consultation process for creating budgets ensures that accountability is instilled from the beginning of the process.

Relevant non-financial information, such as service activity and workforce information, integrated into financial reports to Cabinet. The Council has a Performance Management Framework. Key Performance Indicators (KPIs) are reviewed annually to ensure the Council are focused on key priorities and those aspects that need to be monitored more closely, e.g. for improvement purposes. The outturn performance for the Councils KPIs was reported to the June Cabinet meeting alongside the financial performance.

There is no integrated report as this has been judged to be too cumbersome to be useful however information is presented alongside each other. For significant projects the reporting of KPIs alongside financial information is easier as it is more discrete. Evidence of this can be seen in the Otterpool reporting and business planning.

Budget reporting is at a level of detail that enables the Cabinet to make effective decisions, i.e. not overly complex but not too simplistic either.



#### 4. ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

the Council ensures that all relevant information is provided to decision makers before major decisions are made and arrangements are in place for the challenge of key strategic decisions before they are taken. As a local authority the chains of review, approval and scrutiny are very clear and well documented. For example a budget will be created by management in consultation with budget holders, debated and approved through the finance sub-committee, sent upwards through the scrutiny and oversight committee and then ultimately up through Cabinet. Papers for these must be published in advance of the meeting for additional time to scrutinise. An extra layer of oversight is provided by the fact that as a local authority these papers must be published online, therefore theoretically being overseen by the general public and potentially challenged through the appropriate channel.

There is evidence of service user consultation however the Council are finding it difficult to galvanise public interest in the consultation process; despite widening their targeting they received limited pieces of feedback to the local budget setting agenda.

Consultation is more widely accessible through projects, for example the Otterpool project and the Tenancy engagement strategy and outreach. These areas garner more public interest.

These projects factor into the strategic plans of the Council and so are in fact the best place to have heightened interest in feedback.

There are further plans for how to engage stakeholders in the new MTFS showing the direct link between setting the MTFS and enacting it with the consideration of stakeholders' wishes. This is also true of the tenancy engagement strategy which has been instigated after housing services were brought back in-house - thus showing commitment to getting it right for the user.

Our experiences with the Council show that there is no indication of reactive rather than proactive decision making, there is a long term focus with regeneration and investment and an appropriate tone from the top.

Attendance at audit committee provides us with evidence of effective challenge of officers by some members. TCWG are making best use of the skills and experience of its members. The committee has received training from both Grant Thornton and its' internal audit function. Audit Committee is stable and has benefited from the addition of an independent member.

#### 5. monitors and ensures appropriate standards.

Arrangements in place to monitor compliance with legislation and regulatory standards, this includes communicating effectively to its staff what behaviours are expected/not expected of them. Leadership from senior officers and members illustrates required standards of behaviour, in turn establishing and maintaining an appropriate culture within the Council.

There have been no instances of non-compliance with the constitution. There have been considerations of the constitution in regards to council meetings which under COVID restrictions were permitted to be via Zoom but on lifting of those restrictions had to be available in person (with the potential for a hybrid meeting).

There is no repeated deviation from required standards. There was one instance of an ICO failure to comply notice under section 51 (see screenshot of legislation). This is in response to a failure to issue information under the FOI act in the required timeframe. Procedures for review of these decisions have been put in place since.

This does not constitute a significant weakness as it was a single breach related to a complex and ongoing redevelopment, therefore whilst new procedures are put in place to protect from this going forwards it is not an element which is core to the Council operations and occurs often.

Online there is a register of gifts and hospitality for councillors but this is only viewable against each councillor and for 1 year time frames. This means that it is not very transparent. For example if you wished to check whether any councillors had received gifts from ABC Construction Ltd you would have to click on each councillor and change the time frame for each year you were interested in. There is also no description as what constitutes a gift or hospitality. Finally this only covers the Councillors, not very senior leadership as would be expected. It does not constitute a significant weakness as the information is largely present, just in a difficult format. There is also no indication of how up-to-date this information is because the policy and the compliance are is not accompanying the data.

**Improvement recommendation B: Improve the accessibility and completeness of the information of the gift and hospitality register.**

## No significant weaknesses have been identified in relation to Governance.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

1. uses financial and performance information to assess performance to identify areas for improvement
2. evaluates the services it provides to assess performance and identify areas for improvement
3. ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
4. ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## 1. uses financial and performance information to assess performance to identify areas for improvement

In reporting KPI's to the scrutiny committees of the Council management must assure themselves of the accuracy of the financial and non-financial data. This is done through use of direct download reports, the use of specialists within the Council who are 'close' to the data and would recognise error and a chain of review up through senior management before publication. There is no indication that any data presented to scrutiny committees is inaccurate.

the Council is part of the Kent CFO group and the generally close working relationships of those organisations. This includes a shared internal audit function and until 20/21 a housing management service with some of the fellow District councils.

There are examples of benchmarking on specific areas:

- National Planning Policy Framework (NPPF) in 2012 has sought to significantly boost housing land provision and has created a metric for measuring the likely future housing need, this has been used by the Council
- the CIPFA resilience index (however noting that the most recent publication for this is for 19/20).
- the climate emergency emissions planning.
- Monthly collaboration and data sharing with the Kent Financial Officers Group (KFOG).

This last point in particular allows for consideration of outliers and identification of best practise . It also informs choices on provisions of services re cost. This is best practise and is far more collaborative than we see in other council groups.

There is evidence too that the Council seeks to learn from the reports of regulators and act upon their findings, for example in relation to the Landlord Gas Safety regulations (LGSR) regarding East Kent Housing.

A review of benchmarking data from the CFO Insights (CFOI) tool by Grant Thornton shows three trends to bring to the attention of the Council for their review on whether these factors are something they wish to investigate further:

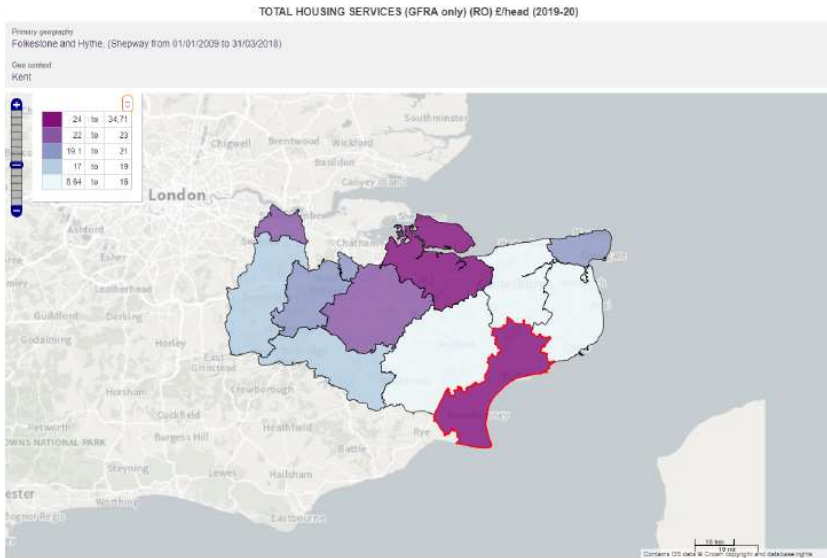
1. The cost per head of population of housing services in FHDC is the highest in Kent
2. Within Kent the number of households with support needs (which nationally averages at 45%) is the lowest, at 20% of households.
3. Within Kent the Council has the 10th of 11 lowest numbers of households in temporary accommodation.

Infographics for this are considered on the following page.

# CFO Insights – Housing data for Folkestone and Hythe District Council

## Expenditure: Total housing services

Unit cost £/head on total housing services



These are complex areas with significant inter-dependencies, as part of this work we are not making a value judgement on these data-driven indicators, but are sharing them given the focus at the Council on housing.

As part of this work we have considered whether these indicators show potential significant weaknesses. Given the work put into the new housing service, including working with the regulators, we have no concerns that the quality of the housing services provided by the Council are of poor quality.

In terms of cost of the housing service it is likely that this has increased in the short-term due to the changes and challenges of bringing this back ‘in-house’. Again, we do not consider this to be a signifier of a significant weakness.

## Initial Assessments: Support needs

Nationally, approximately 45.9% of households were identified as having one or more support needs

**Support needs: Households with one or more support needs - Total (2019-06)**

Top (1)	Area (11)	Bottom (11)
Area: Maidstone Count: 175	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 20	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 20

## Temporary Accommodation: total

**Accommodation type (TA): Total number of households in TA (2018-06)**

Top (1)	Area (10)	Bottom (10)
Area: Thanet Count: 228	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 24	Area: Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count: 24

Rank	Area	Count
1	Thanet	228
2	Ashtford	165
3	Swale	164
4	Dover	146
5	Maidstone	107
6	Gravesham	87
7	Sevenoaks	66
8	Tunbridge Wells	46
9	Tonbridge and Malling	36
10	Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018)	24
	Canterbury	(no data)

## 2. evaluates the services it provides to assess performance and identify areas for improvement

With the exception of the previously explored East Kent Housing there have been no instances of a failure to meet minimum service standards in core service areas. Given the refreshed MTFS and the internalisation of the housing service there is evidence that the Council has actively reviewed and challenged strategic priorities and cost-effectiveness of existing activities.

A signifier of potential significant weakness could be that the Council have not considered alternative or lower cost options for delivery of services in the long term. We considered this through a review of Otterpool Park and Princes Parade development projects. We see that projects are costed over the full life of the project and so whilst cost is not the only driver (service potential, speed, environmental concerns) it is appropriately considered. the Council is growing, it has high borrowings comparably to furnish the redevelopments which come with interest charges, these are costed into the schemes. We reviewed the tender documentation and found that competitive tendering was pursued and that value for money re cost and capital financing requirements were a significant component of the assessment criteria.

the Council has no history of repeated failures to achieve efficiency or financial targets and it has a strong reserves and cash position. Under covid funding arrangements from central government it has received additional funding for general use. the Council has ensure that redevelopments such as Otterpool and Princes parade have not been curtailed financially.

## 3. ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve

There are examples of strategies being developed at a partnership level leading to meaningful action. For example The proposal to extend Mountfield Road Industrial Estate, New Romney is seeking to diversify the local economy to mitigate the loss of over 1000 jobs arising from the closure of Magnox A and proposed closure of Dungeness B Power Stations. The development is being delivered by means of a joint venture with East Kent Spatial Development Company (EKSDC). Construction of this business hub is well underway and will be completed by the end of 2021. As has previously been noted, the Council works closely as a finance group (KFOG) and under other initiatives such as the Kent Resilience Forum (KRF).

Partnership work is reported through the same process as work completed just within the Council, i.e. through the finance and performance sub-committee, on to the overview and scrutiny and up to cabinet. The differences exist in partnership working for big projects which then have its' own reporting chain. For example Otterpool Park LLP exists to deliver the Otterpool Park project. Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks.

Our reviews have shown us that the Council is transparent, collaborative and open with significant partners about performance so that it can build up a shared understanding of common challenges and design improvements to address them. the Council publishes extensively on its' website thus much of the information is publicly available, if for example a private contractor wanted to see the full plans for Princes parade they are listed online.

We have viewed throughout this assessment several targeted engagement strategies including the tenancy engagement strategy, the corporate plan strategy and strategies related to large regeneration projects. There is no evidence that local priorities have not been considered.

## 4. ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits

The Council has an established procurement strategy in place which was updated in 2020. We have found evidence of significant procurement happening outside of this policy.

During 2021-22 a number of significant procurement breach was identified by the Council through standard checks of controls. The Council initiated investigations internal investigational and commissioned an internal audit which has uncovered a number of instances whereby officers were failing to comply with SOs and wider procurement requirements , A detailed training programme has been put in place. These issues may have had some legacy impact on 20-21 and earlier but have been reported in detailed in out 21/22 AAR where a significant weakness has been identified and a key recommendation made.

**Improvement Recommendation C:** review the cost of the housing service against peers to understand if the continuing costs of service provision (rather than establishing costs) are providing value for money.

There is no evidence of repeated commissioning from previous service partners without sufficient regard to the market position. the Council must competitively tender for every contract over £100k and get 3 written responses for everything lower than this but more than £10k. Therefore the possibility for avoiding this safeguard is limited. The contracts are posted online on the Kent Business Portal and are published on the contract register for additional scrutiny. There is no evidence of unexplained extensive use of consultants and interim staff, where this leads to significant increase in costs.

Arrangements in place to monitor the performance of key service providers or sub-contractors. All contracts are monitored in terms of performance and service level agreements. This is usually undertaken by the relevant service area with assistance from Procurement. Regular meetings take place with contractors and any issues are discussed and sought to be resolved and performance reviews are conducted. There were several minor disputes in-year which were resolved largely in the Council's favour.

**No significant weaknesses have been identified in relation to Economy, Efficiency and Effectiveness.**

# COVID-19 arrangements



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

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

## Financial sustainability

the Council's arrangements have adapted to respond to the new risks they are facing from 2020-21 onwards in respect of Covid-19. This includes lack of income growth and unavoidable growth in costs. It also recognises there could be a valuation impact on its' investment properties.

the Council has taken the prudent approach of drawing on reserves in order to continue to fund drives aimed at alleviating the pressure of Covid-19 such as supporting the community support hubs.

There are appropriate arrangements in place also to monitor costs and incomes related to Covid-19 such as part of the Government Delta return process.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to Financial Sustainability.

## Governance

Appropriate actions were taken early in the pandemic to ensure costs were incurred only where benefit would be achieved in relation to alleviating the impact of Covid-19.

The system of internal control and approval remained constant throughout the pandemic as the Council was already set-up to operate electronically. An initial investment in IT infrastructure allowed a transition to home working without losing the rigour of the review process.

During lockdown procedures the Council operated a remote meeting system for its scrutiny meetings. Keeping within statutory and constitutional requires this arrangement has returned to in-person meetings since lockdown measures eased.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to Governance.

## Improving economy, efficiency and effectiveness

Effective controls around procurement have been maintained during the Covid-19 impacted operating environment. Several projects were fast-tracked through the process in order that they become quickly operational, such as the community support hubs. However reviews into this after the fact have not highlighted any issues in the efficacy of the procurements.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to EEE.

# Improvement recommendations

## Governance

### 2 Recommendation A Risks and their related mitigations

#### Why/impact

the Council runs a 'tolerate, treat, transfer or terminate' system to dictate the type of mitigating actions it should take. However within this there is not a clear link to the assurances or key controls applied. We judge this to not be a risk of significant weakness as there are mitigations and action plans, they are just not the best practise as we have viewed at comparative councils. This is not an indication that the Council is not acting on risks or mitigations, but is a manifestation that the Council have several very high level risks which are mitigated against in very high level ways.

#### Auditor judgement

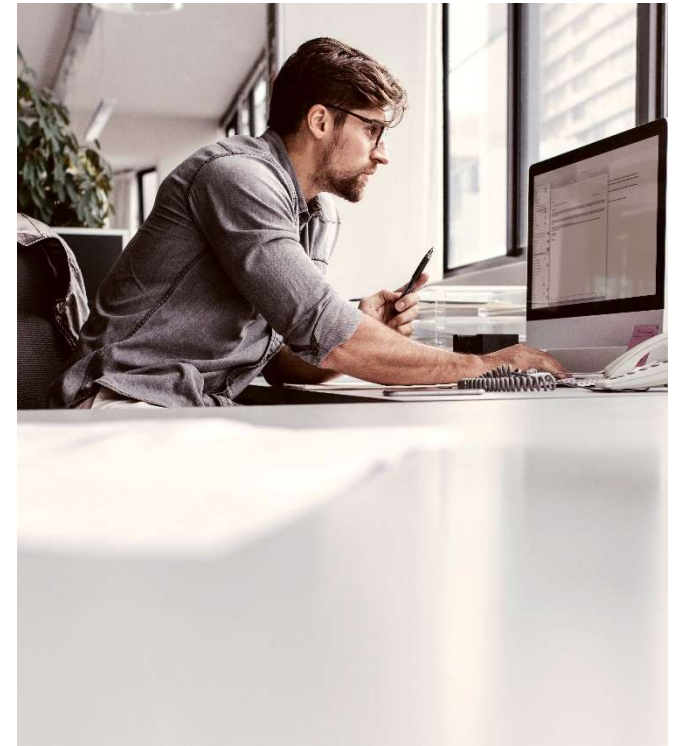
the Council should consider how to present it's mitigating actions or assurances of change against risk areas in a more linear and direct fashion. This will provide scrutineers with assurance that management are mitigating risks and will provide a basis for challenge of the effectiveness of those mitigations.

#### Summary findings

the Council can improve its' presentation and organisation of risk mitigations.

#### Management comment

The Section 151 Officer is currently reviewing the Councils Risk Strategy and Process. In doing so she will incorporate a review of comparative Councils and identify appropriate amendments to the existing process to consider this recommendation.



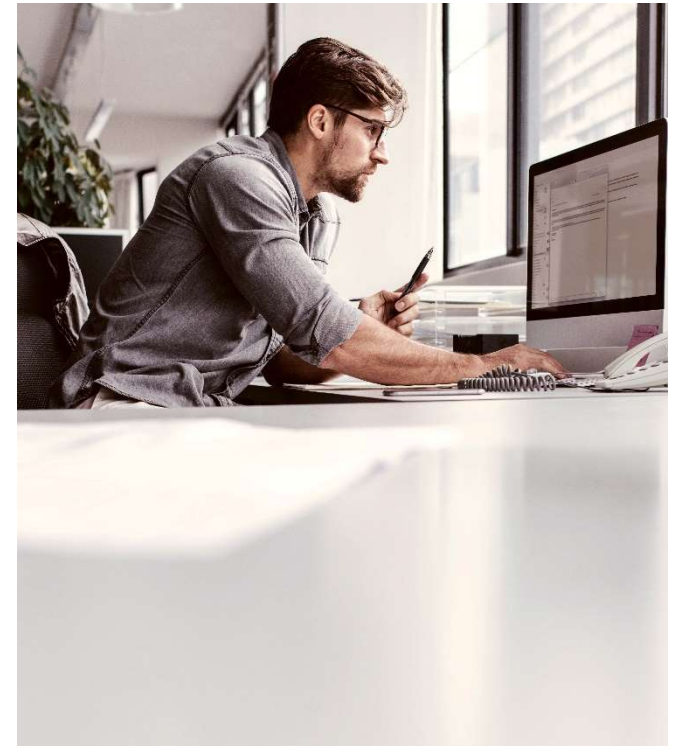
The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations

## Governance

### 2 Recommendation B Usefulness, transparency and accessibility of the gift and interests register

<b>Why/impact</b>	Online there is a register of gifts and hospitality for councillors but this is only viewable against each councillor and for 1 year time frames. This means that it is not very transparent. For example if you wished to check whether any councillors had received gifts from ABC Construction Ltd you would have to click on each councillor and change the time frame for each year you were interested in. There is also no description as what constitutes a gift or hospitality. Finally this only covers the Councillors, not very senior leadership as would be expected. It does not constitute a significant weakness as the information is largely present, just in a difficult format. There is also no indication of how up-to-date this information is because the policy and the compliance are is not accompanying the data.
<b>Auditor judgement</b>	Improve the accessibility and completeness of the information of the gift and hospitality register.
<b>Summary findings</b>	the Council can improve its' presentation of gifts and interests in the aim of transparency.
<b>Management comment</b>	The Council will review the current presentation of its gifts and interest register, and explore practical options to improve its accessibility and completeness with the aim of improving our transparency.



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



# Improvement recommendations



## Improving economy, efficiency and effectiveness

### 3 Recommendation C Understand the cost of the housing service

#### Why/impact

We have not found any instances of the Council failing to consider the risk and rewards when undertaking significant commercial ventures, outsourcing, shared service arrangements or partnerships. However we draw attention again to East Kent Housing and the re-establishing this as an in-house service.

Now that the service has had chance to settle and establish itself the Council should consider whether they have constructed a cost efficient programme. We see from our comparison data that in 19-20 the Council had the highest housing costs per head. We recommend, given that the new service is within FHDC, that the cost per head of population of the housing service is now reviewed against its' peers. This includes a consideration as to how many households have support needs which contribute to higher unit costs and how many families are in temporary accommodation.

#### Auditor judgement

Review the cost of the housing service against peers to understand if the continuing costs of service provision (rather than establishing costs) are providing value for money.

#### Summary findings

The costs of the housing service on initial review are higher than expectation based on peers. This should be reviewed to ensure these are still costs of establishing the service in house rather than inflated costs which will be a year-on-year burden.

#### Management comment

The Council has been through an exceptional period with the return of the Housing Service and successfully transitioning out of regulation, but it welcomes the opportunity to review the cost base. The Council has recently undertaken its own benchmarking exercise for this service area and will utilise the results to review the cost of the service against suitable peers.



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

# Opinion on the financial statements



## Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 15 March 2023.

## Audit Findings Report

More detailed findings can be found in our AFR, Governance Committee on 15 March 2023, which was reported to the Council's Audit and Governance Committee on March 15<sup>th</sup> 2023

## Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

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

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



# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

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

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

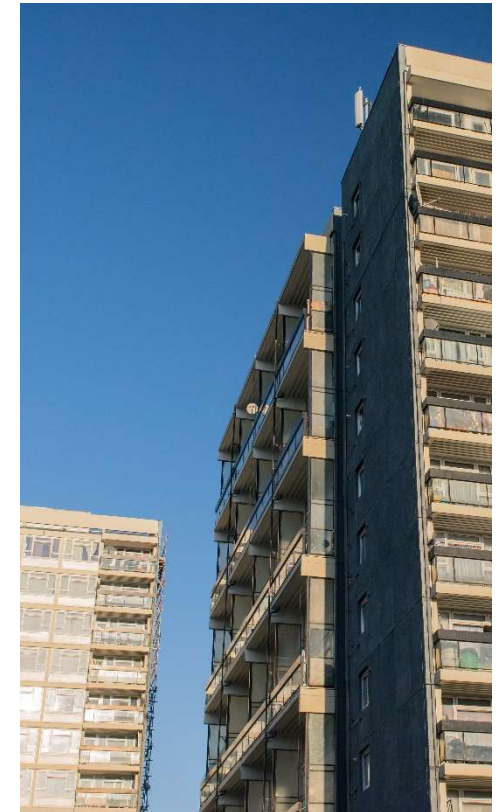
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



# Appendix B - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	No	15-17

# Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

No formal use of powers

## Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

No formal use of powers

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No formal use of powers

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

No formal use of powers

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No formal use of powers

