

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 30th June, 2010

10.00 am

Darent Room, Sessions House, County Hall, Maidstone



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 30th June, 2010, at 10.00 am Ask for: **Andrew Tait**
Darent Room, Sessions House, County Telephone: **01622 694342**
Hall, Maidstone

Tea/Coffee will be available 15 minutes before the start of the meeting

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Substitutes
2. Declarations of Interest in items on the agenda for this meeting
3. Minutes (Pages 1 - 12)
 - (a) Committee – 30 April 2010
 - (b) Trading Activities Sub-Group – 17 May 2010 (Information)
4. Committee Terms of Reference (Pages 13 - 18)
5. Work Programme (Pages 19 - 20)
6. Treasury Management Update (Pages 21 - 26)
7. Treasury Management Annual Review 2009/10 (Pages 27 - 40)
8. Superannuation Fund External Audit (Pages 41 - 44)
9. Internal Audit Annual Report (Pages 45 - 78)
10. Audit Commission Annual Governance Report (TO FOLLOW)
11. Draft Statement of Accounts 2009/10 and Annual Governance Statement (Pages 79 - 186)
12. Debt Recovery (Pages 187 - 196)
13. Kent County Council Audit Fee 2010/11 (Pages 197 - 204)
14. Kent Superannuation Fund Audit Plan and Fee 2010/11 (Pages 205 - 208)
15. Criminal Records Bureau checks (Pages 209 - 222)
16. CIPFA Statement on the role of the Head of Internal Audit in public service organisations (Pages 223 - 226)
17. Annual RIPA Report on "Surveillance" and other activities carried out by Kent County Council in 2009 (Pages 227 - 236)

18. Spending the Council's Money (Pages 237 - 240)
19. Other items which the Chairman decides are urgent

EXEMPT ITEMS

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

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Tuesday, 22 June 2010

Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Friday, 30 April 2010.

PRESENT: Mr R L H Long, TD (Chairman), Mr M V Snelling (Vice-Chairman), Mr A R Chell, Mr B R Cope, Mr K A Ferrin, MBE, Mr C Hibberd, Mr D A Hirst, Mr J F London, Mr R J Parry, Mr T Prater, Mrs P A V Stockell (Substitute for Mr P W A Lake) and Mr R Tolputt

ALSO PRESENT: Miss S J Carey and Mr J D Simmonds

OFFICERS: Ms L McMullan (Director of Finance), Mr N Vickers (Head of Financial Services), Mr A Wood (Head of Financial Management), Mr G Wild (Director of Law and Governance), Mr D Tonks (Head of Audit & Risk), Mrs J Armstrong (Senior Audit Manager), Mr R Hardy (Director of Improvement and Engagement) and Mr G Mills (Democratic Services Manager (Executive))

ALSO IN ATTENDANCE: Mr D Wells and Mr G Brown from the Audit Commission.

UNRESTRICTED ITEMS

1. Declarations of Interest

(Item)

A declaration by Mr D A Hirst in relation to Item 17 and a point of clarification made by Mr M V Snelling were noted as appropriate.

2. Minutes

(Item 3)

RESOLVED that:-

- (a) the Minutes of the Committee meeting held on 1 December 2009 are correctly recorded and that they be signed by the Chairman;
- (b) the Minutes of the Trading Activities Sub-Group held on 1 December 2009 be noted; and
- (c) approval be given to the Company Dividend Policy set out in the Appendix to the Trading Activities Sub-Group Minutes.

3. Debt Recovery

(Item 4)

(1) This report provided an update on the overall debt position. The report also proposed that in future the reporting of debt recovery issues should be to the Budget Informal Member Group rather than to this Committee.

(2) During the course of discussion, Officers were asked to take up with the Adult Social Services and the Children, Families and Education Directorates the issues identified in the report around the levels of debt recovery currently running within those Directorates.

(3) The Committee also discussed whether, in future, reports on debt recovery should be referred to the Budget IMG but concluded that this was a matter that should continue to be reported to this Committee.

(4) RESOLVED that:-

(a) the contents of the report be noted; and

(b) future items on debt recovery continue to be submitted to the Governance and Audit Committee.

4. Treasury Management

(Item 5)

(1) As part of the new control regime for treasury management, the Committee would in future receive quarterly reports on these issues. This report specifically addressed the requirements of the CIPFA Treasury Management Code of Practice and gave the opportunity to give assurance that the Council had in place an appropriate management regime.

(2) During the course of discussion, Members raised a number of points of detail relating to the monitoring of treasury management to which Officers responded accordingly.

(3) RESOLVED that the quarterly report be noted.

5. Committee Terms of Reference

(Item 6)

(1) Following recent discussions at meetings of the Committee, this report put forward for its consideration revised Terms of Reference with the purpose of more closely describing the Committee's role in terms of responsibility rather than process.

(2) During the course of discussion, some Members expressed concerns that the proposed changes would alter the nature of the Committee's work and take away the opportunity for it to comment on some areas which it was said remained relevant to its current work. It was also said that if part of the intention was to reduce the length of agendas then consideration ought to be given to adding in an additional meeting and also to start meetings at 10.00 am.

(3) Following further discussion, the Committee concluded that the general principles of the proposed changes to the Committee's terms of Reference should be agreed but that some minor textual amendments should be made. On this basis, the Committee agreed that the final revised terms of Reference should be submitted to the next meeting by the Head of Audit and Risk for final endorsement and onward submission to the County Council for approval.

- (4) RESOLVED that the final revised terms of Reference be submitted to the next meeting of the Committee by the Head of Audit and Risk for final endorsement and onward submission to the County Council for approval.

6. Work Programme and Member Development Programme

(Item 7)

(1) This report proposed a forward work programme, supported by appropriate Member training to ensure that the responsibilities of the Committee were met and that sufficient time was allocated for Members to cover those areas they collectively wished to examine in more detail.

(2) During the course of discussion it was agreed that a Group of Members comprising Mr A R Chell, Mr B R Cope, Mr K A Ferrin and Mr C Hibberd should be established to look in more detail at training issues including the method of delivery, and to report back to a future meeting.

(3) RESOLVED that:-

- (a) the forward work programme for 2010 be approved;
- (b) a Group of Members be established by the Head of Audit and Risk as set out in paragraph (2) above to look in more detail at training issues and to report back to a future meeting of the Committee; and
- (c) the need for Member training linked to the content of the forward work programme be agreed.

7. Private Finance Initiative

(Item 8)

(1) This report quantified the County Council's existing exposure to PFI and discussed how a number of risks were being managed. The report also compared the cost of two of the Council's existing PFI contracts against what the cost might have been under a traditional procurement route.

(2) During the course of discussion, Members raised a number of points on processes and detail to which officers responded accordingly.

(3) RESOLVED that:-

- (a) the report be noted; and
- (b) the risks outlined in the report be included in the Strategic Risk Register.

8. Impact of the Authority's budget on the Risk Register

(Item 9)

(1) In response to a request made at the last meeting, this report demonstrated the links and processes between setting the Council's annual budget and the consideration of the risks associated with the proposed budgets, and the consequential impact on the Risk Registers.

(2) RESOLVED that: -

- (a) the contents of the report be noted as part of the Committee's assurance that the Risk Registers are owned and up to date; and
- (b) a further report on this subject be submitted to the Committee by the Head of Audit and Risk following the next Spending Review.

9. Strategic and Directorate Risk Registers

(Item 10)

(1) The Strategic and Directorate Risk registers recorded the key risks facing the County Council and represented the primary output of the Council's Risk Management Framework.

(2) RESOLVED to:-

- (a) note the content of the Strategic Risk Register; and
- (b) agree to the assurances provided on the effectiveness and sufficiency of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks.

10. Updated Financial Regulations

(Item 11)

(1) This report presented for Members' consideration the updated financial regulations prior to their submission for approval to the County Council.

(2) RESOLVED that the updated draft of the Financial Regulations set out in the Appendix to the report be recommended to the County Council for approval.

11. Audit Commission Audit Opinion Plan

(Item 12)

(1) This report detailed the work plan to be followed by the Audit Commission in order for it to give an opinion on the Council's 2009/10 financial statements.

(2) As part of the discussion of this item, Mr Wells from the Audit Commission said that ethical standards required auditors to be alert for and evaluate any threats or perceived threats to their independence and objectivity. Ethical standards were broad in their coverage and covered not just the auditor but also close members of their families. Mr Wells said he had recently been made aware of a potential

perceived threat to the independence of Mrs Liz Robinson, Support Audit Manager engaged on the external audit of Kent County Council.

(3) Mrs Robinson's husband had been a close friend of Mr Tonks (Chief Internal Auditor) since childhood. They socialised on a regular basis, shared common interests and holidayed together. On occasion, costs associated with their common interests and holidays were not always split equally between them. Mrs Robinson herself did not socialise with Mr Tonks. Mr Wells said he had considered the nature of the relationship between Mrs Robinson's husband and Mr Tonks in respect of a risk to Mrs Robinson's independence and objectivity whilst carrying out the audit of the County and had concluded that the risks were manageable with the application of the following safeguards:-

- alerting Members of the Governance and Audit Committee to the nature of the relationship and his assessment of the risk; and

- ensuring that Mrs Robinson was not directly involved in making an assessment of Internal Audit or in reviewing individual pieces of its work upon which External Audit might seek to rely.

(4) During the course of discussion, Members raised a number of questions around the process and cost of the work to be undertaken to which Mr Wells from the Audit Commission and Officers responded accordingly. The Committee acknowledged the assessment and conclusion of Mr Wells in respect of the risk referred to in paragraphs (2) and (3) above and did not disagree with his response.

(5) RESOLVED that:-

- (a) the outcomes of the Audit Commission's updated risk assessment be noted, together with the review of the assumptions supporting the fee and the oral statement made by Mr Wells; and

- (b) approval be given for the Chairman to provide the required response to the District Auditor based on the draft set out in Annex 1 to the report.

12. Audit Commission Kent Superannuation Fund Audit Opinion Plan

(Item 13)

(1) This report provided the Committee with a plan setting out the proposed work of the Audit Commission to enable it to give an opinion on the Council's 2009/10 financial statements.

(2) RESOLVED that:-

- (a) the outcome of the Audit Commission's updated risk assessment be noted, together with the review of the assumptions supporting the fee; and

- (b) approval be given for the Chairman jointly with the Chairman of the Superannuation Fund Committee to provide the required response to the District Auditor based on the draft set out in Annex 1 to the report.

13. 2010/11 Internal Audit Strategy and Annual Plan

(Item 14)

- (1) This report set out the Internal Audit Strategy and proposed the supporting annual work programme for 2010/11 and the breakdown of available days.
- (2) During the course of discussions, Members raised a number of points of detail, arising out of which it was agreed that the Director of Personnel and Development be asked to submit a report on CRB requirements and practices to the next meeting. Officers also confirmed that at the end of the two year pilot period there would be a report on the operation of the Members' Highway Fund.
- (3) RESOLVED that:-
 - (a) approval be given to the proposed Internal Audit Strategy and Annual Plan for 2010/11 as set out in the Appendix to the report; and
 - (b) it be noted that there will be further reports to the Committee on the matters referred to in paragraph (2) above.

14. Audit Commission Progress Report

(Item 15)

- (1) This report provided a summary of progress to April 2010 against the 2009/10 External Audit Plan.
- (2) RESOLVED that the progress against the Audit Commission's 2009/10 Audit Plan be noted.

15. Audit Commission Feedback on Partnership with the Voluntary Sector

(Item 16)

- (1) As part of the Audit Commission's work programme for 2008/09 it undertook a "snapshot analysis" report on aspects of partnership working in Kent. This was neither an audit nor an inspection but an attempt by the Commission to update its knowledge of the position in Kent following the comment in June 2008 that "KCC's capacity to deliver its ambitions would be stronger if it adopted a more inclusive listening approach, particularly with local partners."
- (2) RESOLVED that in noting the flaws in the Audit Commission's document "Partnership Working – Snapshot Survey", it nonetheless be accepted as a contribution to the wider view of partnership working currently underway within KCC and its partners.

16. International Financial Reporting Standards

(Item 17)

(1) This report was linked to Item 18 (Minute paragraph 17) and asked the Committee to note the changes that International Financial Reporting Standards were going to have on the Council's Statements of Accounts and the process and resources required to achieve that. The resource plan had previously been circulated as an Appendix to the report.

(2) During the course of discussion it was agreed that the content of paragraph 2.4 of the report (Employment Benefits) should be brought to the attention of the Chairman of the Personnel Committee by the Director of Personnel and Development with a request for him to consider including this issue at a future meeting of the Personnel Committee.

(3) RESOLVED to:-

- (a) note the content of the report in conjunction with the Audit Commission report on International Financial reporting Standards (*see Minute 17*) together with the resource plan.
- (b) note the changes that the new International Financial Reporting Standards (IFRS) will have on the Statement of Accounts as outlined in the report; and
- (c) agree that the IFRS project is a corporate priority and that adequate resources should be provided to ensure that an unqualified set of accounts can be produced for 2010/11.

17. Audit Commission report on International Financial Reporting Standards

(Item 18)

(1) This report was linked to Item 17 (Minute 16) above and provided the Committee with a progress report from the Audit Commission on the County Council's progress towards implementing the International Financial Reporting Standards.

(2) RESOLVED that:-

- (a) the contents of the Audit Commission's report "International Financial Reporting Standards" be noted; and
- (b) the County Council's response to the Audit Commission's four recommendations (set out in Appendix 1 to its document) be endorsed.

18. Audit Commission Certification of Claims and Returns Annual Report

(Item 19)

(1) This report provided a summary of the work completed in relation to the certification of claims reviewed by the Audit Commission, totalling some £143m.

(2) During the course of discussion, Members raised a number of points of detail, leading to it being agreed that there should be a further report in relation to the performance of Capita to a future meeting of the Committee.

(3) RESOLVED that:-

(a) the Audit Commission's report "Certification of Claims and Returns – Annual Report" be noted; and

(b) a further report on the issues highlighted in the report be submitted by the Head of Audit and Risk to a future meeting of the Committee.

19. Internal Audit Progress Report

(Item 20)

(1) This report summarised the progress against the 2009/10 internal audit programme and provided the results and achievements from reviews that had been completed in the period since the last report to the Committee.

(2) RESOLVED that the progress to date against the 2009/10 audit programme be noted, together with the changes to the audit programme.

GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB GROUP

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub Group held in the Waterton Lee, Invicta House, County Hall, Maidstone on Monday, 17 May 2010.

PRESENT: Mr R L H Long, TD, Mr T Prater and Mr C T Wells

IN ATTENDANCE: Ms L McMullan (Director of Finance), Mr K Harlock (Commercial Services Director) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

1. Minutes - 1 December 2009 and matters arising *(Item 3)*

(1) In respect of Minute 10 (c) the Head of Audit and Risk informed the Panel that the LAML case was due to be reviewed in September 2010. A report setting out costed options for further review would therefore be presented to the Panels once the outcome of the review was known.

(2) RESOLVED that the Minutes of the meeting held on 1 December 2009 are correctly recorded and that they be signed by the Chairman.

2. Summary of information lodged at Companies House for KCC Companies *(Item 4)*

RESOLVED that the 1908/09 audited accounts for Kent Top Temps Ltd and Kent County Facilities Ltd be noted.

3. Unaudited performance of KCC companies *(Item 5)*

(1) The Director of Commercial Services ascribed the increase in turnover in the face of a difficult trading climate to very active marketing and close attention to cost control. Kent Top Temps now sub-contracted a significant proportion of placements to Kent businesses.

(2) RESOLVED that the unaudited 2009/10 accounts for Kent County Facilities Ltd and Kent Top temps Ltd be noted and that the Director of Commercial Services and his staff be congratulated on the increase in turnover.

4. The Launch of Kent County Supplies Ltd T/A Simplicare *(Item 6)*

(1) The Director of Commercial Services informed the Panel that since the Launch of T/A Simplicare, business had gone as planned. Ongoing discussions were being held with some other Local Authorities for potential joint benefit.

(2) RESOLVED that the first month of reported business activity be noted.

5. Update on East Kent Opportunities Limited Liability Partnership (To Follow)

(Item 7)

(1) Mr D Lewis made a declaration of personal interest as he was a Board member of East Kent Opportunities.

(2) A report by the Director of Property and the Director of Economic Development had previously been published as a supplementary report.

(3) The Director of Finance informed the Panel that the accounting issues identified by the auditors had now been resolved. As a result, the liabilities of EKO to KCC were now in the accounts for 2008/09. It was confirmed by the EKO Executive Officer and the Head of Audit and Risk that the accounts for 2008/09 had been signed off without qualification and that those for 2009/10 would be finalised by the Year End Close Down.

(4) The Director of Economic Development informed the Sub-Group that the short term loan of £95k had been made to EKO by her in consultation with the Cabinet Portfolio Holder for Regeneration and Economic Development. This loan would be reported in greater detail to the Regeneration and Economic Development Policy Overview Committee in July 2010.

(5) The Director of Finance informed the Sub-Group that the request for the longer term loan of £500k would ultimately be submitted to the Leader of the Council for his approval following consideration by the Regeneration Sub-Group.

(6) The EKO Executive Officer responded to a question from Mr Wells by saying that there was no intention to drop the residential element from the EKO LLP proposals for the recently-acquired land. These proposals would be the subject of full and open consultation in the months of June and July 2010.

(7) RESOLVED that the summary of the background, structure and operation of East Kent Opportunities LLP be noted as set out in the report.

6. Business case for the creation of Kent Cultural Trading Ltd

(Item 8)

(1) The Director of Community Cultural Services reported that "Kent on Canvas" had initially been launched in October 2008 following work by a consultant which had identified the potential for income generation as part of the process of increasing awareness of the County's historic and cultural images.

(2) This trading activity had ceased following advice from Legal Services. The Cabinet Portfolio Holder for Communities had now given approval for the establishment of "Kent Cultural Trading Ltd" as a limited company, based on the "Kent on Canvas" model.

(3) In response to questions from Mr Prater, the Director of Community Cultural Services confirmed that there was also an opportunity for Libraries to generate their own income.

(4) RESOLVED that approval be given to the Business Case for the setting up of Kent Cultural Trading Ltd.

7. Future Meetings

(Item)

The Sub-Group agreed that a decision would be taken in October 2010 on whether to hold another meeting in November of that year.

EXEMPT ITEMS (Open access to Minutes)

The Sub-Group resolved that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

8. Business Plan for the creation of Kent Cultural Trading as a limited company

(Item 11)

(1) The Director of Community Cultural Services reported on how Kent Cultural Trading Ltd aimed to develop an income stream by utilising the cultural and information assets of the County Council. The company would be built on the business model already operating as “Kent on Canvas.”

(2) RESOLVED that the Business Plan for Kent Cultural Trading Ltd be endorsed.

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By: Richard Long, Chairman of Governance and Audit
Committee
David Tonks. Head of Audit and Risk
To: Governance and Audit Committee – 30 June 2010
Subject: **COMMITTEE TERMS OF REFERENCE**
Classification: Unrestricted

Summary: A revised Terms of Reference have been developed that describe the committee's role in terms of responsibility rather than process.

FOR DECISION

Introduction and background

1. At the April 2010 meeting members reviewed and debated the proposed amendments to the Committee Terms of reference. While members were generally in agreement to the core content of the proposals, there was a requirement to make a number of minor amendments to wording before final approval was given.
2. Annex 1 contains the proposed terms of reference with the amendments made highlighted for ease of reference.

Recommendations

3. Members of the committee are asked to:
 - Recommend to full Council that, together with consequential changes to the Constitution, the revised Terms of Reference at annex 1 be approved

David Tonks
Head of Audit and Risk
Ext: 4614

Governance and Audit Committee

Terms of Reference

Overarching Purpose

The purpose of the Governance and Audit Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and
2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

Objectives of the Committee

On behalf of the Council the Governance & Audit Committee will ensure the following outcomes:

- Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- The Council's Corporate Governance framework meets recommended practice (currently set out in the CIPFA / SOLACE Good Governance Framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.
- The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.
- The appointment and remuneration of the External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- Accounting policies are appropriately applied across the Council.
- The Council has a robust counter fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.

Responsibilities

Risk Management and Internal Control

The Committee should:-

- Review annually the Council's Risk Management Strategy and Policy to ensure it remains up to date and relevant.

- Review the Council's Strategic Risk Register to assess the effectiveness of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks.
- Review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of the control activity in relation to **significant** risks identified.
- Commission investigations into any matter of concern within the Terms of Reference of the Committee, consider the findings thereof and make appropriate recommendations to the Council.
- Ensure appropriate action is taken in response to recommendations arising from any external audit, internal audit, operational compliance or business risk report and to monitor such action, making appropriate recommendations to the Council.
- Ensure that any partnership that the Council enters into has **appropriate proportionate** Governance and Risk Management arrangements, and that any risk to the Council from the Partnership is minimised.
- Consider the Annual Risk Management Report and assess the impact of the findings on the Annual Governance Statement.
- Review regular monitoring reports on treasury management activity. **and significant risks.**

Corporate Governance

The Committee should:-

- Ensure that the Annual Governance Statement (including the list of significant issues for action in the ensuing year) is prepared in accordance with the statutory requirements and guidance, properly reflects the risk environment, and monitor progress on the significant issues and actions identified in the Statement.
- Review the Council's key financial governance procedures, i.e. Financial Regulations, Schemes of Delegation, the Procurement Policy and the Treasury Management Policies, and recommend any necessary amendments.
- Review the Council's Code of Corporate Governance and make recommendations to Council to ensure that it remains relevant to the Council's work and remains in compliance with best practice and legislation.
- Consider issues referred by the Group Managing Director, Director of Finance, Monitoring Officer, any Council body or appropriate external party within the remit of these terms of reference.
- Monitor the Council's compliance with its own published standards and controls.
- Make recommendations to the Council on amendments to the Constitution to ensure compliance with standards of financial probity and stewardship.
- Review arrangements made by the Superannuation Fund Committee for effective governance of the Kent Pension Fund.

Internal Audit

The Committee should:-

- Review annually the Internal Audit Strategy ensuring that its Annual Plan addresses the key risks of the Council, recommending changes and additions as necessary.

- Review ~~at each meeting of the Committee~~ progress against, and changes to, the Internal Audit Annual Plan.
- Review at each meeting of the Committee the findings of Internal Audit work and the adequacy of management response to their findings.
- Review at each meeting of the Committee the implementation by officers of agreed ~~“Critical” and “High”~~ Internal Audit recommendations, seeking explanations from those responsible where implementation has not been achieved.
- Consider the results of the annual benchmarking and Key Performance Indicator results for Internal Audit.
- Assess the implications of the Internal Audit Annual Report on the Council’s risk management, control and governance processes.
- Annually assess the co-operation between External and Internal Audit and other inspection agencies or relevant bodies.
- Approve the Terms of Reference and Charter of Internal Audit.

External Audit

The Committee should:-

- Approve on behalf of the Council the appointment of the External Auditor selected by the Audit Commission.
- Approve the annual External Audit plan and fee, ensuring that non-mandated work is proportionate, relates to recognised risks of the Council and takes account of the work of Internal Audit or other assurance activities.
- Review at each meeting of the Committee progress against, and changes to, the External Audit plan and fee.
- As “those charged with governance” receive the Annual Governance Report and the Annual Audit Letter and monitor the Council’s response to the External Auditor’s findings and the implementation of external audit recommendations.

Financial Reporting

The Committee should:-

- Approve the Statement of Accounts on behalf of the Council, specifically considering the suitability of accounting policies and treatments and any changes to these; areas of major judgement; and any significant issues or amendments resulting from the audit.
- Ensure that the Kent Pension Fund Accounts, and summary extracts in the Council’s Accounts, have been prepared in accordance with recommended practice, and statutory requirements.

Fraud

The Committee should:-

- Regularly review the Council’s Anti-Fraud and Anti-Corruption strategies.
- Regularly review the Council’s procedures for handling allegations from whistleblowers.
- Receive details of the findings of investigations resulting from either detected fraud or allegations made under the whistleblowing arrangements.

Membership

The membership of the Committee shall be 13 non-executive Members (Conservative 12; Liberal Democrat 1).

Reporting

The Minutes of the Governance and Audit Committee will be reported to Council after each meeting.

The Committee will produce an Annual Report immediately after the financial year end, timed to support the Annual Governance Statement, summarising the conclusions drawn from the work it has done in the year.

Rights and Access

The Committee may procure specialist ad-hoc advice from officers or from suitably qualified external sources.

The Head of Audit and Risk and the representative of External Audit will have unrestricted and confidential access to the Chairman of the Committee.

Meetings

The Committee will meet at least four times a year. The Chairman may convene additional meetings if required.

The quorum for Committee meetings is one third of its total voting membership.

The Committee may still validly exercise its functions even if Members have not been appointed to all the places on it.

Attendees

The Committee will normally be attended by the Director of Finance, the Director of Law and Governance, the Head of Audit and Risk and a representative of External Audit.

The Committee may request that any other Member or Officer attend to assist it with its discussions on any particular issues.

Work of other Committees

In all of the above, the Committee will strive to develop effective liaison with the following:

- the Standards Committee with regard to matters of ethical governance;
- the Policy Overview and Scrutiny Committees - to complement but not to duplicate the exercise of their role in checking compliance with Council processes and policies and in reviewing decisions and actions;
- Cabinet Members, in particular the Leader and the Cabinet Members for Finance Corporate Support Services & Performance Management, whose portfolios include executive functions related to the matters covered by these terms of reference
- the Council, especially when developing the Council's Code of Corporate Governance

Training and development

The work of the Members of the Committee will be supported by a training and development programme consistent with the responsibilities to be discharged.

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By: Chairman of Governance and Audit Committee
Head of Audit and Risk

To: Governance and Audit Committee – 30 June 2010

Subject: **Committee Work Programme**

Classification: Unrestricted

Summary: A forward work programme ensures that the responsibilities of the committee are met and means sufficient time is allocated for members of the Committee to cover areas they collectively wish to examine in more detail.

FOR DECISION

Introduction and background

1. A comprehensive work programme ensures that the committee is able to discharge its responsibilities in its terms of reference, ensures that sufficient time is devoted to each area, provides balance to the agendas throughout the year and helps the committee become pro-active in its work.
2. It has been agreed that there will be a standing item on each agenda to allow members to review the plan for the year ahead, and provide members with the opportunity to identify any additional items that they would wish to include

Current work programme

3. Annex 1 shows the latest programme of work for the Committee up to November 2010; meetings past this date are still being finalised by Democratic Services. The content of the programme have been matched to the revised terms of reference of the Committee and provide the minimum coverage necessary to meet the responsibilities set out. The programme has been updated to reflect the requests from members for additional reports on specific items of interest, although in some cases the exact timing of this work has yet to be finalised.

Recommendations

4. Members of the committee are asked to:
 - Review the forward work programme for 2010 and suggest any changes deemed necessary.
 - Identify any additional items that members would wish to include

David Tonks
Head of Audit and Risk
Ext: 4614

Item	30-Jun-10	15-Sep-10	30-Nov-10
Standing Items			
Minutes of last meeting	✓	✓	✓
Work Programme	✓	✓	✓
Trading activities Sub Group	✓		✓
Routine Items			
Internal Audit Progress Report		✓	✓
Strategic Risk Register			✓
Treasury Management	✓	✓	✓
Debt Recovery	✓	✓	✓
Ombudsman Complaints		✓	
Audit Commission Update	✓	✓	✓
Proposal for tracking of External Audit and other regulators recommendations		✓	
Member Commissioned Work			
Member Development		✓	
Impact of KCCs Budget on the Risk Register			✓
CRB requirements and practices	✓		
Capita Payroll Services to Schools		✓	
Non-routine items			
Revised ToR	✓		
CIPFA Statement on the role of the HoIA	✓		
Spending the councils money - policy updates			
Annual Reporting and Review			
Pension Fund Governance assurance statement	✓		
Statement of Accounts & Annual Governance Statement	✓	✓	
Internal Audit Annual Report	✓		
External Audit Governance Report	✓	✓	
Annual Management of Risk Report		✓	
Data Quality		✓	
Annual Complaints Report			✓
Corporate Governance Indicators			✓
External Audit Annual Audit Letter			✓
Treasury Management Annual Report	✓		
Certification Work Report			
Internal Audit Benchmarking Results		✓	
Effectiveness of External Audit Liaison			✓
Review of the Anti-fraud and anti-corruption Strategy		✓	
Annual report on 'surveillance' activities carried out by KCC	✓		
G&A Annual Report			
Annual Planning			
Internal Audit Strategy and Annual Plan			
External Audit Annual Plan	✓		
External Audit Pension Fund Opinion work programme	✓		
External Audit Opinion work programme	✓		
Committee Work programme			
Member Development Programme			
Review of the Risk Management Strategy, Policy and Programme		✓	

By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee – 30 June 2010

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

Summary: To present a quarterly treasury management update.

FOR INFORMATION

INTRODUCTION

1. This is the quarterly update on treasury management issues.

TREASURY ADVISORY GROUP

2. There has been no TAG meeting since the last report to this Committee.

SUMMARY OF DEVELOPMENTS

3. A report was submitted to Cabinet on 14 June covering:
 - Duration of investments – agreeing the TAG recommendation to allow maximum duration to be extended from 6 to 12 months. Moving to longer duration deposits would only be done with the strongest of counterparties (equivalent to DMO) and TAG members will be consulted with before such a deposit is made.
 - Borrowing – the Council had not undertaken any long term borrowing since February 2009. In late May as part of the turbulence in financial markets linked to concerns over the Euro, long term gilt rates moved significantly lower. We took the opportunity to:
 - Borrow from the PWLB £25m for 22 years at 4.27% and £25m for 38 years at 4.29%. Rates have since moved up.
 - Refinance £50m of loans maturing in August 2011 with a year market loan with RBS at 3.83%.
 - Icelandic litigation – fully set out the litigation process in Iceland.

4. On 30 April £40m in a call account with Santander UK was withdrawn. We are monitoring the position and no further deposits have been placed with Santander UK.
5. The Internal Audit Treasury Management Follow Up Review has been received. The audit opinion is High and an extract of the findings is attached in Appendix 1.
6. The bank tender evaluation is currently being finalised.

QUARTERLY PERFORMANCE REPORT

7. Given the timing of this meeting the quarterly performance report has not yet been produced.

STATEMENT OF DEPOSITS

8. A statement as at 11 June is attached in the Appendix 2.

RECOMMENDATION

9. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext: 7000 4603

KENT AUDIT

Background

The Kent County Council Treasury and Investments Team have experienced a considerable reduction in their operations since October 2008. There are currently six approved counterparties with whom the Council operate; all of which are through call accounts. Between April 2009 and October 2010 investments were only placed with the Debt Management Office (DMO).

This audit was completed as a follow up of the recommendations raised in the report issued in March 2009, following a review completed by PricewaterhouseCoopers. All recommendations raised within the report were followed up; however, as there was no scope for a management response, recommendations which were not previously agreed have also been followed up for completeness.

Overall Audit Assurance

Based on the findings in this follow up audit, there is **High** assurance that risks, which could prevent achievement of business objectives pertaining to the audited system, are managed effectively.

Risks Examined	Control Assurance			
	High	Substantial	Limited	Minimal
Counterparty lists and limits are not up to date	✓			
Set counterparty limits are not adhered to	✓			
Treasury transactions are not adequately reviewed	✓			
Documentation around investments is not properly maintained	✓			
Investment policy is geared towards returns and not risk management	✓			
Poor performance monitoring arrangements in place	✓			
Treasury operations manual is out of date	✓			
Inadequate sources of information considered in investment decisions	✓			
Manual processes within treasury services result in fraud or error	✓			
Insecure payment processes in	✓			

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2011/12

KENT AUDIT

place				
Treasury team does not have appropriate skills and training	✓			
Inadequate review and reporting procedures in place	✓			
Inappropriate treasury advisors are engaged	✓			
Inadequate disaster recovery procedures are in place	✓			
Council does not comply with latest CIPFA treasury management code	✓			
Inadequate governance arrangements are in place	✓			
Overall Assurance	✓			

Definitions of our assurance levels can be found in Appendix 1

Summary of Findings

The original Review of Treasury Management in October 2008 made 13 recommendations. We have found that 10 recommendations have been fully implemented. In relation to the remaining 3 recommendations, we were satisfied that adequate steps have been taken to mitigate the risks highlighted in the PWC report, and have been able to assign a high level of assurance to this report.

Instrument Type	Counterparty	Amount	Interest Rate	Territory
Fixed Deposit	Dexia Bank	£10,000,000.00	0.505	Belgian Bank
	Total Belgian Bank Deposits	£10,000,000.00		
LIBOR Fixed Deposit	Glitnir	£5,000,000.00	0	Icelandic Bank
Fixed Deposit	Glitnir	£5,000,000.00	0	Icelandic Bank
Fixed Deposit	Glitnir	£5,000,000.00	0	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£3,250,000.00	0	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00	0	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00	0	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£4,600,000.00	0	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£5,000,000.00	0	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£1,500,000.00	0	Icelandic Bank
1st Tranche Creditor Payment	Heritable Bank Ltd	-£2,959,121.00	0	Icelandic Bank
2nd Tranche creditor Payment	Heritable Bank Ltd	-£2,323,110.00	0	Icelandic Bank
3rd Tranche Creditor Payment	Heritable Bank Ltd	-£1,136,429.10	0	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	0	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£2,000,000.00	0	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	0	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	0	Icelandic Bank
	Total Icelandic Bank Deposits	£43,931,339.90		
Fixed Deposit	Barclays Bank	£5,000,000.00	6.8	UK Bank
Same Day Call Account	Barclays Bank	£31,400,000.00	0.7	UK Bank
Same Day Call Account	Lloyds HBOS	£34,988,284.59	0.85	UK Bank
Callable Deposit	Lloyds HBOS	£5,000,000.00	7.53	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000.00	1.25281	UK Bank
Callable Rate Flipper	Royal Bank of Scotland	£5,000,000.00	1.9	UK Bank
Same Day Call Account	Royal Bank of Scotland	£30,000,000.00	1.15	UK Bank
	Total UK Bank Deposits	£116,388,284.59		
LIBOR Fixed Deposit	Principality Building Society	£5,000,000.00	1.25688	UK Building Society
Fixed Deposit	Yorkshire Building Society (formerly 'Chelsea B S)	£5,000,000.00	6.25	UK Building Society
	Total UK Building Society Deposits	£10,000,000.00		
Fixed Deposit	Debt Management Office	£2,400,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£9,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£3,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£3,600,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.

KCC Deposits 4 June 10

Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£3,100,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£5,150,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£7,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£4,200,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£11,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£3,500,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,200,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£19,500,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£34,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£8,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£8,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£16,200,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£10,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
Fixed Deposit	Debt Management Office	£6,000,000.00	0.25	UK Govt.
	Total UK Govt. Deposits	£213,850,000.00		
	Grand Total of All Deposits	£394,169,624.49		

By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee – 30 June 2010

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW
2009-10**

Classification: Unrestricted

Summary: To present the Treasury Management Annual Review.

FOR DECISION

INTRODUCTION

1. The CIPFA definition of Treasury Management is “the management of the Council’s investments and cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”.
2. The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and now, as a minimum, formally report on their treasury activities and arrangements to Members mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility for the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.
3. This report:
 - Is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
 - Presents details of capital financing, borrowing, debt rescheduling and investment transactions;
 - Reports on the risk implications of treasury decisions and transactions;
 - Gives details of the outturn position on treasury management transactions in 2009-10;
 - Confirms compliance with treasury limits and Prudential Indicators.

This report will also be presented to full Council, subject to comments from this Committee.

REVISIONS TO THE CIPFA TREASURY MANAGEMENT AND PRUDENTIAL CODES, CLG GUIDANCE ON INVESTMENTS

4. In November 2009 CIPFA released the revised Code of Practice for Treasury Management in the Public Services and accompanying Guidance Notes and the revised Prudential Code for Capital Finance in Local Authorities. The CLG also issued revised Guidance on Local Authority Investments for English authorities. The revised Codes / Guidance re-emphasise an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. Authorities were also henceforth required to demonstrate value for money when borrowing in advance of need and ensure the security of such funds. Authorities are now also required to have a separate body or committee responsible for the scrutiny of the treasury function. For the Council the Treasury Advisory Group and Governance & Audit Committee undertake this role.
5. The Council has revised its treasury policy and practices documentation to take account of the requirements and changes in the revised Codes and Guidance.

ECONOMIC OUTLOOK FOR 2009-10

6. At the time of determining the Treasury Strategy Statement for 2009-10 in February 2009 the UK, Eurozone and US economies were contracting, globally economies faced a prolonged recession or period of weakness following the financial market meltdown in the autumn of 2008. Availability of credit was restricted as banks undertook to repair their balance sheets. This exacerbated the slowdown as finance for small businesses effectively came to a standstill. The UK Bank Rate had been cut to 0.5% and in March 2009 the Bank of England announced its initial £75bn of Quantitative Easing (QE). There remained a sizeable gap between short-dated LIBOR rates (i.e. the rates at which banks are willing to borrow from other banks) and the Bank Rate; this gap was forecast to narrow. Gilts were expected to benefit from QE, resulting in lower yields.

THE ECONOMY AND EVENTS IN 2009-10

7. The Bank of England forecast UK growth to fall by 3.9% in 2009, whilst inflation was forecast to be heading lower and staying lower for longer. The depth of the recession was borne out by the 5.9% year-on-year fall in GDP recorded at the end of the second quarter of 2009. The service sector – the dominant element of the UK economy – also stalled for

much of early 2009 despite a number of optimistic surveys to the contrary. Signs of recovery were finally evident in the final quarter of 2009 with growth registering 0.4% for the quarter.

8. In order to stimulate growth, the Bank of England maintained the Bank Rate at 0.5% throughout the year. The Bank also took extreme measures to revive the economy through its Quantitative Easing (QE) programme. Financed by the issuance of central bank reserves QE was initially announced at £75bn, and then extended in stages to £200bn.
9. Consumer Price Inflation, having hit a high of 5.2% in September 2008, began the year at 3.2% (February 2009 data), fell to a low of 1.1% in September 2009 as the oil, commodity, utility and food prices (the main drivers of high inflation in 2008) fell out of the year-on-year statistical calculations. Thereafter, inflation pushed higher with rising oil and transport costs and VAT reverting to 17.5%. CPI at year end was 3.0% (February 2010 data).
10. The November 2009 Budget was primarily about public debt. The Chancellor's forecast for net public sector borrowing in 2009-10 was £175bn or 12.4% of GDP. Gross gilt issuance was expected to hit £220bn in 2009-10. Standard & Poor's responded to the debt that the UK government was building up and a lack of credible plan to reduce the debt burden by changing the UK's rating from stable to negative.
11. LIBOR and LIBID rates (i.e. the rates at which banks are willing to borrow from and lend to other banks) which had been stubbornly high in early 2009, slowly moved lower towards the Bank Rate of 0.5%.
12. UK Government Gilts were the main beneficiary of the economic downturn (it is an asset class that responds positively to poor economic news); they also formed the significant bulk of the QE purchases and are thought to have pushed gilt yields, and consequently the cost of borrowing, lower by 0.5%.

TREASURY PORTFOLIO 2009-10

13. The treasury position is summarised in the table below:

31/3/2009 £m	%		31/3/2010 £m	%
(660.6)	63	External Borrowing Long-term:	(660.6)	54.8
(381.8)	37	• PWLB	(381.8)	31.7
(0)		• Market	(0)	
0		Temporary Borrowing	0	
(1,042.4)		Other Long-term Liabilities	(1,042.4)	
		Long-term liabilities*	(163.5)	13.6
		PFI Schemes Lease Liability (a requirement for 2009-10)		

(1,042.4)		Total External Debt	(1,205.9)	
		Investments:		
357 0	100	Managed in-house Managed externally	265 0	100
357		Total Investments	265	
(685.4)		(Net Borrowing) / Net Investment Position	(940.9)	

LONG TERM BORROWING / OTHER LONG TERM LIABILITIES

14. The Council's new borrowing requirement for 2009-10 was £106.2m with a further requirement of £74.4m in 2010-11. We also had loans maturing in 2009-10 of £60.48m.
15. The Prudential Code permits the Council the flexibility to bring forward or defer borrowing in relation to its Capital Financing Requirement. During the year the differential between debt costs and investment earnings was significant. In order to eliminate the high "cost of carry" associated with the higher cost of long term borrowing compared to temporary investment returns (between 0.5% and 1%), the Council used internal resources in lieu of borrowing. By doing so, the Council lowered overall treasury risk during the year. The Council recognises that utilising investments in lieu of borrowing clearly has a finite duration and that future borrowing will be required to support capital expenditure; this will be kept under review in 2010-11.
16. The Council's borrowing costs were £90.5m against a budget of £96.8m.
17. Our view on borrowing was arrived at with advice from our treasury advisors, Arlingclose and Butlers.
18. A debt maturity profile is shown in Appendix 1.

DEBT RESCHEDULING

19. The main objective of debt rescheduling is to either reduce the Council's overall exposure to the risk of interest rate movements, to lower the long-term interest charges paid on its debt, to smooth the maturity profile without compromising the overall longer-term stability, or to alter its volatility profile (i.e. exposure to variable rate debt). Debt rescheduling became more challenging after the introduction by the PWLB of a separate, lower set of repayment rates in November 2007. This increased the costs associated with the premium payable and diminished the discount receivable, thus reducing the cost savings achievable.
20. No debt rescheduling was undertaken in the year.

DEBT RESTRUCTURING

21. In October 2009 £60.47m of PWLB loans maturing in January 2010 were refinanced with a 25 year loan at a rate of 4.1%.

ANNUAL INVESTMENT STRATEGY AND OUTTURN

22. The Council held average cash balances of £415m during the year. These represented working cash balances / capital receipts, Pension Fund monies and the Council's reserves.

The CLG's Guidance on Investments, revised during 2009-10, reiterated security and liquidity as the primary objectives of a prudent investment policy. Although the Guidance becomes operative on 1 April 2010, its principal recommendations run parallel to the credit risk management requirements in the revised Treasury management Code. In the revised Guidance, Specified Investments are those made with a body or scheme of "high credit quality". Both the Guidance and the revised Treasury Management Code emphasise that counterparty credit criteria should not rely on credit ratings alone but should include a wider range of indicators. The revised Code nonetheless requires that ratings assigned by all three rating agencies – Fitch, Moody's and Standard & Poor's – be taken into account and the lowest rating be used.

23. The criteria agreed by Cabinet in October 2009 for the selection of counterparties were:
- Access to the Government Credit Guarantee Scheme.
 - Credit rating / other information.
 - Reputational issues in the event of default by a counterparty - how could their use be justified.
 - Exposure to other parts of the same banking group.
 - Country exposure.
24. Prior to the October report to Cabinet all new and maturing monies had been placed with the Debt Management Office which is part of the Treasury. Primarily on the basis of access to the Credit Guarantee Scheme Cabinet agreed to add the following counterparties:
- Royal Bank of Scotland
 - Lloyds Banking Group
 - Barclays

- HSBC
- Santander UK

Nationwide was added to this list in February 2010 by Cabinet. These institutions have been selected on the basis that they are too large for the UK Government to allow them to fail, so we are able to achieve slightly better returns than through the DMO but without reducing security.

25. As the ongoing problems with the Eurozone countries demonstrate the financial crisis is by no means over and we retain a position of predominantly seeking security for our funds. In support of this since October 2009 all deposits with non-DMO counterparties have been in call accounts, we have made no fixed term deposits.
26. The Council's investment income for the year was £2.8m compared with a budget of £2m.
27. Deposits at 31 March 2010 are shown in Appendix 2.
28. All investments made during the year complied with the Council's agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits. Maturing investments were repaid to the Council in full and in a timely manner.

ICELANDIC EXPOSURE

29. **Heritable**

- (1) The Heritable recovery process is proceeding as the administrator initially set out. Ernst and Young have increased their base case recovery to 79-85p in the £ and to date we have received the following payments:

July 2009	16.13p in £
December 2009	12.66p in £
March 2010	6.19p in £

This gives a total return of £6.4m to date out of a total exposure of £18m and we anticipate quarterly returns through 2010 and 2011.

- (2) A trust law issue which relates to the last deposit with Heritable is being pursued through the courts with KCC and the Financial Services Compensation Scheme.

30. **Glitnir and Landsbanki**

- (1) The total exposure to Glitnir is £15m and Landsbanki £17m – of this £32m one-third relates to the Kent Superannuation Fund and £1m to Kent Fire.
- (2) From the earliest visits to Iceland it has been clear that there would be litigation to confirm the preferred status of depositors. Other creditors, major banks and bondholders, were bound to challenge and have little to lose in doing so.
- (3) The recovery work is coordinated by a steering committee including KCC. Bevan Brittan were commissioned at an early stage to provide the core legal input – they have also involved UK Queens Counsel and Icelandic legal advisers. The cost of the legal work is charged pro-rata to the value of deposits across all local authorities with deposits in Landsbanki and Glitnir.
- (4) With preferred creditor status we anticipate a 100% recovery from Glitnir, with a rapid payout, and on Landsbanki around 90% but over a longer period. KCC's accounts have been closed on this basis using advice from CIPFA.

PRUDENTIAL CODE INDICATORS

31. The Council adopted the CIPFA Treasury Management Code at the budget meeting in February 2010. At the 2009 budget meeting the Prudential indicators for 2009-10 were agreed.

32. **Authorised Limit**

This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £1,219m for 2009-10.

33. **Operational Boundary**

This is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and is based on the Authorised Limit excluding the headroom for unusual cash movements. For 2009-10 the limit was set at £1,179m.

The levels of debt were measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary.

The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was £1,102.8m.

34. Upper Limits for Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Estimated %	Actual %
Upper Limit for Fixed Rate exposure.	100	100
Upper Limit for Variable Rate exposure.	30	0

35. Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate.

	Lower Limit %	Upper Limit %	Actual Borrowing as at 31/3/2010 £m	Percentage of total as at 31/3/2010
Under 12 months	0	25	45	4.32
12 months and within 24 months	0	40	55	5.28
24 months and within 5 years	0	60	99.2	9.52
5 years and within 10 years	0	80	120	11.51
10 years and above	40	100	723.1	69.37

36. Total principal sums invested for periods longer than 364 days

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2009-10 this limit was set at £190m. At their peak, these investments totalled £91m.

TREASURY ADVISERS

37. During 2009-10 the Council has used two firms of Treasury advisers, Butlers and Arlingclose. This service is currently out to tender and the Director of Finance and Treasury Advisory Group will be making an appointment.

TRAINING

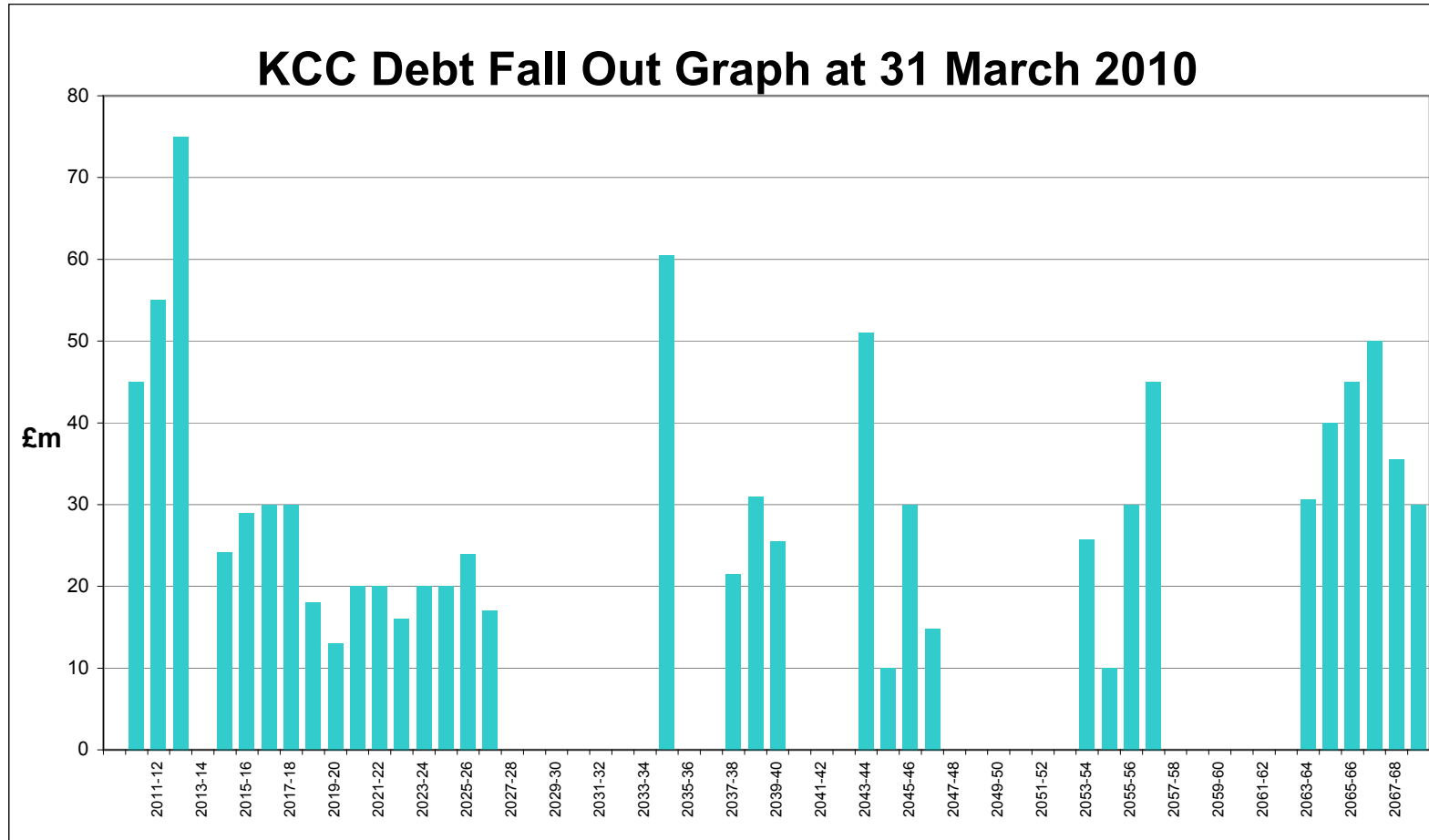
38. CIPFA's revised Code requires the Director of Finance to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Training has been provided to members of the Treasury Advisory Group, as well as attendance by members of that group on external training courses, and an awareness raising session was undertaken with Governance & Audit Committee. There is also a Treasury Management module in the Financial Management Development Programme.

RECOMMENDATION

39. Members are asked to agree the report and recommend that it is submitted to County Council.

Nick Vickers
Head of Financial Services
Ext: 7000 4603

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KCC Deposits at 31 March 10

Instrument Type	Counterparty	Amount	Interest Rate	Start Date	End Date	Territory
Fixed Deposit	Debt Management Office	£7,000,000.00	0.25	25/03/10	01/04/10	UK Govt.
Fixed Deposit	Debt Management Office	£5,000,000.00	0.25	31/03/10	01/04/10	UK Govt.
Fixed Deposit	Debt Management Office	£19,300,000.00	0.25	31/03/10	07/04/10	UK Govt.
	Total UK Govt. Deposits	£31,300,000.00				
Fixed Deposit	Dexia Bank	£10,000,000.00	0.505	15/04/09	31/10/11	Belgian Bank
	Total Belgian Bank Deposits	£10,000,000.00				
LIBOR Fixed Deposit	Glitnir	£5,000,000.00	0.00	21/01/08	21/01/09	Icelandic Bank
Fixed Deposit	Glitnir	£5,000,000.00	0.00	06/02/08	06/02/09	Icelandic Bank
Fixed Deposit	Glitnir	£5,000,000.00	0.00	20/08/08	19/08/09	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00	0.00	08/11/07	10/11/08	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£4,600,000.00	0.00	02/05/08	23/12/08	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£1,500,000.00	0.00	18/08/08	17/08/09	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00	0.00	03/09/08	03/11/08	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£3,250,000.00	0.00	01/10/08	30/10/08	Icelandic Bank
Fixed Deposit	Heritable Bank Ltd	£5,000,000.00	0.00	02/10/08	02/07/09	Icelandic Bank
1st Tranche Creditor Payment	Heritable Bank Ltd	-£2,959,121.00	0.00	30/07/09		Icelandic Bank
2nd Tranche creditor Payment	Heritable Bank Ltd	-£2,323,110.00	0.00	18/12/09		Icelandic Bank
3rd Tranche Creditor Payment	Heritable Bank Ltd	-£1,136,429.10	0.00	30/03/2010		Icelandic Bank
Fixed Deposit	Landsbanki Islands	£2,000,000.00	0.00	08/11/07	10/11/08	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	0.00	22/04/08	22/04/09	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	0.00	02/05/08	05/05/09	Icelandic Bank
Fixed Deposit	Landsbanki Islands	£5,000,000.00	0.00	19/09/08	24/10/08	Icelandic Bank
	Total Icelandic Bank Deposits	£43,931,339.90				
Fixed Deposit	Barclays Bank	£5,000,000.00	6.8	02/06/08	31/05/13	UK Bank
Same Day Call Account	Barclays Bank	£30,000,000.00	0.7	05/11/09		UK Bank
Callable Deposit	Lloyds HBOS	£5,000,000.00	7.53	13/06/08	13/06/13	UK Bank
Same Day Call Account	Lloyds HBOS	£34,988,284.59	0.85	12/10/09		UK Bank

KCC Deposits at 31 March 10

Callable Rate Flipper	Royal Bank of Scotland	£5,000,000.00	1.21125	19/09/08	20/09/11	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000.00	1.9	20/10/08	18/10/13	UK Bank
Same Day Call Account	Royal Bank of Scotland	£30,000,000.00	1.15	12/10/09		UK Bank
Same Day Call Account	Santander UK	£40,000,000.00	0.8	12/10/09		UK Bank
	Total UK Bank Deposits	£154,988,284.59				
LIBOR Fixed Deposit	Nationwide Building Soci	£5,000,000.00	1.11125	17/04/08	19/04/10	UK Building Society
Fixed Deposit	Nationwide Building Soci	£5,000,000.00	6.25	03/06/08	03/06/10	UK Building Society
LIBOR Fixed Deposit	Principality Building Soci	£5,000,000.00	1.21688	21/04/08	21/04/11	UK Building Society
Fixed Deposit	Skipton Building Society	£5,000,000.00	5.92	04/04/08	06/04/10	UK Building Society
Fixed Deposit	Chelsea Building Society	£5,000,000.00	6.25	06/08/07	06/08/10	UK Building Society
	Total UK Building Society Deposits	£25,000,000.00				
	Total Deposits	£265,219,624.49				

By: Chairman Superannuation Fund Committee
Director of Finance

To: Governance & Audit Committee –30 June 2010

Subject: **SUPERANNUATION FUND EXTERNAL AUDIT**

Classification: Unrestricted

Summary: To provide a statement of assurance on the management of the Superannuation Fund so that Governance & Audit Committee can agree the Fund accounts..

FOR DECISION

INTRODUCTION

1. Under KCC's Constitution Governance & Audit Committee has responsibility for the overall governance framework within which the Council operates. This report was agreed by the Superannuation Fund Committee on 18 June and is intended to provide assurance over the arrangements the Superannuation Fund Committee has in place for overseeing the activities of the Fund.

STATUTORY POSITION

2. The Local Government Pension Scheme is a national scheme administered locally. The Council has determined that the Superannuation Fund Committee should be responsible for Superannuation Fund issues. The work is undertaken in-accordance with the Local Government Pension Scheme Regulations.
3. Administering authorities have very varied approaches to governance. Many have the Fund's activities managed through a panel or sub-committee which may be less transparent in-terms of of decision making. As a main Committee of the County Council the Superannuation Fund Committee is more transparent and all papers which are not commercially sensitive are publicly available.
4. Given that the Fund has over 250 employers in it we have broadened the membership of the Committee. In-addition to County Councillors, the Committee included District Council, Medway Council, pensioner, Unison and staff representatives. There is an annual Pensions and Investments Conference which all employers are invited to.

5. Prior to it being a statutory requirement the Committee commissioned and paid for a separate audit of the Fund, as KCC's audit focussed only on those accounts included in KCC's reported accounts.
6. The Director of Finance under KCC's Constitution is responsible for "supporting the Superannuation Fund Committee in the management of the Kent Pension Fund". Day to day activities are managed by the Head of Financial Services with the Treasury & Investments Manager and the Pensions Manager. Officers are supported by the fund actuary, Barnett Waddingham, and investment consultant, Hymans Robertson.

GOVERNANCE FRAMEWORK

7. Central Government and more recently CIPFA have put in place a governance framework for administering authorities to work within. The key elements required by CLG are:
 - Statement of Investment Principles
 - Funding Strategy Statement
 - Environmental, Social and Governance Investment Policy Statement
 - Governance Compliance Statement
 - Communications Policy

All of these documents are available on the KCC website.

8. CIPFA published a new document for Pension Funds in late 2009 the Investment Decision Making and Disclosure Guide. This is not a mandatory document but given its comprehensiveness and the support of the CIPFA Pensions Panel it is a significant new consideration.

COMMITTEE MEETINGS

9. The Committee meets quarterly. The main issues covered at the meetings are:
 - Detailed scrutiny of the external investment managers.
 - Monitoring the overall financial position of the Fund.
 - Developing and implementing investment strategy.
 - Appointing investment managers and professional advisers.

- Approving the Fund report and accounts.
 - Responding to consultations on the LGPS.
 - Oversight of Pensions Administration.
 - Approving admissions to the Fund.
10. Looking back at 2009-10 major decisions of the Committee have been:
- Review of the 2 Fixed Income mandates with major changes made to these mandates on advice from Hymans Robertson.
 - Following an EU tender process the appointment of a new fund actuary, Barnett Waddingham.
 - Development of a separate Superannuation Fund Treasury Strategy and separate bank accounts.
 - Implementation of the strategy to increase Alternative Investments through 2% allocations to Private Equity and Infrastructure fund of funds.
 - Continuation of the policy of running down the Cash balance held.
 - An additional allocation of £50m to Property pooled funds.
 - Investment of £25m in an environmental equity fund where all companies must derive at least 50% of their income from environmental themes.
 - Review of the way the Committee functions with a decision to move to 6 meetings in 2011.
 - Self-evaluation against the new CIPFA Investment Decision Making and Disclosure Guide and an action plan agreed.

SUMMARY

11. On the basis of the work the Committee has undertaken during the year and the core responsibilities of the Officers supporting the Fund we believe that Governance & Audit Committee can take assurance that the Superannuation Fund accounts have been properly prepared and that there has been nothing to indicate a failure of governance.

RECOMMENDATION

12. Members are asked to agree this report.

Nick Vickers
Head of Financial Services
Ext 4603

By: Roger Gough – Member for Corporate Support Services
and Performance Management
David Tonks – Head of Audit and Risk

To: Governance and Audit Committee – 30 June 2010

Subject: **INTERNAL AUDIT ANNUAL REPORT**

Classification: Unrestricted

Summary: This report contains the Head of Audit and Risk Annual Report and opinion.

FOR INFORMATION

Introduction and background

1. CIPFA's¹ *Code of Practice for Internal Audit in Local Government in the United Kingdom (2006)* requires that the Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control, or Annual Governance Statement. This report must:
 - include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
 - disclose any qualifications to that opinion, together with the reasons for the qualification;
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
 - draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
 - compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and targets;
 - comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme

Head of Audit and Risk Annual Report

2. The attached Annual Report meets the requirements of the CIPFA code set out above. In addition, this report supports the annual governance statement by providing an opinion in relation to the internal control environment, risk management processes and corporate governance of the Council.

¹ Chartered Institute of Public Finance and Accountancy

Opinion on the overall adequacy and effectiveness of the organisation's control environment

3. Section 2 of the report sets out my opinion on the overall adequacy and effectiveness of the Council's control environment. Based on the assurance levels described at appendix B, an opinion of **substantial** assurance is provided. This reflects the fact that, whilst there has been no systematic failure of internal control, there have been individual reviews where controls have either not been in place, or not operated consistently. Appendix A of the report provides summaries of those reviews where the lowest level of assurance has been provided.

Recommendations

4. Members are asked to consider the Internal Audit Annual Report for 2009/10.

David Tonks
Head of Audit and Risk
Ext: 4614



**Internal Audit Annual Report
2009/10
Audit Assurance: Substantial**



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1. Introduction

Purpose of this report

- 1.1. Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the Council's control environment. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom requires the "Head of Internal Audit" (hereafter referred to as the Head of Audit and Risk) to provide a written report to those charged with governance, timed to support the Annual Governance Statement. This report presents my opinion based upon the work of Internal Audit has performed and covers the period 1st April 2009 to 31st March 2010.
- 1.2. The scope of our work, management and audit's responsibilities and the basis of my assessment are set out in section 5.
- 1.3. This report builds on the matters reported throughout the year to the Governance and Audit Committee which have been subject to detailed reports to the Chief Executive, Cabinet Members, Managing and Executive directors and their senior management teams.

Overview of work done

- 1.4. The original Internal Audit Plan (the Plan) for 2009/10 included a total of 69 projects. We have communicated closely with senior management throughout the year, to ensure that the projects actually undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.
- 1.5. As a result of this liaison, some changes were agreed to the Plan during the year. Some projects have been added to or deleted from the Plan, including some carried forward from the previous year, the timing of a number of others has been changed and some of our planned audit work has been substituted for advisory work. Details of the changes to the audit plan were reported to the Governance and Audit Committee in December 2009 and April 2010. The total number of projects undertaken in 2009/10 was 61, excluding the advisory work. At the time of preparing this report (May), most substantive work had been completed, and the reporting position was as follows:
 - 40 – final report/assurance work completed
 - 21 – draft reports issued or in the process of being finalised.
- 1.6. Internal Audit also undertook 12 investigations relating to potential fraud by staff or third parties, none of which were significant to the control and risk framework for the Council.

Objectives of Internal Assurance Projects

- 1.7. The majority of projects we undertake are designed to provide assurance to management on the operation of the Council's internal control environment. Most projects include our recommendations and agreed actions with management that will, if implemented, further enhance the environment and the operation of the controls in practice.

- 1.8. Other projects are designed to provide specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit work and findings are informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Council.
- 1.9. Our work plan is derived from management's assessment and evaluation of risks as documented in the corporate and directorate risk registers. We prepared an internal audit plan based on the risk profile taking into account; discussions with the Chief Executive, Directorate Managing Directors and Resource Directors, Governance and Audit Committee Chair and Members and the External Auditors (Audit Commission).

2. Summary Assessment

Overall Assessment

- 2.1. The Head of Audit and Risk is required to provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Council's:
 - Risk management
 - Internal Control
 - Governance processes.
- 2.2. This is collectively referred to as "the system of internal control".
- 2.3. Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, **substantial** assurance can be provided on the adequacy of the overall governance and risk management processes and the internal controls at KCC.
- 2.4. The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. We also noted that management accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in our Internal Audit reports. All these points are indicative of an improving system of internal control.
- 2.5. However, the Council still has some areas that if addressed, will further strengthen the system of internal control. We have summarised these, along with key areas of strength, for each of the three categories of the Council's 'system of internal control' at section 3 below.

Implications for the Annual Governance Statement

- 2.6. In making its Annual Governance Statement the Council should consider the Head of Audit & Risk's opinion in relation to its internal control environment, risk management processes and corporate governance. For 2009/2010, although there are improvements to be made these do not constitute a systematic failure of internal control.

The review of the effectiveness of the system of internal audit

- 2.7. The Council is required by regulation 6 of the Accounts and Audit Regulations 2003 (amended in 2006) to undertake an annual review of the effectiveness of its system of internal audit and to report the findings of this review to the audit committee. To clarify the term "system of internal audit", the Technical Audit Panel of the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance¹ which defines it as:

"The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation."

¹ Jan 2009

- 2.8. This guidance regards the Head of Audit and Risk as central to this framework of assurance and requires the role to acquire an understanding of both the council's risks and its overall whole control environment and also of the sources of assurance available to it.
- 2.9. As part of the development for the risk based plan for 2009/10 consideration was given to the assurance provided to the Council by external bodies, including the Audit Commission, Ofsted, the Commission for Social Care Inspection (now the Care Quality Commission) and internal assurances such as the Health and Safety Programme, the Schools Compliance and Statutory teams, the Business Continuity Programme and other commissioned work. As assurances were identified in year, the audit programme was amended.
- 2.10. The Audit Commission's Comprehensive Area Assessment for 2009 notes that this is a Council that is performing excellently. As part of their use of resources assessments, the Audit Commission considers the arrangements in place to enable the preparation of the Annual Governance Statement, including the degree to which the Council recognises the corporate ownership of its governance arrangements. Overall the Council was assessed as "exceeding the minimum requirements – performs well".
- 2.11. The Comprehensive Area Assessment included assessments from the Care Quality Commission and Ofsted. The Care Quality Commission rated the Council's social care services as performing well; the Council looks after vulnerable people well, including home safety checks. An Independence, Wellbeing and Choice service inspection was carried out during the year. Among a range of findings was excellent work done by the Council to promote the independence of older people through preventative services.
- 2.12. Ofsted has rated the children's services as performing well. The commentary from Ofsted found a number of strengths as well as areas for improvement. Performance against a very large majority of the national indicators for children's services, including those for staying safe and enjoying and achieving, was in line with similar areas.

3. Summary of internal audit work undertaken

Governance

- 3.1. In 2004, KCC approved and adopted a code of corporate governance, which is consistent with the principles of governance set out in the CIPFA Good Governance Standard (2004). A review of corporate governance was undertaken in 2005 which resulted in a “basket” of indicators being established and monitored to highlight any unusual trends in corporate governance performance. The performance indicators proposed by the 2005 review are annually reviewed and amended every year after discussion with the Governance and Audit Committee.
- 3.2. From 2007, Internal Audit’s governance reviews have focused on assessing whether the Council meets the requirement of the CIPFA/SOLACE guidance. An audit conducted in 2008 looked at an overview of the six principles of corporate governance and gave *high* assurance that the controls were in place. The corporate governance audit in 2008/09 focussed on the function of the Policy Overview and Cabinet Scrutiny Committees, the role of the Monitoring Officer and directorate action plans to introduce improvements identified in their individual annual governance statements.
- 3.3. The corporate governance audit for 2009/10 has focussed on the sixth principle of the CIPFA/SOLACE framework and assessed whether the Council meets the requirement of ‘engaging with local people and other stakeholders to ensure public accountability’. This is particularly relevant given the statutory “duty to involve” placed on public bodies from April 2009. We were able to give *high* assurance that KCC meets the requirement.
- 3.4. Recognising the importance to service delivery of partnerships, the Audit Plan also included a review on the Governance of Individual Partnerships. As well as looking at the corporate framework in place, this work reviewed two specific partnerships;-
 - Kent Safeguarding Children Board – Children, Families and Education’ and,
 - Kent and Medway Safety Camera Partnership – Kent Highways Services
 The assurance opinion of this audit was *substantial*.

Risk Management

- 3.5. Extensive work was completed in reviewing the Council’s Risk Management Framework in 2008/09. This included:
 - interviews with a range of Managing Directors, Directors and Heads of Service Areas, and;
 - reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

- 3.6. This work, combined with other external assessments, provided assurance that risk is generally well managed throughout the Council. During 2009/10 Risk Management has continued to evolve and improve. The Risk Group, formed in 2008/09, continues to meet and is now supplemented by a Strategic risk Forum that compiles the first draft of each iteration of the Strategic Risk Register on behalf of the Chief Officers Group.
- 3.7. Changes to the Strategic Risk Register are now reported quarterly to Cabinet as part of Core monitoring, and a full update of the register is considered by Chief Officers Group, Cabinet and the Governance and Audit Committee every six months.
- 3.8. Given that there have been no fundamental changes to the overarching framework for Risk Management, and that previous assurances remain valid, work in 2009/10 was focused on the corporate framework for Health and Safety, and important element of the management of risk.
- 3.9. Generally we found the structures and processes are sound and appropriate for the size of the Council, although the resources within Directorates may vary in size and structure. We confirmed that there are effective processes in place to ensure that the Health & Safety corporate policy, decisions, best practice guidance and legislation is communicated and applied across the directorates. Monitoring and reporting is also effective.

Internal Controls

- 3.10. Overall, our work has not identified significant weaknesses in the overall internal control environment. Controls are generally in place and operating effectively, although there were some exceptions noted from our reviews during the year. Set out below are findings from our audits where actions were required to secure improvements to the control environment:
 - **Business Continuity Planning (BCP) and Disaster Recovery** has been the subject of audits in previous years and was raised in the 2006/07 Statement of Internal control and the 2008/09 Annual Governance Statement. It is acknowledged that the Emergency Planning team who are responsible for the development and co ordination of the plans have made considerable progress. However, the development of full working BCPs are still a long way from finalisation and the council and directorates do not as yet have formal tested BCPs in place. Progress will be followed up by Internal Audit during 2010/11.
 - **Kent Thameside Regeneration** relies on the majority of its funding from central government agencies or other external partners. However, there was limited long term financial planning, although this reflects the nature of the funding arrangements which are agreed on an annual basis. The partnership is to arrangements to undertake an options study on the future role of the Kent Thameside Regeneration partnership, which will help to determine the future direction. Once the outcome is known, if appropriate a three year budget will be commenced. Ashford Regeneration also relies on external funding, but has no contingency arrangements in place to determine what action would need to be taken in the event of funding being withdrawn.

- **Databases and Spreadsheets** were reviewed during 2009/10 to determine the overarching corporate requirement and development standards for databases and spreadsheets. This use of bespoke databases and spreadsheets had been identified as a potential area of concern during a 'risk mapping' exercise carried out to identify ICT risk and controls in 2008/09. The audit found that there were no council wide policies, procedures or formally documented guidance for the development and maintenance of user developed databases and spreadsheets. To effectively manage such applications it is imperative that the user and council understands the type of data being processed and the purpose that data is being processed for. Because of this there are strong links between such applications and Information governance as this will need to provide the framework for management and security of data within such systems.

Investments in Icelandic Banks

- 3.11. The previous Internal Audit Annual report provided commentary on the financial exposure of the Council to the collapse of three Icelandic banks in October 2008, and subsequent improvements to the control environment. In a report to Governance and Audit Committee the following positive control improvements were reported:
- The appointment of a Treasury and Investments Manager at a senior level within Corporate Finance
 - New Treasury Management Practices and improved separation of duties
 - A revised approach to deposits, including a limit on both the amount and time of investment with any one counterparty
- 3.12. During 2009/10 a follow-up review of the Treasury Management function was completed. The original Review of Treasury Management in October 2008 made 13 recommendations. We have found that 10 recommendations have been fully implemented. In relation to the remaining 3 recommendations, we were satisfied that adequate steps have been taken to mitigate the risks highlighted and have been able to assign a high level of assurance to this report.
- 3.13. The table below provides a summary of the assurance opinions provided on our audit reviews (final and draft reports) during 2009/10.

Summary of Audit Reviews - Final and Draft Reports

Assurance	No. of Reviews
High	10 (19%)
Substantial	21 (40%)
Limited	9 (17%)
Minimal	0 (%)
Not Applicable	9 (17%)
Split assurances	4 (7%)
Assurance opinion subject to discussion	8
Total	61

3.14. Minimal and Limited assurances were given to:

- Use of Databases and spreadsheets – Limited (draft report)
- Business Continuity Planning – Limited (final report)
- Imprest accounts – High/Limited (final report)
- Income – Legal Department – Limited (final report)
- Staffcare Services – Substantial/Limited (final report)
- Special Educational Needs Transport – Limited (draft)
- Coroners’ imprest accounts – Limited (final report)
- KASS CRB checks for volunteers – High/Minimal (draft report)
- Direct Payments – Limited/ Substantial – (draft report)
- Kent Thameside Regeneration – Limited (final report)
- Ashford Regeneration – Limited (draft report)
- Review of Kent Highways Services – Limited (draft report)

3.15. Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits including those in draft and work in progress and the overall assurance rating (provisional where still in draft) for them.

Anti Fraud service

3.16. There were 12 suspected/potential irregularities were reported to Kent Audit in 2009/10 by staff or third parties. Kent Audit and/or directorate staff carried out the investigations. An analysis of the types of irregularities reported is shown below.

Type of Irregularity	Number
Cash theft/loss	3
Pension fraud	1
Client income	1
Procurement/Contractors	4
Inappropriate use of Equipment /facilities	1
Financial mismanagement	1
Planning permission	1
Total	12

- 3.17. Three cases were reported to the police and one to Trading Standards. One member of staff was dismissed, and one member of staff resigned. Of the 12 irregularities, four were unfounded concerns/allegations. Some of these irregularities are still undergoing investigation.
- 3.18. We have continued to deliver fraud awareness training during 2009/10. This has helped to highlight potential fraud risks to managers.
- 3.19. During 2009/10 Kent Audit with Risk Management and Insurance developed a joint publication entitled 'Risky Business', this replaced the previous Internal Audit publication 'Irregular Happenings'. Risky Business highlights 'scams' and provides general information about audit issues and risk management.
- 3.20. The Council takes part in the Audit Commission's bi-annual National Fraud Initiative (NFI), the purpose of which is to identify any potential frauds or errors. The Audit Commission was provided with a number of data sets which were then "matched" with other data from other public sector bodies, for example Housing benefits, payroll, pensions etc. Any "matches" were flagged in a report that was returned to Kent Audit for checking and investigation. No assumption can be made that because there are positive matches that fraudulent activity has taken place. Kent Audit also works closely with other local authorities who have matches to the Council's data sets.
- 3.21. Only one fraud was identified from the work on NFI. This related to the payment of a pension after the pensioner was deceased. Investigations identified that the pensioner's relative had falsified a life certificate and because they had a joint account with the pensioner, had continued to receive the pension. The matter was reported to the police and the person was prosecuted.

Liaison with External Audit

- 3.22. We have continued to work very closely with the External Auditors (the Audit Commission) and have developed a very good working relationship with them. A protocol was developed in 2008/09 and updated during 2009/10. The external auditors have, as appropriate, relied upon our audit work as part of their external audit of the Council.

4. Internal Audit Performance

- 4.1. The outputs of our audit work have been reported in detail to the senior management teams of individual service areas throughout the year. The key internal control improvements required are reported in section 3 above, and Appendix A sets out the summary of each audit where a limited or minimal assurance opinion has been given. Appendix B lists all internal audits completed in year with the overall assurance rating for them.
- 4.2. In fulfilling its duty to consider the performance of the Audit Service, the Governance and Audit Committee will be interested to understand the performance of Kent Audit and its compliance with expected standards

Internal audit performance

- 4.3. Members of the Governance and Audit Committee receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Internal Audit's performance against those targets are shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	99%
% of recommendations implemented	90%	95%
CPA/CAA score for Internal Control	Level 4	Level 3
Efficiency		
% of plan delivered	95%	90%
% of available time spent on direct audit work	80%	90%
% of draft reports completed within 10 days of finishing fieldwork	89%	65%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score	70%	90%

Compliance with the Code of Practice for Internal Audit

- 4.4. Each year Kent Audit carries out a self assessment using the CIPFA Code of Practice for Internal Audit. The Code is divided into 11 sections, covers the expected standards to which Internal Audit should be working and is mandatory. In addition an assessment has been completed against the more comprehensive International Standards for the Professional Practice on Internal Auditing issued by the Institute of Internal Auditors (IIA). Unlike the CIPFA standards those issued by the IIA are not mandatory. Both sets of standards are available from the Head of Audit and Risk on request.
- 4.5. The assessment, completed by the Head of Audit and Risk, confirmed compliance with the CIPFA Code of Practice in most material respects. Inevitably there were a few exceptions highlighted through the self assessment process and these are summarised as follows:
- Where internal audit staff have been consulted during system, policy or procedure development, they cannot always be precluded from reviewing and making comments during routine or future audits. There has to be a balance between meeting the auditee's requirements to field knowledgeable staff and maintaining a fresh perspective. As a safeguard, the audit opinion is always reviewed by an independent manager prior to release.
 - In order to maintain their objectivity audit staff should be rotated on areas that are subject to annual or regular audits. Due to the size of the section some staff are deployed across multiple areas and therefore do tend to be rotated, (on audits such as year end and accounts payable). In other cases, it is helpful to ensure continuity to make best use of audit and clients' time.
 - Currently where services are provided in partnership there is no formal mechanism for identifying how assurances will be sought in relation to the governance of the partnership, or for ensuring rights of access other than those described in the Audit Charter.
 - The Head of Audit and Risk has not sought to establish a dialogue with all regulatory and inspection agencies that interact with the Council. In practice, responsibility for liaison of this nature falls to the Audit Commission in their capacity as the Local Government lead regulator.
 - Although the Head of Audit and Risk has defined a standard for audit documentation and working papers there are no independent quality reviews undertaken to monitor adherence with this standard and therefore limited scope to ensure due professional care is achieved and maintained. However, manager review processes on individual assignments and reviews of audit reports by the Senior Audit Manager are designed to ensure compliance with the standard.
 - There exists no formal definition of the skills and competencies for each level of auditor. This is in part mitigated by the existence of Job Descriptions and Person Specifications for each grade.

Internal Audit Charter

- 4.6. Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter was last amended in 2007. Following the triennial review by the External Auditors and Kent Audit's self assessment, a section has been added to the Charter regarding the assessment of available resources to enable the annual plan to be completed. The Charter can be seen at Appendix C.

5. Scope, responsibility and assurance

Scope

- 5.1. In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.
- 5.2. For 2009/2010 we prepared our internal audit plan based upon a variety of key factors including:
 - Evaluation of the Council's risks using risk registers and the risk mapping exercise.
 - Review of existing key data, for example:
 - The Council's overall strategy
 - Budgetary information
 - Departmental business and performance plans
 - Audit Commission's requirements.
 - Interviews with senior management across the Council.

Responsibilities of management and of internal auditors

- 5.3. It is management's responsibility to maintain systems of risk management, internal control and governance. Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Auditors cannot be held responsible for internal control failures.
- 5.4. Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness, Internal Audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 5.5. Internal Audit's role includes assessing the adequacy of the internal control environment put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review. We have met with each of the Managing/Executive Directors and their team, seeking specific feedback on the adequacy of the Internal Audit service and identifying future directorate risk areas arising through their service planning process.

Basis of our assessment

- 5.6. My opinion on the adequacy of control arrangements is based upon the result of Internal Audit reviews undertaken and completed during the period in accordance with the plan approved by the Governance and Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- 5.7. There have been no limitations to the scope of our work.

Limitations on the assurance that Internal Audit can provide

- 5.8. It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of control are adequate. The most that Internal Auditors can provide to the Director of finance, as S151 Officer, and the Governance and Audit Committee is a reasonable assurance based on the work performed.

Summary of Minimal and Limited Assurance

Databases and Spreadsheets

Scope

The objective of this audit was to review the use of databases and spreadsheets within the council and how access and security of data is managed.

Overall Assessment – Limited (Subject to management discussions)

The audit focussed on overarching council requirements and development standards for spreadsheets/database applications developed by or on behalf of directorates and which have not passed through the council's software procurement procedures and ISG testing requirements.

The audit identified that there were no council wide policies, procedures or formally documented guidance for the development and maintenance of user developed applications such as spreadsheets and databases. However, there are a number of initiatives to ensure the confidentiality availability and integrity of data held and processed.

There was no current register of critical user developed spreadsheets and databases in use across the directorates and no requirements for the maintenance of records indicating the classification and sensitivity of the data held. In the absence of standards the minimum documentation for spreadsheets and databases have not been specified, nor have procedures for the proper maintenance and management of this data been developed and communicated.

Recommendations have been made to address the issues identified.

Business Continuity Planning

Scope

The objective of this audit was to assess progress against the implementation of recommendations made in the audit carried out in 2008/09 which had a 'minimal' assurance.

Overall Assessment – Limited

Progress is being made towards the development of the business continuity plans (BCPs). This includes the recruitment of an external consultancy organisation to complete an analysis of business continuity, with emphasis on carrying out a business impact analysis (BIA) and continuity requirements analysis. From the report that was produced interim BCPs have been drawn up for the directorates.

Data gathered from this exercise has also been stored in a database to help identify users that may be affected by adverse conditions and provide a basis to aid the continuity process. To assist in this process further and to allow the Council to use data more effectively, a software solution is being developed. It is planned that this software will be used to assist in the development and maintenance of the council's BCPs.

The development of full working BCPs are still a long way from finalisation, and although some areas audited have regressed during the transition period, this was to be expected whilst the new BCP requirements are developed and communicated.

Appendix A

Summary of Minimal and Limited Assurance

It is acknowledged that the Emergency Planning team have made considerable progress since the previous audit. However, the council and directorates as yet do not have formal and tested BCPs in place.

Recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified.

Imprest Accounts

Scope

The objective of this audit was to review all imprest accounts within the Council, assessing monitoring, reconciliation and reimbursement; and also to identify if any accounts were surplus to requirements.

Overall Assessment – High/Limited

There was **high** assurance that imprest accounts are reconciled and reimbursed on a monthly basis, but **limited** assurance that there is effective monitoring of imprest accounts with respect to the appropriateness of the expenditure as well as the expenditure limits and the identification and closing of surplus accounts.

The Council has over 140 imprest accounts that are used to make cheque and cash payments at a local level. Quarterly expenditure processed through the accounts is approximately £1.2m. As part of the audit we identified 40 accounts which had a monthly average expenditure of £500 or less where purchase cards could be used (given the nature of expenditure being incurred) instead of imprest accounts.

We found that expenditure limits for a large number of accounts were substantially higher than their actual usage, indicating cash tied up surplus to requirements and may be open to misuse.

The guidance available to staff on the operation of imprest accounts was inconsistent reducing the effectiveness of the control environment. However, a corporate procedure note on imprest accounts is being developed and will be issued with the updated Financial Regulations and other Financial Procedures by July 2010.

Recommendations have been made which have been accepted by management.

Legal Services - Income

Scope

The objective of the audit was to review the processes in place to ensure that all income due is identified, that charges are correct, invoices are raised promptly and accurately, income is banked completely and promptly and debts are recovered.

Overall Assessment – Limited

Legal Services income for 2008/09 was over £6.1m, the majority of which was for legal services provided to internal clients (£4.7m), with £1.3m received from external clients.

We found that charges for work carried out are costed, reviewed approved and communicated to clients annually. There are guidelines for recording chargeable

Appendix A

Summary of Minimal and Limited Assurance

time spent on cases. Charges for internal clients are recovered each month via journal transfers and for external clients invoices are raised each month for legal costs incurred.

There was however, a lack of control over the identification, recovery and monitoring of costs due from third parties. No formal invoicing process was in place, and we found examples where clients' invoices comprised an email/letter by the 'fee earner'. This meant that debts were not identified resulting in an increased risk that debts may not be recovered. We also found examples where the 'fee earner' had sent emails requesting payment and had received the cheque, giving rise to a lack of segregation of duties.

We also found examples where further legal work had been carried out after the conclusion of cases (for example enquiries, correspondence and clerical duties) which were not always charged, resulting in a potential loss of income.

Five recommendations have been made which have been accepted by management.

Staff Care Services – Commercial Services

Scope

The objective of the audit was to review the controls in relation to the recruitment of external consultants and payments made to them for services provided.

Overall Assessment – Substantial/Limited

There was **substantial** assurance that external consultants are appropriately qualified and there are legally binding contract with them for the services they provide. However, there was **limited** assurance that payments to consultants are supported by evidence of service provision.

Staff care services became part of Commercial Services in April 2008. The audit found that generally there is compliance with procedures relating to the recruitment and management of external consultants; and the processing and authorisation of invoices (from consultants).

The audit found only limited, infrequent checking of feedback forms returned by clients to get independent confirmation of service delivery by counsellors. For administrative functions there is limited separation of duties between the setting up of new clients on the Occupational Health Software System (OPAS), entering invoices relating to those clients on OPAS and payment of those invoices. However, we acknowledge that Staff Care Services have ensured that all team members can undertake all administrative activities because the team is small and they want to ensure that all processes can be continued whilst allowing for any staff absences. Therefore, the recommendation made with regards to this finding was not accepted but management continually review their processes to ensure accuracy and efficiency.

Three other recommendations have been made which have been accepted by management.

Summary of Minimal and Limited Assurance

Special Educational Needs (SEN) Transport

Scope

The objective of this audit was to review the processes in place for procuring, and paying for transport for Special Educational Needs (SEN) pupils and for the monitoring and forecasting of the SEN transport budget.

Overall Assessment – Limited

Expenditure against the budget for SEN transport is monitored and management information is exchanged between the Transport Integration Unit in Commercial Services and the Special Educational Needs and Resources Unit in the Children, Families and Education directorate.

When a contract is tendered for the provision of transport and more than one bid is received for the same amount; and they are the lowest bids received, the reason for the selection of the provider is not documented on the tender evaluation form which is signed of by the Transport Manager. It is therefore, not clear why a provider was selected over others who bid the same amount.

Invoices are checked for accuracy of amounts, dates transport provided and suppliers; and are paid promptly. We did however, identify a lack of management controls and separation of duties when contracts are entered or amended on the Routewise database by the SEN transport section of the Transport Integration Unit. This means that any user with access to the contract information can amend a contract price on Routewise. Although Routewise shows details of who has the price and the date it was entered, there is no independent checking process for management to identify contract prices that have been entered or amended within a given period and to investigate any anomalies.

Recommendations have been made which are to be discussed with management, to enable an action plan to be put in place

Summary of Minimal and Limited Assurance

Follow up Coroners' Imprest Accounts

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 audit.

Overall Assessment – Limited

Following the original audit, eight recommendations were made to improve controls. Four of those had been implemented. Although all of the previous recommendations had not been implemented, the involvement of the Finance Project Officer has acted as a 'compensatory' control and therefore the operation of the accounts has improved since the previous audit.

Whilst we found that controls regarding the payments through the accounts had improved, our testing showed that only one of the four accounts had been reconciled during the 2009/10 financial year and reimbursements were not occurring on a regular basis; and at the time of the audit two of the accounts were overdrawn. This increases the risk that unauthorised or incorrect payments made not be identified.

Five recommendations (four relating to the previous audit) have been made and accepted by management.

Follow up Criminal Records Bureau (CRB) Disclosure Checks for Volunteers

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 audit which gave a 'high' assurance for agency staff and 'minimal' assurance for volunteers.

Overall Assessment – High/Minimal (Subject to management discussions)

The audit tested compliance with corporate policy in relation to CRB checks for volunteers working in Kent Adult Social Services. The judgement given is determined by this verification of compliance, and reflects the fact that some gaps in expected procedure were identified, and not all volunteers had a valid CRB in place at the time of the audit. Management have taken steps to ensure all volunteers have now been subject to the required checks. In addition the Directorate are confident that controls existing at the time of the audit were sufficient to mitigate any risks to vulnerable adults that may have arisen from the gaps in compliance with the corporate policy.

The detail of the report and the recommendation made are still subject to final agreement.

Summary of Minimal and Limited Assurance

Direct Payments

Scope

An audit to review the processes for authorising, paying and monitoring Direct Payments.

Overall Assessment – Limited / *Substantial* (Subject to management discussions)

Direct Payments enable clients to arrange and manage their own care. Clients who wish to have Direct Payments should agree to the terms and conditions by signing a Direct Payment Agreement. Detailed work is still ongoing with Directorate management in KASS to validate the evidence upon which the overall assessment has been made. At the point of drafting this report the key areas where the audit has identified potential for improvement are the:

- consistency in obtaining signed agreements for all clients, and;
- consistency in the timing of a client annual review (including financial reviews). These reviews also enable the service to identify where funds are not being used to meet assessed needs and where relevant reclaim any unused monies.

Kent Thameside Regeneration

Scope

The scope of the audit was to review the arrangements in place for the Kent Regeneration Partnership to ensure that KCC's interests are properly managed.

Overall Assessment – Limited

The audit found that there are clearly identified roles and responsibilities within the partnership which include KCC officers. However, involvement of KCC directorates is irregular, which could lead to projects being initiated without the necessary support from relevant officers. The audit found that there is an annual budget in place which reflects the short term nature of the funding agreements for the partnership. However, there is no formal long term budget which could result in the partnership focussing on the delivery of short term priorities with long term priorities not being achieved. There are no contingency plans in place in the event of district or other external partners withdrawing their funding, or firm arrangements in place to ensure the long term sustainability of the partnership.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Summary of Minimal and Limited Assurance

Ashford Regeneration

Scope

The scope of the audit was to review the arrangements in place for the Kent Partnership Board to ensure that KCC's interests are properly managed.

Overall Assessment – Limited (Subject to management discussions)

Ashford's Future Company was incorporated with effect from November 2008 as a public/private company to obtain a greater degree of funding for regeneration.

There was evidence of KCC involvement within the relevant committee structure and KCC officers attend meetings of the partnership Board, the Company Board and the Senior Executive Liaison Group. However, KCC is not currently represented on the Finance Committee.

Ashford Regeneration relies on funding from central government but there is no contingency arrangement in place to determine what action would need to be in place in the event of the funding being withdrawn.

At the time of the audit there was a revenue gap of £814k. Although a possible solution had been discussed this would involve a change in the charging arrangements between Ashford Borough Council and the Company which could reduce funding available for other capital projects.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Kent Highways Services

Scope

The objective of the audit was to review processes in place to ensure that actual costs are understood and therefore the 'pain/gain' mechanism can be effectively utilised to drive efficiency and to ensure that KCC is not being overcharged.

Overall Assessment – Limited (Subject to management discussions)

This audit established that all jobs examined in the sample had a target cost applied and that jobs are closed 13 weeks after completion. Not all costs committed into a target cost were challenged sufficiently, although some good examples were identified. Efforts are being made to understand the costs being applied and this information is being drawn into reports which should lead into the calculation of the pain/gain calculation. Whilst work has commenced (in the third quarter of the financial year) on the "open book audit" to examine these costs, this work will not conclude until after the year end (31 March 2010) and therefore it was not possible at the time of the audit to provide an assurance level. This work should have been in place since the implementation of the contract and explains why recommendations have been made where action has already been taken to ensure that the processes started continue.

Summary of Minimal and Limited Assurance

Assurance Definitions

Limited Assurance

The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.

Minimal Assurance

The council and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non compliance with key controls.

Appendix B

Detailed Analysis of internal audit projects in 2009/10

Audit - Directorate	Progress at May 2010	Overall Assurance
Authority Wide		
Corporate Governance - Engagement with local people and other stakeholders	Completed	High
Risk Management – Health and Safety	Work in progress	Expected to be High
Governance of Partnerships	Completed	Substantial
Use of Consultants	Work in progress	
Premises Security	Completed	Substantial
Handling Risk Information	Work in progress	
ICT Management/Strategy	Draft	Substantial
Use of databases and spreadsheets	Draft	Limited
Business Continuity Planning	Completed	Limited
Chief Executive's Department/S151		
Year End Accounts Closedown (2008/09)	Completed	Substantial
Bank Reconciliations	Completed	High
General Ledger	Completed	High
Imprest Accounts	Completed	Split assurance High/Limited
Accounts Payable	Completed	Substantial
Accounts Receivable	Draft	High
Treasury Management	Completed	High
Payroll	Completed	Substantial
Capital Monitoring	Draft	High
Pensions Contribution	Completed	High
Revenue Budget Monitoring (CFE)	Completed	High
Partial Exemption	Completed	Substantial
Management Review for Year end closedown	Completed	N/A
Overtime Payments - Follow up	Completed	Substantial
Income – Legal Department	Completed	Limited
Public Service Agreements	Completed	N/A
Property Management System Security	Completed	Substantial
Building Consultants Framework	Work in progress	
Staffcare Services (Commercial Services)	Completed	Split assurance Substantial/Limited
Axis Pensions System	Completed	Substantial
Children, Families & Education		
Data Quality	Completed	High
SEN Transport	Draft	Limited
Student Awards Transition Plan	Completed	High
Personal Allowances for Looked After Children	Draft	Substantial
ContactPoint IT Security – interim review	Completed	N/A
ContactPoint IT Security	Completed	Substantial
Building Schools for the Future	Completed	Substantial
Appledore sub imprest account Follow up	Completed	Substantial

Appendix B

Detailed Analysis of internal audit projects in 2009/10

Audit - Directorate	Progress at May 2010	Overall Assurance
Children's Centres (eStart) Application	Completed	Substantial
Cluster Funding - Follow up	Draft	Substantial
Cage Green School - Follow up	Completed	Substantial
Use of Corporate Purchase Cards in Schools	Draft	Assurances for each school
West Kent Learning Federation	Work in progress	
Communities		
Thanet Gateway Plus	Completed	N/A
Turner Contemporary Trust	Completed	N/A
Coroners' imprest accounts	Completed	Limited
Libraries – IT Renewal Project	Work in progress	
Key Training – part 1	Completed	N/A
Key Training – part 2	Completed	N/A
Apprenticeship Scheme	Completed	N/A
Kent Adult Social Services		
CRB - checks for volunteers	Draft	Split assurance High/Minimal
Residential Payments	Work in progress	
Direct Payments	Draft	Minimal
Performance and data quality	Completed	Substantial
Swift Client Billing – post implementation review	Completed	N/A
Client Billing Process – Interfaces	Completed	Substantial
Environment, Highways and Waste		
Review of Kent Highways Services	Draft	Limited
Kent Thameside Regeneration	Completed	Limited
Ashford Regeneration	Draft	Limited
Kent Freedom Pass	Draft	Substantial
Performance and Data Quality	Work in progress	
KHS Road Work Permit Scheme IT system	Work in progress	Limited
Allington Incinerator	Completed	Substantial

Appendix B

Assurance Levels

Key	
High	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.
Minimal	The Council and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, Or there is evidence that there is significant non-compliance with key controls.
Not Applicable	Internal audit advice/guidance no overall opinion provided.

Appendix C

Internal Audit Charter

Introduction:

This charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council.

Purpose:

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Source: CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

KCC's mission statement is, "To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively".

Authority:

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2003 (amended 2006). This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Director of Finance.

Responsibility

It is the responsibility of management to establish and maintain systems of corporate governance, risk management and internal control to provide assurance that the Council's objectives are being achieved and to minimise the risk of fraud or irregularity.

Internal Audit will contribute to the corporate governance process by providing an assurance on the effectiveness of these systems of risk management and internal control, making practical recommendations for enhancements where considered necessary. Management has responsibility to implement audit recommendations or accept the risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne.

Professional Standards:

KCC's Internal Audit activity will conform to standards and guidance contained in CIPFA's 'Code of Practice for Internal audit in Local government in the UK' (2006). This is structured around eleven organisational and operational standards, including minimum standards for the performance and conduct of internal auditors.

Independence and Objectivity

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.

Appendix C

Internal Audit Charter

The Head of Audit and Risk will have free and unrestricted access and freedom to report in his/her own name to the Director of Finance and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual audit plans. The audit plan will be flexible enough to accommodate the needs of senior management and Members depending on the relative significance of emerging risks. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant finding of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc.

Audit Scope

Internal Audit activity will be undertaken to provide assurance to the Director of Finance and the Governance and Audit Committee as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. It will include:

- Reviewing the soundness, adequacy and application of financial and other management controls;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
 - Fraud and other offences
 - Waste, extravagance and inefficient administration, poor value for money and other causes
- Reviewing the suitability and reliability of financial and other management data developed within the organisation
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems
- Promote and raise fraud awareness

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

Appendix C

Internal Audit Charter

The Head of Audit and Risk will provide an annual audit opinion as to the adequacy of the Councils internal controls and risk management processes. This will be used to support the Statement of Internal Control.

Fraud and Irregularity

Internal Audit does not have to investigate all cases of potential frauds and irregularities; however they must all be reported to the Head of Audit and Risk or the Senior Audit Manager. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

Right of Access

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members records (documentary and electronic), assets and premises, deemed necessary in the course of its duties.

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Audit and Risk to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan.

Review of the Effectiveness of the System of Internal Audit

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit, this is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Audit and Risk will carry out an annual review of the Internal Audit function which will be reported to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Audit and Risk will arrange for an independent review to be carried out, at least every three/five years which will be reported to the Governance and Audit Committee.

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By: The Director of Finance – Lynda McMullan
Cabinet Member for Finance – John Simmonds

To: Governance and Audit Committee – 30 June 2010

Subject: DRAFT STATEMENT OF ACCOUNTS 2009-10 AND
ANNUAL GOVERNANCE STATEMENT

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2009-10.

FOR DECISION

1. INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2009-10 is attached. These need to be approved by Members by 30 June 2010 prior to the issue of the external auditor's report and publication of the Statement of Accounts (Accounts).
- 1.2 Members are encouraged to scrutinise these Accounts and ask questions.
- 1.3 If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Cath Head, Chief Accountant, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts. Alternatively, questions can of course be asked at this meeting.

2. STATEMENT OF ACCOUNTS - CONTENTS

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which has approval from the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 2.2 The format of the primary statements within the Accounts has not changed significantly to last year's.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-5

- 2.4 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £8.8m against the non-schools budgets. Details of underspends within the portfolios have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which went to Cabinet on 14 June.
- 2.5 The net income figures for the budget and outturn for the Children, Families & Education Portfolio on page 1 of the Accounts are the result of funding for schools, and the corresponding expenditure is shown in the Delegated Schools budget line.
- 2.6 There has been no reduction in the level of general revenue reserves and these still stand at £25.8m. This is deemed to be an acceptable level based on the current budget and the Council's identified risks by the Director of Finance. Specific reserves and schools' reserves are detailed in paragraphs 2.29 to 2.31 in this report.
- 2.7 The capital expenditure for 2008-09 was £15.2m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £154.7m will be used to fund the re-profiling of the 2009-10 and future years' capital programme.
- 2.8 Schools have £14.1m of capital reserves.
- 2.9 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12.
- 2.10 The 2009-10 FRS 17 report shows an increase in the deficit of £389.3m. See Paragraph 2.24 for more information.
- 2.11 The transactions and balances of East Kent Opportunities LLP (EKOLLP) are now included in the financial statements of the Council.

Statement of Responsibilities Page 6

- 2.12 This statement sets out the respective responsibilities of the Authority and the Director of Finance in relation to the production of the final accounts. In 2009-10 the regulations have changed and require the Director of Finance to give a *true and fair view* of the financial position of the Authority rather than to *present fairly* the financial position of the Authority.

Annual Governance Statement Pages 7-13

- 2.13 The Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk. The attached Accounts include an Annual Governance Statement on pages 7 to 13 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2006. The Statement confirms that, during the financial year 2009-10, overall Corporate Governance arrangements and internal controls in the Authority were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls need to be developed or improved are known about and are being actioned.
- 2.14 CIPFA requires that the content of the Annual Governance Statement be approved by the Governance and Audit Committee. In approving the Statement Members should consider the section headed "Review of Effectiveness, which summarises the assurances used to assess the effectiveness of the Council's governance framework. Members should also take it account the work of the Committee over the last year, any other information of which they are aware, as well as the reports included on this agenda, namely:
- the work of Internal Audit, as summarised in the Annual Report;
 - the Treasury Management Annual Report;
 - The statement of assurance received from the Superannuation Fund Committee
 - The conclusions from the external auditors.

Auditor's Report Pages 14-17

- 2.15 Within the Accounts and Audit Regulations 2003 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2009-10 Accounts commenced on the 14th June and ends on the 9th July. The appointed auditor day is the 12th July where electors can request a meeting with the Auditor to raise questions about the Accounts.
- 2.16 The external auditors will provide an independent opinion as to whether the Statement of Accounts gives a true and fair view of the financial position of Kent County Council at 31 March 2010 and its income and expenditure for the year ended 31 March 2010. The audit started in May and is progressing well. A member of the Audit team will provide a verbal update on progress at this meeting. Following approval of the Accounts by Members, the external auditor will issue a report when the audit is completed. The Accounts are expected to be formally signed week commencing 26 July, assuming no material errors are found that remain uncorrected. Pages 14-17 are blank to accommodate this report.

Accounting Policies Pages 18-22

- 2.17 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP). There have been a number of additions and one change to existing policies to accommodate the 2009 SORP changes and a change in practice. The additions are around the new accounting requirements for PFI schemes and the Collection Fund, the change is an increase to 70 years from 60 years for depreciation of buildings as notified by our valuers.

Financial Statements Pages 23-29

Income and Expenditure Statement

- 2.18 The Income and Expenditure Account is accompanied by a set of explanatory notes. The account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year 2009-10. The revenue budget underspend in 2009-10 is transferred into the rolling budget reserve and is included in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund as part of the net transfer to/from earmarked reserves.
- 2.19 The Accounting Code of Practice states that we must reflect the cost of using assets in the provision of services. We do this by including depreciation, impairment and deferred government grant credits within the net expenditure line for each of the service headings shown in the income and expenditure account. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund. This means that the revenue account is only charged with the true interest costs from borrowing and the statutory provision for the repayment of debt.
- 2.20 Note 12 on page 47 of the Statement of Accounts details the turnover and profit/loss of Kent Top Temps Ltd, Kent County Facilities Limited trading as InsideOut and East Kent Opportunities LLP. We have agreed with our auditors that this is not material enough to warrant the creation of Group Accounts for KCC. The accounts of KTT Ltd are separately audited and will be available at Companies House in due course. These figures are based on draft accounts and may change prior to the Accounts being signed. EKOLLP is included in the single entity accounts (i.e. KCC's financial statements) as it is a Joint Arrangement Not an Entity (JANE).

The Statement of Movement on the General Fund Balance (SMOGFB)

2.21 As highlighted in paragraph 2.18, this statement summarises the differences between the surplus/deficit on the Income and Expenditure Account (deficit of £33.2m in 2009-10) and the General Fund Balance. As there is no change to the General Fund balance in 2009-10, the reconciling items match the deficit.

Balance Sheet

2.22 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2010 and is accompanied by explanatory notes. The statement shows the balances and reserves at the Authority's disposal, its long term indebtedness, and the fixed and net current assets employed. The principal movements on the balance sheet are described below.

2.23 Long-term assets have increased by £49.7m. This is due to a number of positive and negative circumstances as detailed below:

- Our tangible fixed assets have increased by £107.8m – PFI assets, which are now included on the balance sheet, account for an increase of £56m on last years balances, assets under construction have increased by £85m – these are valued at historical cost. Surplus and non operational property has reduced by £47.4m due to sales and impairment on revaluation. Other differences relate to positive and negative outcomes on the 2009-10 revaluation programme.
- A reduction in long term investments of £60.6m.

2.24 Long term liabilities have increased by £473.2m. £389.3m of this is due to an increase in the liability related to defined benefit pensions schemes under FRS 17 reporting. The note to explain the increase in this can be found in Note 24 on page 69 of the attached Accounts, and shows that this is largely a technical issue. The PFI lease liability has increased by £52.7m in year this is largely due to £61.4m of Better Homes Active Lives assets being offset by the liability.

2.25 Our net worth has decreased from £717m (restated for PFI and Collection Fund changes) to £369m. The gains and losses in our net worth are shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 25 and reflect the movement in our net worth between 2008-09 (restated) and 2009-10.

Cash Flow Statement

2.26 This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash inflow of £69m.

Significant Notes to the Accounts pages 30-85

Prior Period Adjustment

- 2.27 Note 1 on pages 30-31 provides details of the changes to the 2008-09 financial statements as a result of the PFI and Collection Fund accounting changes.

Remuneration

- 2.28 Note 10 on pages 38-46 provides details of officers' remuneration over £50,000. This note has changed significantly under new regulations as we are required to disclose details of senior officers' salary and other payments where they earn over £150k or where they report directly to the Chief Executive.

Reserves

- 2.29 Note 16 on page 52 discloses details relating to finance leases including PFI and shows a breakdown of the payments under each PFI contract.
- 2.30 Earmarked revenue reserves total £116m, including £8.8m in the rolling budget reserve. Details of each of the earmarked reserves are shown on Pages 63 to 66 of the Statement of Accounts.
- 2.31 Schools' reserves have reduced by £14m in 2009-10. Schools now hold £37m of revenue reserves and £14m of capital reserves. In addition, there is £14m of unallocated schools' budgets that will be allocated to schools during 2010-11, based upon decisions by the Schools Forum and its sub-groups.
- 2.32 Capital reserves stand at £154.7m and are needed to fund the re-phasing of the 2009-10 capital programme into future years. In addition to this, we do have funding within the current assets part of the balance sheet, which reflects our treasury management policy of borrowing when it is right to do so, and not specifically when that funding is needed to fund capital expenditure.

Investments in Icelandic banks Pages 84-85

- 2.33 This note sets out, in detail, the accounting treatment required to account for monies held with Icelandic banks in 2009-10.

Pension Fund Accounts Pages 86-98

- 2.34 These are a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary Pages 99-100

2.35 A glossary of some of the terms used within the Accounts is provided.

Other Issues

2.36 Each year, our external auditors have to produce an Annual Governance Report setting-out how the audit went operationally, highlighting areas of concern, and listing all errors that they have found in the Accounts that we have decided not to adjust in the final Accounts. The list is known as the Statement of Unadjusted Differences (SUD), and the report is formally known as the ISA260.

2.37 There have been some major changes to the Accounts this year including changes in relation to accounting for PFI and the Collection Fund and an increase in disclosures particularly around PFI and remuneration. These have required us to restate previous year's statements. Despite the additional workload involved in meeting these changes, the attached draft of the Accounts were submitted to the Audit Commission on 9 June. Prior to that, the Audit Commission had already commenced their audit work in the directorates and Commercial Services. All the paperwork requested by the auditors has been available to them, and the professionalism of their audit approach has been exemplary. Inevitably, there will be a number of issues. These will be reflected in the auditors' Annual Governance Report, which may also include issues where there is a differing approach recommended by the Audit Commission compared to our own. We will then need to decide whether or not to amend the Accounts to reflect those items. In deciding, we will take into account the time involved in correcting the errors compared to the benefit of making the corrections. The final decision on this will be subject to the approval of the Chairman of this Committee. If we decide not to correct any or some of the errors, the contents of the Annual Governance Report will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2009-10 subject to the Chairman and Liberal Democrat Group Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.

3.2 Note the recommendations made in the Annual Governance Report.

Cath Head
Chief Accountant
Ext: 1135

Lynda McMullan
Director of Finance
Ext: 4550

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Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2009-10 and the overall financial position of the Council. This foreword aims to give a general guide to the main features of the information reported within the rest of the Accounts and provides a summary of the Council's overall financial position.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Accounting Standards Board and the Government.

The accounting arrangements of any large organisation such as Kent County Council are complex, as is local government finance. These Accounts are presented as simply as possible whilst recognising that it is necessary for some technical terminology to be used. To help you understand the Accounts, the main statements are supported by explanatory notes and a glossary of terms used is shown on pages 99 and 100.

The Accounts consist of:

- An Income & Expenditure account, page 23, which shows income and expenditure for all services.
- A Statement of the Movement on the General Fund Balance on page 24.
- A Statement of Total Recognised Gains and Losses, page 25.
- The Balance Sheet, pages 26 and 27, which sets out the financial position of Kent County Council as at 31 March 2010.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 28 and 29.
- Notes to support the above primary statements pages 30 to 85.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 86 to 98.

Revenue Budget and Outturn

In February 2009 the Council approved a net revenue budget for 2009-10 of £886.470m. In addition £7.497m of 2008-09 underspending was rolled forward and added to the budget and we have also received further allocations of Area Based Grant throughout 2009-10 amounting to £0.333m. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

PORTFOLIO	Budget £000's	Outturn £000's	Variance £000's
Children, Families & Education	-697,871	-700,109	-2,238
Kent Adult Social Services	335,122	335,304	182
Environment, Highways & Waste	151,946	151,226	-720
Communities	58,600	57,782	-818
Localism & Partnerships	6,565	6,451	-114
Corporate Support Services & Performance Management	10,069	9,238	-831
Finance	123,603	119,460	-4,143
Public Health & Innovation	790	676	-114
Regeneration & Economic Development	8,096	8,066	-30
	-3,080	-11,906	-8,826
Delegated Schools Budgets	897,380	908,810	11,430
	894,300	896,904	2,604

Foreword

	Budget	Outturn	Variance
	£000's	£000's	£000's
FUNDED BY:-			
Reserves (rolling budget reserve)	7,497	7,497	0
Formula Grant	267,224	267,224	0
Council Tax	554,534	554,534	0
Area Based Grant	65,045	65,045	0
Total Funding	894,300	894,300	0
NET OUTTURN POSITION	0	2,604	2,604

The net underspending within the portfolios of £8.826m (excluding £11.430m delegated schools overspend) has been carried forward and will be added to the 2010-11 budget to support the re-scheduling of projects and to focus upon achieving the Council's key priorities and service improvements.

Schools

In total, schools overspent against their delegated budgets by £11.430m. This includes £14.702m of overspending of delegated schools budgets, and £3.272m of underspending on the unallocated schools budget, largely in respect of £1.083m rates rebates, £1m higher than expected school recoupment income, and a £0.735m clawback of schools reserves as a result of the balance control mechanism. This is being held in the unallocated schools budget awaiting Schools Forum agreement on how this will be utilised. The closure of schools during the year, with an overall net deficit balance, resulted in the transfer of £0.476m from the unallocated schools budget reserve to the delegated schools revenue budget reserves. Schools now have some £37.724m of revenue reserves and there is £14.030m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2010 is £25.835m, which is unchanged from the position as at 31 March 2009.

Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Authority had £50.35m deposited across 3 of these institutions, including £16m invested on behalf of the Pension Fund and £1.3m on behalf of the Kent and Medway Fire Authority. In 2009-10 there have been repayments from Heritable and changes to the expected timing and recovery of repayments from all 3 institutions. The current predicted loss for the Council is £3.5m. Debtors of £236.2k have been raised for the Fire Authority and the Pensions Fund. A detailed note on the impact of this on the Accounts can be found on pages 84 to 85.

Collection Fund Account

From 1 April 2009 the Statement of Recommended Practice (SORP) requires a change to the way that council tax transactions and balances are accounted for in the accounts of billing authorities and major preceptors. The SORP also requires that this change to agency accounting be treated as a prior year adjustment. This note can be found on pages 30 and 31.

Capital

Capital expenditure is defined as expenditure on purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure is incurred. Capital expenditure for the year was £344.1m. The expenditure analysed by portfolio was:-

	Revised Budget £'000s	Outturn £'000s	Variance £'000s
PORTFOLIO			
Children, Families & Education	171,124	169,798	-1,326
Kent Adult Social Services	3,708	3,398	-310
Environment, Highways & Waste	98,645	99,151	506
Communities	12,046	12,381	335
Regeneration & Economic Development	4,331	4,018	-313
Corporate Support Services & Performance Management	8,284	7,695	-589
Localism & Partnerships	665	659	-6
	298,803	297,100	-1,703
Devolved Capital to Schools	60,421	46,314	-14,107
	359,224	343,414	-15,810
Property Enterprise Fund 1		121	121
Property Enterprise Fund 2		530	530
		651	651
TOTAL	359,224	344,065	-15,159

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £1.703m less than cash limits. Of this, £2.415m reflected re-phasing of capital expenditure plans across all services and £712k was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2010-11 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2009-10 was £46.314m and at 31 March 2010 schools have in hand some £14.107m of devolved capital funding, an increase of £4.638m on 2008-09, which will be carried forward to 2010-11 as part of the overall schools reserves position.

The original Property Enterprise Fund (PEF1) was established in 2006-07 with an approved maximum permitted deficit of £10m to be funded by temporary borrowing, but is expected to be self-funding over a period of 10 years. Non earmarked receipts are accounted for through this fund and the proceeds are used for the strategic acquisition of land and property to add value to the Council's portfolio, aid the achievement of economic and regeneration objectives and the generation of income.

In September 2008 the County Council established a second Property Enterprise Fund (PEF2) with a maximum overdraft of £85m to be funded by prudential borrowing, but with the anticipation that the fund was to broadly breakeven over a rolling five year cycle. However, due to the slower than expected recovery, breakeven is likely to occur over a rolling seven to eight year cycle. This fund differs from PEF1 as only earmarked receipts are accounted for through PEF2 with the sole purpose of supporting the capital programme. The fund will provide a prudent amount of funding up front, in return for properties which will be held corporately until the property market recovers. This enables the Authority to take a longer term view on getting the best value from our assets.

Foreword

PEF2 was earmarked to provide funding support to the capital programme of £7.296m. This was offset by £12.721m capital receipts realised through the fund, giving a surplus of £4.895m. When this is added to the £35.303m deficit brought forward from 2008-09, the deficit on PEF2 at the end of 2009-10 was £30.408m.

Details of the main items of capital expenditure are shown on page 57, and details of the financing of capital expenditure are on page 56.

PFI

In 2009-10 we are required to account for PFI schemes under IFRIC 12 (International Reporting Standard Invitation to Comment) which identifies whether a PFI scheme should be accounted for as a finance lease and be on the balance sheet. All our PFI schemes are now on the balance sheet and Note 16 can be found on pages 52 to 55 along with the prior period adjustment note on pages 30 to 31.

Capital Reserves

At 31 March 2010 the Council has earmarked and other capital reserves of £154.7m as shown on page 27.

Insurance Fund

Financial Reporting Standard (FRS) 12 requires that full provision should be made for all known insurance claims.

Based on current estimates of the amount and timing of fund liabilities, the insurance provision at 31 March 2010 is established at a level sufficient to meet all known insurance claims where the likely cost can be estimated and there is reasonable certainty of payment. It is therefore in accordance with the requirements of FRS 12. Details can be found on page 61.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of FRS 17 - Retirement Benefits. Under FRS 17, the Authority is required to reflect in the primary statements of the Accounts, the assets and liabilities of the Pension Fund attributable to the Council and the cost of pensions. FRS 17 is based on the principle that the Council should account for retirement benefits when it is committed to give them even though the cash payments may be many years into the future. This commitment is accounted for in the year that an employee earns the right to receive a pension in the future. These disclosures are reflected in the Income and Expenditure Account, the Balance Sheet and the Statement of Movement in Reserves.

FRS 17

The 2009-10 FRS 17 report shows that the Pension Fund now has a deficit of £1.12bn. This is an increase in the deficit of £389.3m in year. This is largely due to assumptions and calculations used in calculating the FRS 17 figures and for 2009-10 is a product of inflation rising and gilt yields falling.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2009-10, earlier years and for future years. The balance currently stands at £1012.1m as shown on the balance sheet on page 26.

Future capital expenditure will be financed from borrowing, revenue contributions, sale of surplus fixed assets, capital grants and contributions, and relevant funds within earmarked reserves.

East Kent Opportunities

East Kent Opportunities (EKOLLP) is a Joint Arrangement which is not an Entity (JANE) and in 2009-10 the transactions and balances of EKO have been incorporated into the financial statements and notes of the council's Statement of Accounts.

Further information about the Accounts can be obtained from Cath Head, Chief Accountant.

Telephone Maidstone (01622) 221135 or e-mail cath.head@kent.gov.uk.

The Authority's Responsibilities

The Authority is required:

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

Councillor Richard Long
Chairman of the Governance and Audit Committee

The Director of Finance's Responsibilities

The Director of Finance 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 SORP), and is required to give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

Certificate of the Director of Finance

Lynda McMullan
Director of Finance

Scope of Responsibility

Kent County Council ("KCC" or "the Council") is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, KCC is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The 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*. The code is contained within the Council's constitution, a copy of which is available on our website, or can be obtained from the Director of Law and Governance.

This statement explains how KCC has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 the risks to the achievement of KCC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

Fundamental to the success of the Council is engagement with citizens and service users in the development of the Council's vision, priorities and intended outcomes. The *Vision for Kent*, launched in 2006, was developed in consultation with over 40 partners, including district councils and local businesses. It is comprised of eight themes, each with its own vision and monitored through a number of targets which links the vision to corporate and directorate plans and strategies, including the Kent Agreement (the Public Service Agreement) and its 12 'stretching targets'. The Council report on progress towards the vision annually and during this process will take the opportunity to consider whether the vision needs to be refreshed. It is agreed that the vision is likely to be refreshed on a five year cycle.

To support the delivery of a *Vision for Kent* is KCC's four year plan *Towards 2010*. This document sets out 63 targets requiring cross-directorate and partnership working aimed to achieve an improvement in the quality of life for Kent's residents. In Autumn 2010 KCC will publish its new commissioning document from the administration setting out the programme for KCC over the next 4 years.

Annual Governance Statement

All of KCC's strategic priority documents and plans are subject to our Consultation Strategy and the Kent Partners Compact, which help ensure accountability and encourage open consultation. All documents are publically available through KCC's website.

Cabinet is ultimately accountable to County Council for the delivery of the targets in *Towards 2010*. To ensure delivery quarterly updates tracking the status of all 63 targets are reviewed by Cabinet. An Annual Report on the status of *Towards 2010* is provided to Council each autumn, having first been subject to scrutiny by the Policy Overview and Scrutiny Committee meetings.

To ensure that users receive a high quality of service the Council has a Residents Panel, runs campaigns on local issues and regularly consults with its service users and stakeholders. Consultation takes place at many levels including corporate consultation, directorate and service specific consultation and consultation with partners. The Council has a Customer Care Charter.

The Council and the Leader are responsible for ensuring the best use of resources throughout the Council. The objectives and targets through which this will be achieved have been set out each year in the Council's Annual Performance Report. Council-wide and directorate specific processes are in place to monitor progress against the objectives and targets on a regular basis.

The Comprehensive Area Assessment (CAA) provided a judgement by the Audit Commission of the performance of the Council through an Organisational Assessment report and a judgement of the effectiveness of partnership working in an Area Assessment report. KCC was rated joint top among all county councils in England – and is one of only three county councils that are “performing excellently”. The Council was also singled out for exceptional achievement. In the partnership assessment, KCC was given two exceptional accreditations for improving young peoples’ education and skills, for providing job opportunities to match Kent’s growing economy and for the Gateways, which bring a wide range of public, community and voluntary services under one roof.

As part of their use of resources assessments, the Audit Commission consider the arrangements in place to enable the preparation of the annual governance statement, including the degree to which the Council recognises the corporate ownership of its governance arrangements.

The Constitution of the Council sets out the roles and responsibilities of: Full Council, the Policy Overview and Scrutiny Committees, the Leader and Cabinet, the Regulatory and Ordinary Committees and the Standards Committee. It also sets out functions delegated by the Council to Committees and Officers and includes the Member and Officers Code of Conduct.

The Members Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and 10 general principles governing Members’ conduct. After the 2009 election 100% of Members were trained on the code and ethical standards as part of their induction process. The attendance at this training was monitored by the Standards Committee.

The Standards Committee is responsible for ensuring that decisions are made with consideration of appropriate ethical standards.

The Code of Conduct for Employees is available on the Council’s intranet site and is included in the Constitution. It explains that citizens and service users expect high standards of conduct of all Council employees and provides guidance on how to achieve this. Employees are made aware of this Code of Conduct through the corporate induction process.

Annual Governance Statement

The Constitution contains a statement on Resource Management Responsibilities which includes the Council's Financial Regulations. These are prepared and maintained by the Director of Finance and Chief Executive and endorsed by the Leader and the Governance and Audit Committee. The Council has revised its Financial Regulations during the year, and these were agreed by the Governance and Audit Committee in April 2010 for subsequent approval at Full Council in July 2010.

The Governance and Audit Committee is comprised of 13 Members representing the two largest political parties. Its responsibilities are set out in the Constitution and include:

- Monitoring the Council's compliance with key controls and relevant standards.
- Ensuring all Best Value processes comply with legal and audit requirements.
- Discussing the basis of the annual audit with the external auditors and Cabinet.
- Receiving reports from the external auditor on their work.
- Overseeing the work of Internal Audit.
- Overseeing the Council's complaints procedure and receiving reports from the Complaints Ombudsman.
- Agreeing the risk management policy and monitoring the effectiveness of risk management.

The Terms of Reference of the Governance and Audit Committee have been revised (subject to approval by the Committee in June 2010) to meet and exceed the requirements of the CIPFA guide for Audit Committees in local authorities.

In order to strengthen the oversight of KCC's trading activities, the Council has established a Trading Sub Committee of the Governance and Audit Committee. The overall remit of this committee is to ensure that the trading activities of the Council are run properly, transparently and fairly. The sub-committee comprises 3 Members drawn from the membership of the main committee.

The 'Strategy for Staff' (2008) was developed with the objective of enabling staff to feel pride in themselves and the work they do at the Council, thus achieving their full potential and providing excellent customer service. Progress continues to be made in the development of an excellent workforce; continuous improvement; providing excellent management and inspirational leadership; facilitating open communication and engagement with staff and provision of a rewarding career structure and remuneration package. The Council is committed to providing a healthy, lively and vibrant work environment where staff feel supported and enabled to work effectively, safely and with fun.

The Director of Finance (as Chief Financial Officer) and the Chief Executive reviewed the Council's compliance against the CIPFA statement on the Role of the Chief Financial Officer on Local Government (2010) following its publication. Actions to ensure full compliance will be developed during 2010-11.

The annual Internal Audit plan is risk based and incorporates compliance with policies, procedures and legislation, efficiency and effectiveness, specialist audit work, including pro active and reactive fraud work and IT audits. The plan includes audits that are authority wide and cross cutting. The plan includes a large proportion of audits that review and report on KCC's main financial systems and processes. These provide assurance that financial procedures are being complied with, internal controls are operating as expected and that the Council's money is being spent in accordance with financial regulations and procedures and relevant legislation.

Annual Governance Statement

The Council's Legal and Democratic Services Unit is responsible for ensuring that the Council correctly applies the law and regulations governing its business. Legal advice is provided to officers and members by the team on a range of subjects, and specialist legal advice is bought in when needed.

The Council is committed to the highest possible standards of openness, probity and accountability and encourages its employees and others working for the Council to raise any concerns about any aspect of the Council's behaviour which is likely to breach legislation, including health and safety legislation, to come forward and voice those concerns. The Council's Whistleblowing Procedure was launched in April 2006 and is available on the Council's intranet site. This procedure encourages employees to raise concerns, without fear of reprisal or victimisation, internally within Kent County Council rather than overlooking a problem or raising the matter externally. The procedure was reviewed by the Governance and Audit Committee in 2009 and will be reviewed again during 2010-11.

The Council operates an effective complaints and customer feedback system, that demonstrates to the public that we:-

- are "putting our customers first",
- listen to what residents have to say,
- are open, honest and transparent,
- are responsive and fair.

The Council, in general, has a devolved approach to complaints, comments and compliments management. Individual directorates and business units are responsible for developing, operating and monitoring their own procedures and processes, but they must comply with the Council's Complaints, Comments and Compliments policy and provide regular monitoring statistics. An annual report is provided to Governance and Audit Committee that sets out the level and type of complaints received by the Council, and the improvements that have been made to policies, systems and processes as a result.

Senior officers of the Council are subject to the Council wide appraisal and personal development process. The outcome of this process is a tailored development plan that meets the needs of the individual officers in delivery of their objectives. This process is supported by the Senior Manager Development Programme.

Member development is delivered under the Member Development Charter, although the lack of individual development plans means that this has not been fully implemented. All Members receive training on the Code of Conduct through Induction. Other tailored training has been provided to support the work on specific committees (e.g. Planning, Personnel). All members have been asked which existing courses provided by the Council (both Member specific and those accessed by officers) would be of benefit to them.

The Council has updated its procedures in relation to its engagement and consultation with stakeholders, following the introduction to the "Duty to Involve" which became a legal requirement in April 2009. KCC uses its website as one of its main methods of communication and consultation with stakeholders. The website also details current, future and past consultations and publicises information about the county, including an A to Z of its services, information on district and parish councils and how the public can access services and make contact. The website is monitored and reviewed to ensure that information is current and relevant.

Using website technology, KCC broadcasts many of its council meetings live on the website, giving people across the county the chance to see council decision making in action. Archive recordings of these meetings are also available.

The Council has 12 'Local Boards' with each one covering a district council area. Local boards hold regular public meetings across Kent for the public to have their say about issues affecting their community.

Kent County Council publishes a bi-annual magazine "Around Kent" to keep the public informed about services. The magazine is distributed to over 610,000 homes in Kent, is also available on the website and in public places such as libraries, tourist information centres, KCC and district councils reception areas. The Council's publications can be made available in different languages and alternative font sizes and media.

Partnership working is playing an increasingly important role in the Council's policy development and service delivery and KCC has a number of strategic partnerships to help to deliver its key services. Partnership guidance was issued in 2007 and reviewed in 2008-09, and provides definitions and classification of key partnerships and sets out the main considerations when establishing and managing a partnership. Each year Internal Audit reviews a sample of strategic partnerships and reports on their governance arrangements as part of the overall corporate governance 'health check'. The results are reported to the Governance and Audit Committee. In 2009-10 two major partnerships were reviewed and Internal Audit was able to give substantial assurance that governance arrangements are in place and operating.

Compliance with the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010)

The Council's financial management arrangements comply in all significant respects with the principles set out in the CIPFA statement of the Role of the Chief Financial Officer. The Council will look to address the minor gaps that do exist over the next financial year, such as relative status in the Council.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers and Committees within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit and Risk's annual report, and also by work undertaken by the external auditors and other review agencies and inspectorates.

The review which has been undertaken for the purposes of this statement has relied upon the outcomes of the Governance Framework outlined above, as well as the assurances provided by the Group Managing Directors, Executive Directors and Directors of Services through their signing of a Statement on Internal Controls, Governance and Risk Management Processes. The statements of assurance identified no areas of weakness in the Council's governance arrangements. Other processes that have been applied in maintaining and reviewing the effectiveness of the governance framework are described below.

Internal Audit has reviewed Council-wide governance arrangements or specific elements of the Council's governance arrangements. In 2008-09 Internal Audit reviewed the Council's governance arrangements against the requirements of the CIPFA SOLACE Governance Framework. It found that overall governance arrangements are appropriate and made a number of minor recommendations for improvement. In 2009-10 the findings of this work was followed up and supplemented by a review of the activities of the Policy Overview and Scrutiny Committees and consideration of the role of the Monitoring Officer. The findings of this work were again positive and no recommendations were made.

The results of all Internal Audit reviews are reported to the Governance and Audit Committee as well as a group comprising of senior managers from each of the directorates. This enables the senior managers to consider any issues arising from Internal Audit's work and agree how to progress and implement recommendations particularly for authority wide/cross cutting audits.

The Annual Audit Report includes a review of the effectiveness of the system of internal audit for 2009-10, conducted in accordance with the requirements of the Accounts and Audit Regulations. This confirms that the systems of internal audit operated effectively in accordance with CIPFA's code of practice.

The Governance and Audit Committee has an ongoing role in the review of the effectiveness of the Council's governance framework. Throughout the year it has received and considered reports regarding the work of Internal Audit and External Audit and on Risk Management, Complaints, Treasury Management and Value for Money.

Annual Governance Statement

Continuing on from previous years, the Governance and Audit Committee has maintained a specific focus on key risks. Briefings now take place at each meeting on mitigating controls and on management actions being taken to strengthen these controls and to provide assurance that they are operating effectively. Members are also able to "commission" specific items of work where they feel more assurance is required, for example PFI and the risks of the financial situation to the financial strategy of the Council.

The Director of Finance has regular meetings with the other Council's statutory officers, ensuring emerging governance issues are quickly identified and appropriate responses are developed. In addition, the Director of Finance reviews all reports for Cabinet and Chief Officers Group to ensure financial regulations and responsibilities are met. The Director of Finance is also a member of the Chief Officer Group, and provides regular monitoring reports to Cabinet on the financial status of the Council. The five Directorate Heads of Finance also have monthly meetings with the Director of Finance to discuss and resolve financial and other internal control issues.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavours to address any concerns regarding Members' conduct and will deal with any reports from the Standards Board of England. The Standards Committee has worked with Members, through the Group Leaders, to ensure that Members' Annual Reports have become embedded into Member activity, and so improve accountability to constituents. Dealing with alleged breaches of the Code of Conduct by elected and co-opted Members of the Council continues to be the core work of the Committee, although the number of complaints has reduced to just two, compared with eight in 2008-09.

The Cabinet Scrutiny Committee meets monthly to scrutinise the decisions taken by Cabinet or individual Cabinet Members. The Committee Chair and Spokesmen decide which decisions require scrutiny and decisions that are not in accordance with the approved policy or budget are automatically referred for scrutiny.

Committee Members scrutinise decisions by questioning the relevant Cabinet Member and Managing Director. Local taxpayers and stakeholders can participate in this process by: attending meetings as they are held in public; suggesting decisions for scrutiny and submitting written comments on decisions already called in for scrutiny.

With relation to the reports of review agencies and inspectors, reference has been made to the excellent outcome of the Comprehensive Area Assessment and associated Use of Resources Assessment completed by the Audit Commission. The findings of both pieces of work have been considered in support of the review of effectiveness

Significant governance issues

There are no significant governance issues. However, the review of our governance arrangements has enabled us to identify elements of the governance framework which we are committed to strengthen further, such as:

- Reviewing and, if required, revising the Council's Code of Corporate Governance to fully incorporate all of the requirements of CIPFA Statement on the Role of the Chief Finance Officer.
- Refining the training and development of Members in line with the requirements of the South East Employers Member Development Charter.

Annual Governance Statement

- We propose over the coming year to take steps to address the above matters to enhance further our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Leader & Interim Chief Executive on behalf of Kent County Council

**Darren Wells
District Auditor
Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN
31 July 2009**

General

The Accounts of Kent County Council have been compiled in accordance with the 2009 Code of Practice on Local Authority Accounting, Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) relevant to local authorities and International Financial Reporting Committee Invitation to Comment 12 (IFRIC 12).

Basis on which creditors and debtors at year end are included in the Accounts

Kent County Council's Accounts are kept on an accruals basis, in accordance with the Code of Practice.

In order to account for expenditure and income attributable to the financial year in respect of goods and services received or rendered, amounts are included in the Accounts based on actual invoices received or raised after the end of the financial year. Where actual amounts are not known estimates are included based on a professional assessment of the value of goods and services received or rendered, calculated using best available information regarding the prices or rates applicable.

Provisions and Reserves

It is the policy of Kent County Council to make provisions in the Accounts where there is a legal or constructive obligation to make a payment but the amount or timing of the payment is uncertain. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page 61 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

Kent County Council holds general fund reserves as a consequence of income exceeding expenditure, budgeted contributions to reserves or where money has been earmarked for a specific purpose. These reserves are set at a level appropriate to the size of the budget and the level of assessed risk.

In the Income and Expenditure Account, expenditure met from reserves is included in the cost of services. Transfers to and from reserves are shown in the Statement of Movement on the General Fund balance. Details of the Authority's reserves are shown in the notes to the Accounts on pages 62-67.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the life, value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction". Assets acquired under finance leases that have been capitalised are included in the Balance Sheet together with the outstanding obligation to make future rental payments.

Valuation of Fixed Assets

The Authority has a policy in place to revalue 20% of its assets each year. All assets will therefore be revalued at least every five years. Assets will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset, such as a significant downturn in economic conditions. Properties held for disposal will also be revalued on an annual basis to reflect changes in market conditions. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written to the Income and Expenditure Account as impairment where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Statement of Movement on the General Fund Balance so that there is no impact on Council Tax. Impairment caused by a clear consumption of economic benefits e.g. physical damage, is recognised in the service revenue account, so is charged against net cost of services. It is then removed through the Statement of Movement on the General Fund Balance so that it does not have an impact on Council Tax.

Accounting Policies

Assets are valued as follows: -

- Non operational property is valued on the basis of open market value and is included in the balance sheet at the lower of net current replacement cost or net realisable value.
- Operational property is included in the balance sheet at historical cost until it is revalued. It is then valued at the lower of net current replacement cost or net realisable value in existing use.
- Vehicles, plant and equipment are valued at the lower of net current replacement cost or net realisable value in existing use.
- Infrastructure, community assets and work in progress are valued at depreciated historical cost.

Gains and Losses on Disposal of Fixed Assets

These amounts comprise the difference between the capital receipt from the sale of a fixed asset and the carrying amount of the asset on the asset register after identified costs have been removed. Items that are not held on the balance sheet e.g. strips of land, will be recognised as a gain, and assets that are removed from the asset register for nil consideration e.g. transferred assets or assets that are demolished will be shown as a loss in the Income and Expenditure account. Gains and losses on the sale of vehicles, plant and equipment will be recognised in the Income and Expenditure account.

Depreciation

Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- 70 years
Vehicles, plant and equipment	- 3-15 years
Temporary classrooms	- 20-25 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Work in progress	- nil
Surplus & non operational property	- nil

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the depreciation that would have been chargeable based on their historical cost .

Capital receipts

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Account. Conditional receipts are not included in these figures until it is prudent to do so.

Accounting for financial assets and liabilities

FRS 25, 26 and 29 require Authorities to recognise and de-recognise their financial assets and liabilities. Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Accounting Policies

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Support service and central department costs

The cost of support services and central department costs are allocated to services on the following basis in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP):

- Office accommodation - on the basis of floor area used by various services
- All other support costs - on the basis of time spent in the delivery of services to other departments or in accordance with other measures which reflect the level of service provided.

Stocks and stores

Stock is valued at the lower of cost or net realisable value. Spending on consumable items is accounted for in the year of purchase.

Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute represents expenditure which may be properly capitalised, but does not result in the creation of tangible assets. The expenditure incurred during the year has been written off as expenditure to the relevant service revenue account. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools and Academies are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Statement of Movement on the General Fund Balance to mitigate any impact on council tax.

Intangible Assets

Assets that do not result in the creation of a tangible asset, but are identifiable and are controlled by the Council, e.g. software licences, are classified as intangible assets. This expenditure is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the life of the asset. For software licences this is normally between 3 to 5 years.

Accounting for Value Added Tax

VAT is separately accounted for in accordance with SSAP 5 and is not included as income or expenditure of the County Council, except where it is not recoverable, e.g. on the purchase of motor cars where there is an element of private use by staff.

Government grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to a government grants deferred account if appropriate. Capital grants not put to the government grants deferred account are added to the individual service lines that they relate to on the income and expenditure account and are then removed through the Statement of Movement on the General Fund Balance to negate the effect on council tax. Amounts are released from the government grants deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate over the useful economic life of the asset.

If a specific revenue grant is not spent within the year it is allocated, and is not available for use on services other than those which it was intended for, then it is normally treated as a receipt in advance. However, if it is available for use on other services and not time limited, it is treated as an underspend.

Leasing

Finance and operating lease rentals paid during the year and the undischarged operating lease obligations are shown in Note 8 to the Income and Expenditure Account and within Note 16 to the Balance Sheet. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. Operating lease rentals are charged as revenue expenditure in the year to which the rental relates.

Pensions

The Council participates in two different pension schemes. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- Teachers

The Authority contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme under the requirements and exemptions of Financial Reporting Standard 17, 'Retirement Benefits' (FRS 17).

- Other employees

Subject to certain qualifying criteria, non-teaching employees of the Council are eligible to join the Local Government Pension Scheme.

The pension costs that are charged to the Council's Accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for employees.

Accounting Policies

Statutory provisions limit the Council to raising council tax to cover the cash payable to the pension fund in the year. Therefore, an appropriation is made in the Statement of Movement on the General Fund Balance to/from the Pensions Reserve to remove the notional debits and credits for retirement benefits.

Investments

The investments in the County Council's accounts are shown at cost. The policy on investments relating to the Pension Fund can be found on page 87.

PFI Accounting Policy

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For the 6 Schools PFI, the liability was written down by an initial capital contribution of £4.541m. For the Better Homes, Active Lives PFI the liability was written down by an initial capital contribution of £0.65m.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

- fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – recognised as fixed assets on the Balance Sheet

Collection Fund Accounting Policy

Up to 2008-09 the SORP required Council Tax income included in major preceptors' Income and Expenditure Account to be the amount that under regulation was paid from the billing authority's Collection Fund to the major preceptor.

To reflect that billing authorities act as agents for major preceptors in collecting their share of Council Tax, Council Tax transactions and balances will be allocated between billing authorities and major preceptors from 1 April 2009. Thus, the risks and rewards that the amount of Council Tax collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors.

The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing authority from Council Tax debtors that belongs proportionately to the billing authority and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

To reflect the change in policy for accounting for Council Tax, as prescribed by the 2009 SORP, prior year adjustments have been made to the 2008-09 corresponding amounts as shown on pages 30-31.

Income and Expenditure Account

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year.

	Notes	Year ended 31 March 2010			2008-2009
		Gross Expenditure	Gross Income	Net Expenditure	Restated Net Expenditure
Service		£'000	£'000	£'000	£'000
Regulatory Services and Emergency Planning		10,766	3,536	7,230	7,031
Court Services		2,915	459	2,456	2,703
Arts & Libraries		29,188	5,986	23,202	29,960
Waste Management		65,035	4,875	60,160	57,723
Environmental, Planning and Other Services		48,849	23,058	25,791	27,414
Children's and Education Services		1,584,958	1,427,286	157,672	181,659
Highways, Roads and Transport Services		125,435	14,740	110,695	105,341
Adult Social Care		512,014	155,111	356,903	328,567
Corporate and Democratic Core	*	48,263	17,320	30,943	10,814
Non Distributed Costs				17,386	32,040
Net Cost of Services	2	2,427,423	1,652,371	792,438	783,252
Gain on the disposal of fixed assets				32,541	-6,091
Precepts and Levies	3			609	591
Net Surplus on trading accounts	4			-8,616	-6,454
Interest payable and similar charges				63,293	66,638
Contribution by Medway to Loan Debt-Principal & Interest				-4,595	-5,008
Interest and Investment Income				-6,612	-14,799
Impairment on Icelandic Investments	34			2,013	10,646
Interest Receivable on Icelandic Investments	34			-2,487	-2,565
Pensions interest cost and expected return on pensions assets	5			55,171	36,900
Net Operating Expenditure				923,755	863,110
This was financed by:					
General Government Grants				-270,381	-268,424
Area Based Grant				-65,045	-61,619
Non-Domestic Rates Redistribution				0	0
Demand on Collection Fund				-555,103	-538,502
Net General Fund Surplus(-)/ Deficit				33,226	-5,435

* The movement of £20.1m on Corporate and Democratic Core is largely due to impairment charges on Corporate Property.

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- Loss/gain on disposal of fixed assets.

The General Fund Balance compares the Council's spending against the Council Tax it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

Notes	At 31 March 2010 £'000	At 31 March 2009 £'000
(Surplus)/deficit on the Income & Expenditure Account	33,226	-5,435
Amount required by statute to be debited/(credited) to General Fund	-33,226	5,435
Increase in General Fund balance for the year	0	0
General Fund balance brought forward	-25,835	-25,835
General Fund balance carried forward	-25,835	-25,835

Reconciling Items for the Statement of Movement on the General Fund

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year

Amortisation of intangible assets	-1,499	-1,360
Depreciation and impairment of fixed assets	-240,064	-140,215
Government Grants deferred	19,341	18,659
Government Grants and Contributions received	234,265	142,863
Write down of revenue expenditure funded from capital under statute	-69,316	-58,964
Net loss on sale of fixed assets	-32,541	6,091
Differences relating to changes in Financial Instruments (impairment and interest)	66	-117
Changes in Financial Instruments re: Icelandic Investments	474	-8,081
Surpluses/Deficit in Collection Fund	569	1,930
Net charges made in accordance with FRS17	5	-99,079
	-187,784	-141,594

Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year

Provision for the payment of external loans	49,745	44,888
Direct revenue financing	12,237	16,266
Contributions to/(from) the Pension Reserve	5	90,034
	-35,768	5,860

Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year

Net transfer to/(from) earmarked reserves	2,542	-425
Net additional amount required to be debited/(credited) to General Fund Balance	-33,226	5,435

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	At 31 March	At 31 March
	2010	2009
	£'000	£'000
		Restated
(Surplus)/deficit for the year on the Income and Expenditure Account	33,226	-5,435
(Surplus)/deficit arising on revaluation of fixed assets	-64,175	-68,490
Actuarial (gains)/losses on pension fund assets and liabilities	380,355	154,252
(Surplus)/deficit arising on revaluation of loans and receivables	-946	-1,286
(Surplus)/deficit on Collection Fund		-1,976
Total recognised (gains)/loss for the year	348,460	77,065

The (£1,975k) in relation to the Collection Fund represents the change in year in relation to the new accounting policy and as this is the first year an item will appear on the STRGL due to there not being a balance in previous years.

Balance Sheet

The County Fund Balance Sheet shows the financial position of Kent County Council as a whole at the end of the year. Balances on all accounts are brought together and items that reflect internal transactions are eliminated.

	Notes	31 March 2010		31 March 2009	
		£'000	£'000	Restated £'000	£'000
Fixed assets					
Intangible fixed assets	18		2,544		3,551
Tangible fixed assets					
Operational assets					
Land and buildings		1,442,502		1,456,417	
PFI Assets	16	195,242		139,228	
Vehicles, plant and equipment		32,091		28,811	
Roads and other highways infrastructure		631,431		606,431	
Community assets		9,141		8,505	
Non-operational assets					
Investment property		5,848		6,624	
Assets under construction		412,693		327,734	
Surplus and non-operational property		52,463		99,869	
Total tangible assets	15		<u>2,781,411</u>		<u>2,673,619</u>
Total fixed assets			<u>2,783,955</u>		<u>2,677,170</u>
Long-term investments			35,671		96,267
Long-term debtors	19		<u>58,239</u>		<u>54,712</u>
Total long-term assets			<u>2,877,865</u>		<u>2,828,149</u>
Current assets					
Stocks and work in progress		6,231		5,937	
Debtors	19	211,718		193,644	
Investments		224,043		262,949	
Total current assets			441,992		462,530
Current liabilities					
Temporary borrowing		-45,240		-60,641	
Short term PFI Lease Liability		-3,114			
Creditors	20	-284,534		-298,747	
Cash balances overdrawn		-34,283		-103,339	
			<u>-367,171</u>		<u>-462,727</u>
Total assets less current liabilities (Net assets employed)	21		<u>2,952,686</u>		<u>2,827,952</u>
Long-term liabilities					
Long-term borrowing		-1,012,116		-998,427	
Deferred liabilities	16	-4		-255	
PFI Lease Liability	16	-160,397		-107,702	
Deferred credit - Medway Council		-49,198		-51,249	
Creditors due after one year		-823			
Provisions	22	-16,093		-14,489	
Government grant deferred account		-213,739		-196,454	

Balance Sheet

Liability related to defined benefit pensions schemes	- KCC	24	-1,129,229	-739,900
	- DSO	24	-2,270	-2,199
			<u>-2,583,869</u>	<u>-2,110,675</u>
Total assets less liabilities			<u><u>368,817</u></u>	<u><u>717,277</u></u>
Revaluation reserve		23	-183,753	-131,912
Capital adjustment account		23	-989,820	-1,075,507
Financial instruments adjustment account		23	26,229	27,715
Collection Fund Adjustment Account			-4,475	-3,906
Earmarked capital reserve		23	-137,667	-70,144
Usable capital receipt reserve		23	-17,045	-14,379
Pensions reserve	- KCC	24	1,129,229	739,900
	- DSO	24	2,270	2,199
Earmarked reserves		23	-115,884	-102,002
General fund balance		23	-25,835	-25,835
Schools reserves		23	-51,753	-63,183
Surplus on trading accounts		25	-313	-223
Total net worth			<u><u>-368,817</u></u>	<u><u>-717,277</u></u>

Cash Flow Statement

The consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	2009-2010 £'000	2008-2009 £'000
Revenue Activities			
Cash outflows			
Employee costs		1,171,873	1,135,940
Other operating costs		1,082,245	1,013,762
Precepts and levies paid		609	591
			2,254,727
Cash inflows			
Dedicated Schools Grant		-791,409	-773,916
Precepts on Collection funds		-555,103	-536,572
Area based grant		-65,045	-61,619
Revenue support grant and PRG		-270,381	-268,424
Other government grants	29	-450,164	-430,678
Cash received for goods and services		-196,103	-164,117
Other operating cash receipts		-15,858	-8,977
Net cash inflow revenue activities	30		-89,336
			-94,010
Returns on Investments and Servicing of Finance			
Cash outflows			
Interest paid		63,094	57,883
Interest element of finance lease rental		7,257	25
Cash inflows			
Interest received		-13,470	-18,615
			56,881
			-32,455
			-54,717
Capital Activities			
Cash outflows			
Purchase of fixed assets		308,389	263,187
Expenditure on deferred charges		20,457	39,381
Purchase of long-term investments		0	60,000
Cash inflows			
Sale of fixed assets		-17,586	-24,735
Capital grants received	29	-243,496	-147,760
Other capital cash receipts		-22,484	-16,645
Repayment of long term investment		-95,100	
			-49,820
Net cash outflow before financing			-82,275
			118,711
Management of Liquid Resources			
Net increase/decrease(-) in short term investments			3,329
			-87,554

Notes to the Core Financial Statements

Financing

Cash outflows

Repayments of amounts borrowed	60,475	205,703
Capital element of finance lease rentals	1,635	145
Repayment of credit liability	8,250	7,445

Cash inflows

New loans raised	-60,470	-245,470
Discounts Received		-4,024

Net decrease/increase(-) in cash

31

9,890	-36,201
<u>-69,056</u>	<u>-5,044</u>

Notes to the Core Financial Statements

1. Prior period adjustment

In the 2009-10 Statement of Accounts, the Council has adopted two significant accounting policies that impact the comparative figures for 2008-09. The first is a change to the way we treat PFI contracts under the International Financial Reporting Interpretation Committee 12 (IFRIC 12). This requires examining each PFI contract to determine whether it should continue to be off Balance Sheet or move onto the Balance Sheet. The main criteria are around the control and eventual ownership of the assets. In all cases our PFI contracts require the assets to be recognised on the balance sheet with a corresponding lease liability. The second accounting policy change is in relation to the Council's position as principal in the role of the Collection Fund. This requires us to recognise debtors and creditors in relation to the collection of Council Tax at the end of each year.

These changes have had the following impact on the comparative figures for 2008-09, (only figures that have changed are included in the table):

Income and Expenditure Account

	Net Expenditure in Income and Expenditure Account in 2008-09 Statement of Accounts	Removal of elements within the unitary change that relate to leasing rental payments and finance costs	Depreciation on lifecycle costs and removal of previous year PFI transactions	Finance costs relating to PFI	2008-09 comparatives in Income and Expenditure account in 2009-10 Statement of Accounts
	£000's	£000's	£000's	£000's	£000's
Children's and Education Services	187,148	-10,517	5,028		181,659
Adult Social Care	330,910	-2,661	318		328,567
Revised Net Cost of Services	518,058	-13,178	5,346		510,226
Interest Payable and Similar Charges	56,316			10,322	66,638
Revised Net Operating Expenditure	574,374	-13,178	5,346	10,322	576,864
Demand on Collection Fund	-536,572				-538,502
Movement in Net General Fund Surplus (-)/Deficit	-5,995				-5,435

Statement of Movement on the General Fund Balance (SMOGFB)

	In 2008-09 SMOGFB	Depreciation of Lifecycle costs and PFI assets	Changes to MRP to reflect movement in PFI lease liability	Collection Fund change	2008-09 comparatives in SMOGFB in 2009-10
	£000's	£000's	£000's	£000's	£000's
Depreciation and Impairment of Fixed assets	-138,450	-1,765			-140,215
Transfer to Collection Fund Adjustment Account	0			1,930	1,930
Provision for the payment of external loans	42,032		2,856		44,888
Movement in SMOGFB	5,995	-1,765	2,856	1,930	5,435

Notes to the Core Financial Statements

Statement of Total Recognised gains and Losses

	In 2008-09 STRGL	2008-09 comparatives in 2009-10 Accounts
	£000's	£000's
(Surplus)/deficit for the year on the Income and Expenditure Account	-5,995	-5,435
Change to Collection Fund surplus/deficit	0	-1,976
(Surplus)/deficit arising on revaluation of fixed assets	-62,505	-68,490
Total recognised (gains)/loss for the year	84,466	77,065

The following are prior period adjustments to the Balance Sheet

	In 2008-09 Balance Sheet	PFI Assets	Removal of prior entries - debtors and Capital Adjustment Account	PFI Lease Liability	Changes to Capital Adjustment Account in relation to PFI	2008-09 comparatives in Balance Sheet in 2009- 10 Statement of Accounts
	£000's	£000's	£000's	£000's	£000's	£000's
Fixed Assets						
Land and Buildings - PFI	0	125,556				125,556
Prepayments - PFI	15,368		-15,368			0
PFI Debtor	8,167		-8,167			0
Collection Fund Debtor	0					3,906
Long Term Borrowing						
PFI Lease Liability	0			-107,702		-107,702
	23,535	125,556	-23,535	-107,702	0	21,760
Movement						-1,775
New Total Assets less Liabilities						717,277
Capital Adjustment Account	-1,081,188	-5,986	23,535		-11,868	-1,075,507
Collection Fund Adjustment Account	0					-3,906
	-1,081,188	-5,986	23,535	0	-11,868	-1,079,413
Impact on Net Worth						1,775
New Net Worth						-717,277

2. Net Cost of Services

The figures included in the Accounts reflect expenditure and income on services rather than departmental or portfolio structures. This is in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP).

3. Precepts

The following precepts were paid:

	2009-10	2008-09
	£000's	£000's
Environment Agency	339	331
Kent and Essex Sea Fisheries Committee	240	232
Sussex Sea Fisheries Committee	30	28
	<hr/>	<hr/>
	609	591

4. Trading Operations

The results of the various trading operations for 2009-10 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-) 2009-10	Surplus/ Deficit(-) 2008-09
	£'000	£'000	£'000	£'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	41,130	38,369	2,761	1,540
Facilities & Technical Services Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT	5,933	5,141	792	413
Brokerage Services Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for CFE, EH&W & KASS	257,269	255,161	2,108	1888
County Print Graphic design and general printing	2,627	2,644	-17	8
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	20,392	18,378	2,014	1,977
Landscape Services Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment	8,203	7,375	828	650
Oakwood House Conference centre	2,376	2,246	130	-22
Total surplus	337,930	329,314	8,616	6,454

5. Pension Costs

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when they are paid as pensions. However, the charge we are required to make against the Council Tax is based on the cash payable in the year, so the real cost is reversed out of the Reconciling Items for the Statement of Movement on the General Fund.

Under the requirements of FRS17, the council is required to show the movement in the net pensions deficit for the year. This can be analysed as follows:

		Local Government Pension Scheme	
		2009-10	2008-09 As restated
		£000's	£000's
Net Cost of Services:			
• Current service cost		-41,823	-47,700
• Past service costs and curtailments		-2,085	-17,800
Net Operating Expenditure:			
• Interest cost		-117,259	-119,200
• Expected return on assets in the scheme		62,088	82,300
Net charge to the Income and Expenditure Account		-99,079	-102,400
Statement of Movement on the General Fund Balance:			
• Reversal of net charges made for retirements benefits in accordance with FRS17		99,079	102,400
Actual amount charged against the General Fund Balance for pensions in the year:			
• Employers' contributions payable to scheme		-90,034	-86,300

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £380,355k were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Gains and Losses is £956,905k which includes an element of the DSO fund.

Teachers

In 2009-10 Kent County Council paid £60.2m (£58.7m in 2008-09), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, Kent County Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2009-10 these amounted to £4.7m (£4.3m in 2008-09), representing 1.1% (1.0% in 2008-09) of pensionable pay.

Other Employees

Other employees of the County Council may participate in the Kent County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme.

In 2009-10 Kent County Council paid an employer's contribution of £90m (£86.3m in 2008-09) into the Pension Fund, representing 24% (24% in 2008-09) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2009-10 was based on the review carried out as at 31 March 2007. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

In addition Kent County Council is responsible for all pension payments relating to added years' benefits it has awarded, together with the related increases. However, Medway Council is required to contribute towards the liabilities incurred prior to reorganisation on 1 April 1998. Kent County Council is required to disclose the capital cost of the discretionary pension payments it has made using a formula recommended by CIPFA. There is zero capital value of discretionary increases in pension payments (i.e. discretionary added years) agreed by the Council in 2009-10 (£70k in 2008-09). The capital value of payments agreed in earlier years is £122m (£117m in 2008-09).

An actuarial valuation was carried out on the fund as at 31 March 2007. The actuary has estimated that based on current contribution rates the deficiency on the Pension Fund at 31 March 2004 would be recovered over a period of 20 years.

Other Notes to the Income and Expenditure Account

6. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2009-10 are as follows:

		Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	Final DSG for 2009-10			791,409
B	Brought forward from 2008-09			14,835
C	Carry Forward to 2010-11 agreed in advance			<u>0</u>
D	Agreed budgeted distribution in 2009-10	123,726	682,518	806,244
E	Actual central expenditure	-97,538		-97,538
F	Actual ISB deployed to schools		-691,555	-691,555
G	Local Authority contribution for 2009-10	0	<u>0</u>	<u>0</u>
H	Carry Forward to 2010-11	26,188	-9,037	17,151 *

Notes

*

The total carry forward to 2010-11 of £17.151m represents a carry forward of £5.573m on the centrally retained DSG budget and £11.578m on the schools' unallocated budget.

7. Members Allowances

Members allowances paid in 2009-10 totalled £1,838,590.30 (£1,757,065 in 2008-09).

8. Leases

Kent County Council has made use of leases to acquire vehicles and equipment. Lease rentals paid during the year in respect of current operating leases in respect of vehicle plant and equipment amounted to £6.79m and in respect of land and buildings amounted to £5.29m. A further £0.292m was paid in respect of finance leases.

The Council was committed at 31 March 2010 to making payments of £9.75m under operating leases, comprising the following elements:

	Land and Buildings	Vehicle Plant and Equipment
	£000's	£000's
Leases expiring in 2010-11	597	948
Leases expiring between 2011-12 and 2014-15	2,484	4,706
Leases expiring after 2015-16	886	124
	3,967	5,778

The Authority as Lessor - the Authority receives an amount of approximately £790k in rental income in relation to a number of properties.

9. Related Party Transactions

During the financial year 2009-10 there were no material transactions between Kent County Council and its Members and Chief Officers, other than payment of salaries and Members' allowances.

Related party transactions with central government departments and other bodies are listed below:-

- Kent County Council received a number of general and specific grants from central government totalling £785.6m.
- Kent County Council received Dedicated Schools Grant of £791.4m.
- Precepts amounting to £0.6m were paid to the Environment Agency, Kent and Essex Sea Fisheries Committee and Sussex Sea Fisheries Committee.
- Payments to other local authorities and health bodies, excluding precepts, totalled £16.7m.
- Receipts from other local authorities and health bodies totalled £54.2m.
- In addition, payments of Employers' Pension Contributions were made to the Pension Fund in respect of members of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The amounts of these payments are detailed in notes to the Income and Expenditure Account, note 5 on pages 34-35 of these Accounts.
- Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £2.6m and interest paid on cash deposits of £1.1m.
- Payments made to Kent Top Temps (KTT) Ltd amounted to £20.955m. The loan provided to KTT remains at £0.740m and interest of £0.041m was received on the loan.
- Payments made to Kent County Facilities (KCF) Ltd amounted to £0.638m. A loan of £0.175m has been repaid on which KCC received interest of £0.010m.
- Payments made to East Kent Opportunities LLP amounted to £95k, with £93k being owed to KCC.

Notes to the Core Financial Statements

10. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2009 to 31 March 2010

New regulations require the authority to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Chief Executive and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2009-10, was £50,000 or more. The numbers for 2008-09 have been revised to reflect the new disclosure requirements.

Remuneration includes:-

- a) all sums paid to or receivable by an employee including non-taxable termination payments, redundancy payments and pay in lieu of notice;
- b) expense allowances chargeable to tax i.e. the profit element of car allowances; and
- c) the money value of benefits such as leased cars and health insurance
- d) but excludes Employer's Pension contributions

Remuneration (£)	Total number of employees			
	Non-Schools 31 March 2010	Schools 31 March 2010	Non-Schools 31 March 2009 Restated	Schools 31 March 2009 Restated
50,000 - 54,999	180	369	184	346
55,000 - 59,999	128	226	116	189
60,000 - 64,999	99	141	80	109
65,000 - 69,999	41	62	33	40
70,000 - 74,999	23	31	21	30
75,000 - 79,999	7	25	9	22
80,000 - 84,999	11	27	8	28
85,000 - 89,999	11	23	7	14
90,000 - 94,999	5	15	9	8
95,000 - 99,999	6	2	6	8
100,000 - 104,999	4	8	3	4
105,000 - 109,999	11	5	6	4
110,000 - 114,999	0	2	4	2
115,000 - 119,999	1	1	3	0
120,000 - 124,999	2	1	1	1
125,000 - 129,999	0	0	0	1
130,000 - 134,999	0	1	0	0
135,000 - 139,999	2	1	2	0
140,000 - 144,999	1	0	2	0
145,000 - 149,999	1	0	1	0
150,000 - 154,999	0	0	1	0
155,000 - 159,999	0	0	0	0

Remuneration (£)	Total number of employees cont			
	Non-Schools 31 March 2010	Schools 31 March 2010	Non-Schools 31 March 2009	Schools 31 March 2009
160,000 - 164,999	1	0	1	0
165,000 - 169,999	3	0	0	0
170,000 - 174,999	0	0	0	0
175,000 - 179,999	0	0	2	0
180,000 - 184,999	2	0	0	0
185,000 - 189,999	1	0	0	0
190,000 - 194,999	0	0	0	0
195,000 - 199,999	0	0	1	0
200,000 - 204,999	0	0	0	0
205,000 - 209,999	0	0	0	0
210,000 - 214,999	0	0	0	0
215,000 - 219,999	0	0	0	0
220,000 - 224,999	0	0	0	0
225,000 - 229,999	0	0	0	0
230,000 - 234,999	0	0	0	0
235,000 - 239,999	0	0	0	0
240,000 - 244,999	1	0	1	0
245,000 - 249,999	0	0	0	0
305,000 - 309,999	0	0	1	0
375,000 - 379,999	0	0	1	0
Total	541	940	503	806

Senior Officers emoluments-salary is £150,000 or more per year - 2009-10

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Total Remuneration excluding pension Contributions 2009-10	Pension Contributions	Total Remuneration including pension Contributions 2009-10
Chief Executive Peter Gilroy		214,423	10,615	18,350	0	0	243,388	56,223	299,611
Managing Director of Adult Social Services - Oliver Mills		159,075	7,875	0	0	0	166,950	38,565	205,515
Managing Director of Communities - Amanda Honey		159,075	7,875	0	0	0	166,950	38,565	205,515
Executive Director Strategy, Economic Development & ICT David Cockburn		158,569	7,850	0	0	0	166,419	38,443	204,862
Managing Director Children, Families & Education Rosalind Turner		160,161	0	0	0	1,394	161,555	36,997	198,552
Executive Director, Environment, Highways & Waste - Mike Austerberry		149,449	0	0	0	0	149,449	34,523	183,972

Senior Officers emoluments-salary is £150,000 or more per year - 2009-10...cont

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Pension Contributions 2009-10	Total Remuneration excluding pension Contributions 2009-10	Total Remuneration including pension Contributions 2009-10
Head of Business Performance & Communications (KHS) - Marcus Hobbs	1	183,870							183,870

Notes

1 The salary figure included for Mr Hobbs was for 11 months consultancy in 2009-10

Senior Officers emoluments-salary is between £50k and £150k per year - reporting to the Chief Executive - 2009-10

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Total Remuneration excluding pension Contributions 2009-10	Pension Contributions 2009-10	Total Remuneration including pension Contributions 2009-10
Director of Finance		136,350	0	0	0	0	136,350	31,497	167,847
Director of Law & Governance		135,123	6,350	0	0	0	141,473	31,097	172,570
Director Personnel and Development		98,000	3,880	0	0	0	101,880	23,534	125,414
Director Property	1	62,903							62,903
Director of Strategic Development & Public Access		88,329	3,396	0	0	0	91,725	20,581	112,306

Senior Officers emoluments-salary is between £50k and £150k per year - reporting to the Chief Executive - 2009-10.....cont

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Total Remuneration excluding pension Contributions 2009-10	Pension Contributions 2009-10	Total Remuneration including pension Contributions 2009-10
Director Commercial Services		104,199	5,000	0	0	0	109,199	25,225	134,424

Notes 1 This post was not filled by its current holder for the complete year. The annualised salary for this post was £103,999

Bonuses paid in financial year 2009-10 relate to performance in 2008-09

Senior Officers emoluments-salary is £150,000 or more per year - 2008-09

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Total Remuneration excluding pension Contributions 2008-09	Pension Contributions	Total Remuneration including pension Contributions 2008-09
Chief Executive Peter Gilroy		212,300	31,065	0	0	0	243,365	56,217	299,582
Managing Director of Adult Social Services - Oliver Mills		157,500	18,444	0	0	0	175,944	40,643	216,587
Managing Director of Communities - Amanda Honey		157,500	20,460	0	0	0	177,960	41,153	219,113

Senior Officers emoluments-salary is between £50,000 and £150,000 per year - reporting to the Chief Executive - 2008-09

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Total Remuneration excluding pension Contributions 2008-09	Pension Contributions	Total Remuneration including pension Contributions 2008-09
Director of Finance		135,000	15,548	0	0	0	150,548	34,776	185,324
Director of Law & Governance		129,435	9,499	0	0	0	138,934	31,531	170,465
Executive Director Strategy, Economic Development & ICT		145,999	16,730	0	0	0	162,729	37,590	200,319
Director Personnel and Development		96,999	9,470	0	0	0	106,469	31,531	138,000
Interim Director Property		85,758	0	664	0	1,216	87,638	19,945	107,583
Interim Director Property		58,980	0	759	0	1,539	61,278	1,539	62,817

Senior Officers emoluments-salary is between £50,000 and £150,000 per year - reporting to the Chief Executive - 2008-09...
cont

Post Holder	Notes	Salary (Including Fees & Allowances)	Bonuses	Expense Allowances	Compensation for loss of Office	Benefits in Kind	Total Remuneration excluding pension Contributions 2008-09	Pension Contributions	Total Remuneration including pension Contributions 2008-09
Interim Director Property		74,937	0	581	0	549	76,067	17,310	93,377
Director Commercial Services		103,200	9,470	0	0	0	112,670	26,026	138,696
Director of Strategic Development & Public Access		88,145	5,000	271	0	257	93,673	20,766	114,439

Notes Bonuses paid in financial year 2008-09 relate to performance in 2007-08

11. Audit Costs

In 2009-10 the following fees were paid relating to external audit and inspection :

	2009-10	2008-09
	£'000	£'000
Fees payable for external audit services carried out by the appointed auditor	392	367
Fees payable to the Audit Commission in respect of statutory inspection	4	4
Fees payable to the appointed auditor for the certification of grant claims and returns	17	27
Fees payable in respect of other services provided by the appointed auditor	2	6
	415	404

12. Subsidiary Undertakings

Kent Top Temps LTD (KTT) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on the 4th April 2005. KTT is a recruitment business that focuses on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT has specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, nursery staff, drivers and industrial, catering, interpreters and translation and professionals. The permanent appointment desk operates via the name of KTT Appointments. It also operates buses for contract and private hire trading as Kent Top Travel. KTT had a turnover in 2009-10 of £24.5m with a net profit of £0.60m before tax, £0.44m after tax (estimated). In 2008-09 its net assets were £0.62m and in 2009-10 they are £0.93m. A loan of £0.74m has been provided in earlier years by Commercial Services, set against the net indebtedness of the authority to KTT of £3.37m.

Kent County Facilities (KCF) Ltd is a subsidiary of Kent County Trading Ltd., wholly owned by Kent County Council. KCF Ltd commenced trading in September 2007 as InsideOut, undertaking building repair and maintenance contracts within both the public and private sectors. In January 2009 this business was re-branded, and now trades as Facilities Management. During the year additional business activities were carried out by KCF Ltd. including waste management, and transport servicing and repairs. In 2009-10 Kent County Facilities had a turnover of £1.9m, a net profit of £164k and its net assets were £169k. The loan previously provided by Commercial Services was paid off during the year, and the indebtedness of the authority to KCF is £210k.

Kent County Council (KCC) and Thanet District Council (TDC) wished to bring forward the economic development and regeneration of the sites known as Eurokent and Manston Park. A Member Agreement was signed on the 22 August 2008 and a joint arrangement vehicle was set up, the East Kent Opportunities LLP (EKOLLP), which was incorporated on the 4 March 2008. KCC and TDC have 50:50 ownership, control and economic participation in the joint arrangement. KCC and TDC contributed 38 acres of land each to EKOLLP. The land was valued for stamp duty land tax (SDLT) at £5.5m (KCC contribution) and £4.5m (TDC contribution). The powers used are the 'well-being powers' provided to local authorities in Part I of the Local Government Act 2000. In 2009-10, in the draft, unaudited EKOLLP accounts, the net assets of the joint arrangement are £10m with an operating loss before members remuneration and profit shares available for discretionary division among members of £0.4m.

Collectively these subsidiaries do not have a material impact on Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2009-10. This situation is reviewed on an annual basis.

Copies of these accounts can be acquired through Companies House with none being qualified.

Notes to the Core Financial Statements

13. NHS Act 2006 - Section 75

Under Section 75 of the above Act, the Authority has entered into a number of agreements with Primary Care Trusts (PCT) and a Social Care Partnership Trust. These comprise the Kent Drug and Alcohol Action Team (KDAAT), which is responsible for the effective management and commissioning of drug and alcohol related services throughout Kent. Its objectives are to help young people resist drug misuse, protect our communities from drug related anti-social behaviour, provide treatment services to both adults and young people and to stifle the availability of illegal drugs on our streets. Registered Nursing Care Contribution (RNCC) in Care Homes; Westbrook/Westview and Gravesham Place Integrated Care Centres, providing nursing, respite and recuperative care to Older People; Integrated Community Equipment Store (ICES), provision of equipment to people with a Physical Disability to enable them to live independently in their own homes; and Learning Disability Integrated Staffing, which has established joint structures to support closer partnership working.

KDAAT	2009-10	2008-09	RNCC	2009-10	2008-09
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
East & West Kent PCT	2,755	2,581	Eastern & Coastal Kent PCT	4,041	4,006
National Treatment Agency	6,616	6,464	West Kent PCT	4,347	4,025
KCC	1,669	1,651			
Total Funding	11,040	10,696	Total Funding	8,388	8,031
Expenditure	11,040	10,696	Expenditure	8,388	8,031
Net	0	0	Net	0	0

Westbrook/West View PFI	2009-10	2008-09	ICES	2009-10	2008-09
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
Eastern & Coastal Kent PCT	3,281	2,929	Eastern & Coastal Kent PCT	646	607
Kent Adult Social Services	3,561	3,532	West Kent PCT	246	164
PFI Credits	1,403	1,355	Medway PCT		0
			Medway Council	37	28
			Kent Adult Social Services	568	480
Total Funding	8,245	7,816	Total Funding	1,497	1,279
Expenditure	8,245	7,816	Expenditure	1,156	1,279
Net	0	0	Net	341	0

Gravesham Place PFI	2009-10	2008-09	LD Integrated Staffing	2009-10	2008-09
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
West Kent PCT	2,540	2,508	Eastern & Coastal Kent PCT	2,048	1,857
Kent Adult Social Services	4,616	4,562	Kent & Medway NHS & Social Care Partnership Trust	1,768	1,437
			Kent Adult Social Services	3,892	3,504
Total Funding	7,156	7,070	Total Funding	7,708	6,798
Expenditure	7,156	7,070	Expenditure	7,585	6,798
Net	0	0	Net	123	0

14. Long Term Contracts

PFI

Westbrook and West View

In 2009-10 the authority made payments of £3.5m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Authority is committed to making payment of £3.6m for 2010-11 under this PFI contract. The actual amount paid will depend on the performance of ICS in delivering the services under the contract which will run until April 2033.

Gravesham Place

In 2010-11 the authority is committed to making payments estimated at £2.34m per year under a contract with Land Securities for the maintenance and facilities management, including laundry and catering, of Gravesham Place integrated care centre. The actual amount is subject to an annual inflationary uplift, and is also dependent on the performance of Land Securities in delivering the services under the contract (£2.29m was paid in 2009-10). The contract will run until April 2036

Swan Valley and Craylands and 6 new schools

On 24 May 2001, the Council contracted with New Schools (Swanscombe) Ltd to provide Swan Valley Secondary School and Craylands Primary School under a Private Finance Initiative (PFI). The schools opened in October 2002. Under the PFI contract the Council pays an agreed charge for the services provided by the PFI contractor. The unitary charge commenced in October 2002, PFI credits were received from April 2003 and were backdated to October 2002. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £65.5m over the 25 year (termination end of September 2027) contract period.

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College, The North School, Ellington School for Girls, The Malling School and Aylesford School - Sports College) under a Private Finance Initiative (PFI). At the time the contract was signed the total estimated contract payments were £373.9m over the 28 year contract period.

Central Government provides a grant to support the PFI schemes. This Revenue Support Grant is based on a formula related to the Capital Expenditure in the scheme: this is called the notional credit approval, and amounts to £11.62m of credits for Swan Valley and Craylands and £80.75m for the 6 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 and 28 years respectively. This grant amounts to just under £23m and just over £177m over the respective periods.

Better Homes Active Lives PFI

In October 2007 the authority signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 357 units of which 275 units are Extra Care accommodation, 75 units for people with learning difficulties and 7 units for people with mental health problems. The construction phase was completed in October 2009 and the contract for the provision of services will last until 2038-39. In 2009-10 the authority made payments of £3.8m to the contractor which rises to £5.4m in 2010-11.

Notes to the Balance Sheet

15. Movement on Fixed Assets

	Land and buildings	Vehicles, plant and equipment	Roads and other Highways Infrastructure	Community assets	Assets Under Construction	Surplus, non-operational and investment property	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 April 2009 Restated	1,694,246	65,939	1,063,431	8,505	334,612	106,758	3,273,491
Additions	64,513	13,210	66,281	636	199,345		343,985
Donations		20					20
Disposals	-37,692	-932				-14,747	-53,371
Reclassification	-1,745		-5,996			1,745	-5,996
Revaluations	37,518					5,714	43,232
Transfer from/to WIP	77,790		17,583		-95,404	31	0
Transfer from WIP to revenue					-15,526		-15,526
At 31 March 2010	1,834,630	78,237	1,141,299	9,141	423,027	99,501	3,585,835
Depreciation and Impairments							
At 1 April 2009 Restated	-98,601	-37,128	-457,000	0	-6,878	-264	-599,871
Charge 2009/10	-140,751	-9,827	-52,868		-3,457	-33,161	-240,064
Depreciation to Landscape Services	-91						-91
Disposals	2,360	868					3,228
Reclassifications	257	-59				-257	-59
Revaluations	39,940					-12,590	27,350
At 31 March 2010	-196,886	-46,146	-509,868	0	-10,335	-46,272	-809,507
EKO						5083	5,083
Balance Sheet amount at 31 March 2010	1,637,744	32,091	631,431	9,141	412,692	58,312	2,781,411

Notes to the Core Financial Statements

Balance Sheet amount at 1 April 2009

Nature of asset holding

Owned	1,442,501	32,032	631,431	9,141	410,871	53,229	2,579,205
Finance Lease		59					59
PFI	195,243				1,821		197,064
EKO						5,083	5,083
	<u>1,637,744</u>	<u>32,091</u>	<u>631,431</u>	<u>9,141</u>	<u>412,692</u>	<u>58,312</u>	<u>2,781,411</u>

Valuations of Fixed Assets carried at current value

The following statement shows the progress of Kent County Council's rolling programme for the revaluation of fixed assets. The valuations were carried out by Steve Conrathe MRICS of Mouchel, Peter Constable MRICS of Cluttons, Jason Kirkaldy MRICS of Savills, Stephen Richmond MRICS of Altus Edwin Hill, Paul Dawson FRICS for Glenny, Richard G Robson MRICS of Michael Rogers and Sajaad Ahmad MRICS of Jones Lang Lasalle. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings £'000	Investment Properties £'000	Total £'000
Valued at current value in:			
2005-06	549,970	960	550,930
2006-07	840,189	0	840,189
2007-08	189,011	0	189,011
2008-09	511,346	1,000	512,346
2009-10	777,493	6,570	784,063

Basis of valuation

All valuations of land and buildings were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. In 2009-10 Primary Schools land and buildings have been valued as well as those properties with a life more than 50 years and non operational assets requiring a new market valuation. For each operational asset an Existing Use Value (EUUV) was provided. In the case of specialised properties, that is, those properties which are rarely, if ever, sold for existing use on the open market, the valuation basis used is Depreciated Replacement Cost (DRC). For each non operational asset a Market Value was provided.

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

16. Assets held under finance leases including PFI

Included within the totals for vehicles, plant and equipment are assets that have been acquired under finance leases. Values are as follows:

	At 31 March 2010 £'000	At 31 March 2009 £'000
Gross Book Value	8,091	8,091
Accumulated Depreciation	-8,087	-7,836
Value at 31 March 2010	4	255

Outstanding commitments in relation to finance leases at 31 March are as follows:

	2009-10 £'000	2008-09 £'000
Less than one year	2	292
Between 2-5 years	0	2
	2	294

Notes to the Core Financial Statements

Aggregate finance charges allocated for the period up to the 31 March 2010 are £0.04m in respect of finance leases. Depreciation charges in 2009-10 were £252k and in 2008-09 were £279k.

PFI

Value of PFI assets at each balance sheet date and analysis of movement in those values

Value of assets	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	TOTAL
					£'000
31.3.09	101,778	18,829	15,699	2,922	139,228
Additions	5,967	56	125	61,551	67,699
Revaluations	-189	2,224			2,035
Transfer from/to WIP					
Impairment	-6,189		-5,723		-11,912
Depreciation	-1,254	-403	-110	-41	-1,808
31.3.10	100,113	20,706	9,991	64,432	195,242

Value of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values

Finance Lease Liability	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	TOTAL
					£'000
31.3.09	80,721	9,631	15,144	2,207	107,703
Fair value of assets coming into use in-year				61,427	61,427
Liability repaid	-1,490	-269	-322	-3,538	-5,619
31.3.10	79,231	9,362	14,822	60,096	163,511

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,580	7,107	2,615	81	11,382
Within 2-5 years	6,065	27,263	11,128	2,235	46,691
Within 6-10 years	8,673	31,341	15,549	5,639	61,202
Within 11-15 years	11,829	27,315	17,592	8,005	64,742
Within 16-20 years	16,303	21,576	19,904	10,965	68,747
Within 21-25 years	27,044	15,014	22,519	8,702	73,278
Within 26-30 years	7,737	2,410	4,847	255	15,249

RPIx is used as the basis for indexation in the 6 Schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Notes to the Core Financial Statements

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
Within 1 year	234	1,477	504	156	2,371
Within 2-5 years	786	5,728	2,149	1,224	9,887
Within 6-10 years	1,436	6,882	2,983	2,130	13,431
Within 11-15 years	3,687	6,477	3,350	1,283	14,798
Within 16-20 years	3,219	2,633	1,833	310	7,994

RPIx is used as the basis for indexation in the Swanscombe Schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Westview/Westbrook

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
Within 1 year	391	1,582	1,280	71	3,323
Within 2-5 years	1,075	6,376	5,497	1,330	14,278
Within 6-10 years	1,575	8,456	7,817	2,454	20,302
Within 11-15 years	2,160	9,333	9,030	2,929	23,452
Within 16-20 years	3,816	10,907	10,448	1,964	27,135
Within 21-25 years	5,805	11,265	7,049	662	24,781

The RPIx and AEI Indices are both used as bases for indexation in the Westview/Westbrook PFI contract. RPIx has been assumed to be 2.5% per annum for the duration of the remainder of this PFI contract and AEI has been assumed to be 2% higher than this at 4.5% over the same period.

Better Homes, Active Lives

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
Within 1 year	909	4,268	0	194	5,371
Within 2-5 years	4,074	16,404	0	1,005	21,484
Within 6-10 years	5,560	18,800	0	2,495	26,855
Within 11-15 years	7,148	16,597	0	3,110	26,855
Within 16-20 years	11,246	13,535	0	2,074	26,855
Within 21-25 years	14,905	9,099	0	2,851	26,855
Within 26-30 years	16,253	2,830	0	611	19,694

No indexation is applied to the Better Homes, Active Lives PFI contract.

Notes to the Core Financial Statements

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
Within 1 year - short term	3,114	14,434	4,399	502	22,448
Within 2-5 years	12,000	55,771	18,775	5,794	92,340
Within 6-10 years	17,244	65,479	26,348	12,719	121,790
Within 11-15 years	24,825	59,723	29,972	15,327	129,846
Within 16-20 years	34,584	48,651	32,184	15,312	130,731
Within 21-25 years	47,754	35,378	29,568	12,215	124,914
Within 26-30 years	23,990	5,240	4,847	867	34,944
Total	163,511	284,675	146,093	62,735	657,014

17. Capital Expenditure and Financing

Capital expenditure was financed as follows:

	2009-10	Restated 2008-09
	£000's	£000's
Opening Capital financing requirement	1,167,209	1,071,106
Capital investment		
Fixed Assets	328,734	272,201
Intangible assets	492	303
Deferred charges	20,457	39,381
	1,516,892	1,382,991
Sources of finance		
Capital receipts	15,005	10,503
Government grants and other contributions	204,704	144,318
Revenue contributions (including MRP)	61,982	60,961
Closing Capital Financing Requirement	1,235,201	1,167,209
Movement	67,992	96,103
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	17,907	23,742
Increase in underlying need to borrow (unsupported by Government financial assistance)	50,085	72,361
Increase/(decrease) in Capital Financing Requirement	67,992	96,103

Capital expenditure 2009-10

The main items of capital expenditure during the year were:

	£'000	£'000
Highways Schemes		
Highway Major Maintenance	49,768	
Integrated Transport scheme	11,954	
East Kent Access Phase2	10,708	
Sittingbourne Northern Relief Road	7,952	
Rushenden Relief Road	6,775	
Victoria Way	2,854	
Major schemes Design	1,511	
Ashford Drivers Roundabout	1,255	
Non TSG Land	1,034	
Public Rights Of Way - Maintenance	1,000	
	<hr/>	94,811
Education Schemes		
Building Schools for the future - Wave 3	61,025	
Building Maintenance	15,276	
Special Schools Review	13,441	
New Line Learning	12,786	
Cornwallis Academy	11,694	
Primary Improvement Programme	10,628	
Children's Centres	10,179	
Building Schools for the future	7,171	
Longfield Academy	6,038	
The Bridge Development	5,431	
Castle Hill Primary	2,206	
Dartford Campus	1,232	
Practical Cooking Spaces	1,161	
Capital Strategy Unit	1,064	
	<hr/>	159,332
Chief Executive's Schemes		
Sustaining Kent - Maintaining the Infrastructure	2,371	
Modernisation of Assets	2,115	
	<hr/>	4,486
Communities Schemes		
Turner Contemporary	5,781	
Kent History & Library Centre	1,863	
Contribution to The Marlowe Theatre	1,000	
	<hr/>	8,644
		<hr/>
		267,273
Capital Devolved to Schools		46,314
Projects less than £1m		30,478
Total Capital Expenditure		<hr/> <hr/>
		344,065

Notes to the Core Financial Statements

Future capital expenditure commitments

At 31 March 2010 contractually committed capital expenditure to be incurred in 2010-11 and later years includes the following major projects:

	£'000
Highways Schemes	
East Kent Access Phase2	57,105
Sittingbourne Northern Relief Road	13,029
Rushenden Relief Road	2,159
Education Schemes	
Building Schools for the Future - Wave 3	44,689
Cornwallis Academy	23,634
Longfield Academy	18,024
New Line Learning	8,170
The Manor School	2,269
Park Farm Primary	1,400
Grange Park School	1,331
Dartford Grammar School for Girls - Sports Hall	1,200
Crockenhill Primary	823
Milestone School	619
Communities	
Turner Contemporary	8,132
Kent History & Library Centre	7,794
Ashford Gateway Plus	5,799
The Beaney Canterbury	2,479
Gravesend Library	1,850
Contribution to The Marlowe Theatre	1,000
Kent Adult Social Services	
Broadmeadow Registered Care Centre	1,182
Total Commitments	<u>202,688</u>

Analysis of major operational asset holdings

	At 31 March 2010	At 31 March 2009
Schools (excludes voluntary aided schools and academies)	473	478
Libraries, adult education, discovery and youth centres	110	112
Smallholdings	8	7
Integrated Register Care Centre and day centres for the elderly	19	18
Facilities for children and their families	54	47
Learning Disability Day Opportunity Centres	14	12
Recreation sites	30	30
Household Waste sites	18	18
County roads	8,497km	8,423km
County offices	6	6
Short Break Disability Respite Units	5	5
Physical Disability Resource Centres	3	3
Supported Accommodation-Mental Health PFI	1	
Supported Accommodation-Learning Disability PFI	6	
Extra Care Supported Housing-PFI	4	
Schools PFI	8	8

18. Movement in intangible assets

	Purchased Software licences £000s	Total £000s
Original cost	13,290	13,290
Amortisation to 1 April 2009	-9,739	-9,739
Balance at 1 April 2009	3,551	3,551
Expenditure in year	492	492
Written off to revenue in year	-1,499	-1,499
Balance at 31 March 2010	2,544	2,544

Software licences were purchased for Central and Children's, Families and Education systems and various Commercial Services replacement systems. The cost is being written off over the life of the licences; between 3 and 5 years.

19. Amounts owed to the Council by debtors

	At 31 March 2010 £000's	Restated At 31 March 2009 £000's
Long Term debtors:		
Housing Act advances (mortgages)	0	2
Medway Council (transferred debtor)	49,199	51,249
Public bodies	2,426	2,717
Other	6,614	744
	58,239	54,712
Other debtors:		
EKO	52	
Staff advances	50	54
Government Departments	57,659	47,474
Payments in advance	22,008	19,671
General debtors	131,949	126,445
	211,718	193,644

Capital debtors amounting to £21.2m are included in the Accounts at 31 March 2010 (£18.5m in 2008-09). Capital debtors relate to grants towards capital expenditure incurred in 2009-10 which had not been received by 31 March 2010.

20. Amounts owed by the Council to creditors

	At 31 March 2010 £000's	At 31 March 2009 £'000's
EKO	70	
Kent and Essex Sea Fisheries	811	781
Receipts in advance	56,771	65,393
General creditors	204,424	209,707
Other local authorities	6,147	5,245
Deferred capital receipts	0	2
Deferred income	2,703	2,785
Government departments	13,608	14,834
	284,534	298,747

Capital creditors amounting to £65m are included in the Accounts at 31 March 2010 (£50.3m in 2008-09).

21. Net Assets Employed

Net assets analysed between Kent County Council, EKO and trading operations.

	At 31 March 2010 £'000	At 31 March 2009 £'000
General Fund	2,940,930	2,821,807
EKO	5,025	
Trading Accounts	6,731	6,145
	2,952,686	2,827,952

22. Provisions

The Council has made a provision for insurance claims. The Council's Insurance arrangements involve both internal and external cover. For internal cover an Insurance fund has been established to provide cover for property, combined liability and motor insurance claims. The fund comprises a Provision for all claims notified to the Council at 31 March each year and a Reserve for claims not yet reported but likely to have been incurred.

	Balance at 1 April 09 £'000	Movement in year £'000	Balance at 31 March 10 £'000
Insurance Provision	-10,810	-2,424	-13,234
Other Provisions	-3,679	820	-2,859
	<u>-14,489</u>	<u>-1,604</u>	<u>-16,093</u>

The £2,859k in other provisions comprises some 14 provisions ranging from £640k to £6k.

Notes to the Core Financial Statements

23. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Restated			Purpose of Reserve
	Balance 1 April 2009 £'000	Net Movement in year £'000	Balance 31 March 2010 £'000	
Revaluation Reserve	-131,912	-51,841	-183,753	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-1,075,507	85,687	-989,820	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	27,715	-1,486	26,229	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-3,906	-569	-4,475	Movement between the I & E and amount require by regulation to be credited to the General Fund
Usable Capital Receipts	-14,379	-2,666	-17,045	Proceeds of fixed assets available to meet future capital investment
Pensions Reserves				Balancing account to allow inclusion of Pensions
- KCC	739,900	389,329	1,129,229	Liability in Balance Sheet
- DSO	2,199	71	2,270	
General Fund	-25,835	0	-25,835	Resources available to meet future unforeseen events
Earmarked Capital Reserve	-70,144	-67,523	-137,667	See note below
Earmarked Reserves	-102,002	-13,882	-115,884	Note on page 66
Schools Reserve	-63,183	11,430	-51,753	Note on page 67
Surplus on Trading Accounts	-223	-90	-313	Note on page 72
Total	-717,277	348,460	-368,817	

Earmarked capital reserves of £137,667k as at 31 March 2010 include schools capital reserves of £14,108k. This has increased from the £9,469k held by schools as at 31 March 2009. The remainder reflects Government grants and contributions received in year for projects in progress.

Earmarked Reserves

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2009 or 31 March 2010, the sum of which are shown in the table on page 66.

Vehicles, plant and equipment

This is a reserve for the replacement and acquisition of vehicles, plant and equipment.

Special funds

These are reserves held primarily to facilitate the implementation of economic development and tourism initiatives and policy and regeneration expenditure.

School Maintenance Indemnity Schemes

A reserve which comprises the balance of resources in hand under an arrangement where schools pay into an indemnity scheme operated by KCC Property Group. In return for contributions the reserve covers the cost of maintenance works required at school premises, thereby offering peace of mind to schools where the financial risk and liability is managed by KCC Property Group to ensure that schools' budgets are protected from unexpected maintenance issues.

Kings Hill development smoothing reserve

Comprises the County Council share of distribution from proceeds of the Kings Hill development received in accordance with the terms of the Development Agreement. These distributions can vary considerably from year to year so this reserve is used to smooth the impact on the revenue budget over the medium term. In the current economic climate, sale of development land has declined considerably, we are therefore currently holding a deficit balance on this reserve but it is expected that it will go back into surplus once the economic situation improves.

Swanscombe School PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments for the Swanscombe School PFI scheme. The reserve will comprise of contributions from the Education revenue budget and a proportion of grant funding received from the government.

Six Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 6 schools' PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the Government.

Westview and Westbrook PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, Section 31 pooled budget contributions and government grant funding for the Westview and Westbrook PFI scheme.

Better Homes Active Lives PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, contract management costs and government grant funding for the Better Homes Active Lives scheme.

Reserve for projects previously classified as capital but now considered to be revenue

This has been established to cover the costs of projects which were included in the capital programme but further details are now available which have made it apparent that these costs are revenue. By switching around funding within the existing capital programme, so that revenue contributions to capital made in 2009-10 have been switched with other capital funding sources, we have been able to create this reserve to manage these revenue costs over the medium term.

Supporting People reserve

This is unspent grant from previous years which will be used to smooth out the loss of grant funding in future years.

Every Child Matters Contact Point reserve

This is unspent Contact Point grant from the DCSF to support the implementation of the Information Sharing Index in all authorities. There have been national delays in the implementation of this system.

Environmental Initiatives reserve

This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners.

Rolling budget reserve

This reserve represents the roll forward of funds to cover re-scheduling of revenue expenditure from previous years.

Economic Downturn Reserve

This reserve is to cover the impact of the economic downturn which cannot be covered within normal revenue budget allocations.

Asylum reserve

A reserve to cover the impact of any shortfall in grant funding.

Emergency Conditions reserve

This reserve is to cover the cost of emergencies which cannot be accommodated within normal revenue allocations, such as the costs associated with severe weather conditions.

Elections reserve

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and bi-elections. A contribution is made to the reserve each year in order to even the impact upon the council tax.

Dilapidations reserve

This reserve is to provide for the potential dilapidation costs that the Council faces when existing leases for office accommodation cease.

Workforce reduction reserve

This reserve is to provide for the redundancy and other costs of potential staffing reductions required to achieve budget savings.

South East Improvement and Efficiency Partnership reserve

This was unspent grant from the DCLG to fund the administration of the South East Improvement and Efficiency Partnership, which was undertaken by KCC. This function has now transferred to Hampshire County Council.

IT Asset Maintenance reserve

This reserve will contribute to the funding of the IT refresh programme which will give the Council ongoing and sustainable capacity to replace ageing technology.

Performance Reward Grant (PRG) reserve

This reserve comprises funding from the DCLG Performance Reward Grant to fund projects aimed at improving performance over the medium term.

Earmarked Reserve to support next years budget

The medium term plan for 2010-13 includes support from 2009-10 underspending, which was transferred into this earmarked reserve during 2009-10 to be drawn down in 2010-11.

Prudential Equalisation Reserve

A reserve to smooth the impact on the revenue budget over the medium term of prudential borrowing costs i.e. the costs of borrowing to support the capital programme, which are not supported by Government grant. This will be used in the short to medium term to pay for PEF 2 borrowing costs.

Dedicated Schools Grant (Central Expenditure) Reserve

This is unspent Dedicated Schools Grant for central expenditure, which in accordance with the DCSF grant regulations must be carried forward for use in future years and spent in accordance with school financial regulations.

Turner Contemporary Investment Reserve

This reserve has been created from the settlement from the original Turner Contemporary gallery design and will be supplemented at the end of each year by the interest earned from its investment as part of KCC balances. It is used to part fund the annual contribution to the Turner Contemporary trust under the grant agreement dated 30th March 2010.

Insurance reserve

This is a reserve for the potential cost of insurance claims in excess of the amount provided for in the insurance fund provision.

Other

These mainly comprise various reserves held in respect of initiatives commenced in previous years for which remaining planned financial provision will be utilised in 2010-11 or future years as initiatives are completed.

Notes to the Core Financial Statements

Other Earmarked Reserves	Balance at 1 April 2009	Movement	Balance at 31 Mar 2010
	£'000	£'000	£'000
VPE Reserve	-4,297	620	-3,677
Special funds	-3,563	-802	-4,365
School Maintenance Indemnity schemes	-324	-375	-699
Kings Hill development smoothing reserve	404	2,000	2,404
Swanscombe School PFI equalisation reserve	-5,584	-205	-5,789
Six schools PFI	-5,889	-176	-6,065
Westview/Westbrook PFI equalisation reserve	-1,422	-519	-1,941
Better Homes Active Lives PFI equalisation reserve	-1,929	-1,601	-3,530
Reserve for projects previously classified as capital	-5,644	-981	-6,625
Economic Downturn reserve	-1,173	-7,724	-8,897
Supporting People Reserve	-9,682	2,838	-6,844
Every Child Matters Contact Point reserve	-553	-31	-584
Environmental initiatives reserve	-2,016	-217	-2,233
Rolling budget reserve	-7,496	-1,330	-8,826
Asylum Reserve	-4,093	2,403	-1,690
Emergency Conditions Reserve	-1,413	100	-1,313
Elections Reserve	-912	702	-210
Dilapidations reserve	-1,725	64	-1,661
Workforce Reduction reserve	-2,933	-1,141	-4,074
South East Improvement and Efficiency Partnership	-715	715	0
IT Asset Maintenance reserve	-4,819	182	-4,637
PRG Reserve	-3,181	886	-2,295
Earmarked Reserve to support next years budget	-4,169	2,599	-1,570
Prudential Equalisation Reserve	-7,654	-4,705	-12,359
Dedicated Schools Grant - Central Expenditure	-5,835	262	-5,573
Turner Contemporary Investment Reserve	0	-3,424	-3,424
Other	-5,332	-875	-6,207
Total	-91,949	-10,735	-102,684
Insurance Reserve			
KCC	-9,241	3,347	-5,894
	-101,190	-7,388	-108,578
Commercial Services Earmarked Reserves	-812	-1,469	-2,281
EKO		-5,025	-5,025
Total Earmarked Reserves	-102,002	-13,882	-115,884
Trading Reserves:			
Commercial Services Trading Account	-109	108	-1
Thanet Skills Studio	-125	-67	-192
Oakwood House	11	-131	-120
Schools Reserves	-63,183	11,430	-51,753
Total Movement as per I & E	-165,408	-2,542	-167,950
Balance Sheet	-165,408	-2,542	-167,950

School Reserves

At 31 March 2010 funds held in school revenue reserves stand at £51.754m. These reserves are detailed in the table below.

	Balance at 1 April 2009	Movement	Balance at 31 Mar 2010
	£'000	£'000	£'000
School delegated revenue budget reserves - committed	-21,906	13,138	-8,768
School delegated revenue budget reserves - uncommitted	-29,719	1,323	-28,396
Unallocated Schools budget	-11,234	-2,796	-14,030
Community Focused Extended School Reserves	-325	-235	-560
Total	-63,184	11,430	-51,754

24. Assets and Liabilities in relation to retirement benefits

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2009-10	2008-09 as restated
	£000's	£000's
1 April	966,300	1,147,400
Expected rate of return	62,088	82,300
Actuarial gains and (losses)	278,760	-311,400
Employer contributions	94,689	90,800
Contributions by scheme participants	24,022	23,000
Benefits paid inc unfunded benefits	-79,658	-65,800
Receipt /payment of bulk transfer values	-1,863	0
31 March	1,344,338	966,300

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £340,849k (2008-09: £230,100k)

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities: Local Government Pension Scheme	
	2009-10	2008-09
	£000's	£000's
1 April	1,706,200	1,716,700
Current service cost	41,823	47,700
Interest cost	117,259	119,200
Contributions by scheme participants	24,022	23,000
Actuarial gains and (losses -)	663,699	-152,400
Benefits paid	-79,658	-65,800
Liabilities extinguished on settlements	-2,053	0
Past service costs	2,275	17,800
31 March	2,473,567	1,706,200

Notes to the Core Financial Statements

Scheme History

	2005-06*	2006-07 as restated	2007-08 as restated	2008-09	2009-10
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
• Local Government Pension Scheme	-1,764,800	-1,779,500	-1,716,700	-1,706,200	-2,473,567
Fair value of assets in the Local Government Pension Scheme	1,040,200	1,136,700	1,147,400	966,300	1,344,338
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-724,600	-642,800	-569,300	-739,900	-1,129,229

* The council has elected not to restate fair value of scheme assets for 2005-06 as permitted by FRS17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £1,129.2m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative movement of £389,329k.

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. Accounting standard FRS17 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds reduced from 3.7% to 1.5% during the year in part due to the impact of quantitative easing and other technical factors on bond and gilt markets. Had these markets remained at their 2009 levels then the pensions deficit would have been £663,699,000 less at £465,530,000. The assets of the Kent County Council Fund are invested for the longer term with only a small percentage invested in corporate bonds. The return earned by the Fund during the year was of the order of 35%.

FRS17 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields). A triennial valuation is being carried out as at 31 March 2010 which will show a much lower level of deficit than shown by FRS17 due to the different measurement of the Fund's liabilities.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £89,756k.

Notes to the Core Financial Statements

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 dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liability has been assessed by Barnett Waddingham.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2009-10	2008-09
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.50%	7.00%
Gilts	4.50%	
Bonds	5.50%	5.40%
Property	5.50%	4.90%
Cash	3.00%	4.00%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.5 years	21.5 years
Women	24.4 years	24.4 years
Longevity at 65 for future pensioners:		
Men	22.6 years	22.6 years
Women	25.5 years	25.5 years
Rate of inflation	3.9%	3.1%
Rate of increase in salaries	4.4%	4.6%
Rate of increase in pensions	3.9%	3.1%
Rate for discounting scheme liabilities	5.5%	6.9%
Take-up option to convert annual pension into retirement lump sum	50%	50%

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

	March 2010	March 2009
	%	%
Equity Investments	74%	66%
Gilts	1%	
Bonds	14%	17%
Property	7%	9%
Cash	4%	8%
	100%	100%

Notes to the Core Financial Statements

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2009-10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

	2006-07	2007-08	2008-09	2009-10
		as restated	as restated	
	%	%	%	%
Differences between the expected and actual return on assets	-0.6	-9.7	-32.2	20.7
Experience gains and losses on liabilities	0.0	4.3	-0.1	-0.4

DSO Pensions

The figure in the Balance Sheet reflects the unfunded liability as calculated by the actuary in March 2010 on a minimum risk basis. This basis represents a prudent set of assumptions and is closest to an FRS 17 figure.

Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2009-10	2008-09	2007-08
	£000's	£000's	£000's
Actuarial Gains/Losses	-631,384	-159,000	66,650
Increase / Decrease in irrecoverable surplus from membership fall and other factors	251,029	4,748	4,540
Actuarial gain / (loss) recognised in STRGL	-380,355	-154,252	71,190

25. Surplus on Trading Accounts

	Balance at 1 April 09 £'000	Movement in the year £'000	Balance at 31 March 10 £'000
Commercial Services	-109	108	-1
Oakwood House	11	-131	-120
Thanet Skills Studio	-125	-67	-192
	-223	-90	-313

The Commercial Services figure differs from that shown in the Income and Expenditure Account as this note does not reflect the adjustments that have to be made in line with BVACOP.

Other Notes

26. Pension Fund

Once credited to the Pension Fund, monies may only be used to provide for the statutory determined pension and other payments attributable to staff covered by the Fund. The assets and liabilities of the Pension Fund are shown separately from those of Kent County Council, although the legal position is that they are all in the ownership of Kent County Council as the administering authority. Any actuarial surplus or deficit is apportioned to the constituent member bodies of the Fund. Details of the Fund are disclosed in the Pension Fund Accounts found on pages 86 to 98.

27. The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2009-10.

28. Contingent Liabilities

Land, Planning & Highways

This relates to a claim for compensation for the compulsory acquisition of land in The Ebbsfleet Valley North Kent by KCC pursuant to KCC's STDR 4 CPO 1996. The initial claim was for £11 million but will attract interest to date of payment. This element does not include a potential similar claim by Blue Circle. Although no accurate figures are available or possible the total claim could now have risen to between £11 million and £20 million.

Legal costs to date are approximately £800,000 and increasing. It is possible that some compensation may be payable, but the amount is not ascertainable without a full determination by the Land's Tribunal.

Government Funding

The new Coalition Government announced their intention to review recent spending decisions of the previous Administration, as part of their drive to reduce the national budget deficit. There is currently little detail as to what projects may be impacted as a result of this or the timing. For example, the Building Schools for the Future (BSF) and the KASS PFI programmes are likely to be reviewed as part of this exercise. It is probable that Wave 4 of BSF and KASS PFI have progressed to the point to make any reversal financially disadvantageous. Nevertheless, should such programmes be aborted, there will be a consequential impact on Kent County Council's accounts given the work to date.

Education

There is one case of which legal costs are expected to exceed £10k. The prospects of success are good.

Employment

There are 23 claims relating to discrimination and breach of contract in employment. Of these 8 are limited to unfair dismissal and 9 are against schools. Although the governing bodies of schools are the legal employer of teaching staff, by operation of the Education (Modification of Enactments Relating to Employment) (England) Order 2003 where an award of damages is made by an Employment Tribunal in most cases Kent County Council will be liable to pay the award. Employment tribunals can in discrimination cases award unlimited damages to a successful claimant. Based on available information on these cases, the total amount in damages being sought by the claimants exceeds £1million. However, on a number of these claims the prospects of success are assessed to be good. Further even if not successful; it is extremely rare for employment tribunals to award all of the damages that are claimed.

Childcare case

All care proceedings are now subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 207 live cases. We are not able to report on specific cases without leave of the court. The costs to KCC of taking these proceedings are in excess of £10k each

Litigation

There are 3 such cases of which legal costs are expected to exceed £50k. One case relating to photocopier contracts in schools, which if proven would exceed an overall loss to schools and KCC of over £1m.

Asylum & Judicial review

There are four judicial review cases of Age assessment. With regard to three of the Age assessment cases the costs are likely to exceed £10k in each case. In the event that the claimants are successful and awarded costs, these could be between £35-50K each. Prospects of success are very difficult to accurately evaluate at this stage due to an overhaul of this area of law with no new judgements under the new regime. In respect of the fourth case this has been heard by the court and the claimant has appealed that decision to which KCC have not opposed. Costs to KCC are estimated to be between £50-75k with the same again being claimed by the claimant.

There is also one Adult protection case of which initial applications have been successful. Prospects of success overall are very good. Legal costs to date have exceeded £10k

29. Cash flow Grant analysis

	2009-10 £'000's	2008-09 £'000
Revenue Grants		
Department for Children Schools and Families	367,675	339,544
Department of Health	8,239	1,767
Home Office	15,052	22,417
European Community	0	361
Department for Communities and Local Government	55,704	64,131
Department for Environment, Food and Rural Affairs	474	1,002
Department for Work and Pensions	1407	147
Seeda - South East England Development Agency	204	649
NOF - New Opportunities Fund (Lottery) and other	1,409	660
	450,164	430,678
Capital Grants		
Department for Children Schools and Families	210,723	121,678
Department for Transport	15,853	6,515
Department for Communities and Local Government	6,027	19,193
Department of Health	1,490	249
Lottery and other	9,403	125
	243,496	147,760

30. Reconciliation of revenue surplus to revenue cashflow

	2009-10 £'000	2008-09 £'000
Surplus(-)/Deficit for the year	0	0
Non-cash transactions		
Minimum revenue provision and amounts set aside from revenue	-49,745	-42,032
Contributions to reserves	-14,779	-15,841
Contributions to provisions	-2,514	1,952
	-67,038	-55,921
Items on an accruals basis		
Increase/decrease(-) in revenue debtors	11,190	28,163
Increase(-)/decrease in revenue creditors	22,899	-25,283
Increase/decrease(-) in stocks	294	547
	-32,655	-52,494
Items shown later in the cashflow statement		
Servicing of finance	-56,681	-41,517
Net cashflow from revenue activities	-89,336	-94,011

31. Reconciliation of movement in cash to the movement in net debt

	Balance	Balance	Movement
	1 April 2009	31 Mar 2010	in the year
	£'000	£'000	£'000
Cash overdrawn	-103,339	-34,283	-69,056
Decrease in cash			-69,056
Debt repayable within 1 year	-60,505	-45,031	15,474
Debt repayable after 1 year	-981,894	-997,333	-15,439
Investments	356,991	265,214	-91,777
Increase in net debt			-91,742

32. Definition of Liquid Resources

Liquid resources have been defined as the short term investments that are disclosed on the face of the Balance Sheet.

Trust Funds

Kent County Council is responsible for the application of income from Trust Funds which have been provided from gifts and legacies for items such as school prizes. In accordance with the recommendations of the Charities Commission these are not consolidated into the Council's accounts and are instead separately managed and subject to appropriate independent review.

Balance Sheet at 31 March

	2009-10	2008-09
	£	£
Current assets		
Investments	29,746	28,295
Debtors	9	84
Cash	51,018	74,440
	80,773	102,819
Represented by		
Trust funds -		
Capital	-29,746	-28,666
Revenue	-51,027	-74,153
	-80,773	-102,819

33. Financial Instruments

Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long Term		Current	
	Restated		31 Mar 2009	31 Mar 2010
	31 Mar 2009	31 Mar 2010		
	£'000	£'000	£'000	£'000
Financial liabilities (principal amount) This is the actual value of the loan, not arising from any adjustments	981,895	997,333	60,505	45,031
Financial liabilities at amortised cost	998,427	1,012,116	60,641	45,240
Total borrowings	998,427	1,012,116	60,641	45,240

The difference between £997.333m and the figure on the Balance Sheet of £1,012.12m is discounts balance of £1.662m and accrued interest of £13.121m. The difference between £45.031m and the figure on the Balance Sheet of £45.240m is accrued interest of £114k and EKO temporary loan of £95k.

Loans and receivables (principal amount) This is the actual value of the loan, not arising from any adjustments	91,000	35,000	265,991	230,214
Loans and receivables	96,267	35,671	262,949	224,043
Total Investments	96,267	35,671	262,949	224,043

The difference between £230.214m and the figure on the Balance Sheet of £224.043m is the net impairment charge for Iceland of £7.607m, Kent Fire cash of £1.212m to cover Iceland deposits, and accrued interest of £2.648m. The difference between £35m and the figure on the Balance Sheet of £35.671m is accrued interest of £0.671m.

Notes to the Core Financial Statements

Financial Liabilities at amortised cost		Restated
Long term	2009-10	2008-09
	£'000	£'000
Long Term Borrowing		
Amounts still owed on loans received from external bodies to acquire capital assets.		
Long term borrowing for repayment after 1 year	1,012,116	998,427
Total Long Term Borrowing at 31 March	<u>1,012,116</u>	<u>998,427</u>
 PFI Lease Liability short term	 3,114	
 Current	 £'000	 £'000
Borrowing		
Long term borrowing for repayment within 1 year		
Temporary Borrowing	45,145	60,641
EKO	95	
Total Borrowing at 31 March	<u>1,060,470</u>	<u>1,059,068</u>
 PFI Lease Liability	 160,397	
 Creditors	 £'000	 £'000
The analysis of creditors by category is:		
Government grants	27,775	18,832
Creditors due after 1 year	823	
Other	256,759	279,915
Balance at 31 March	<u>285,357</u>	<u>298,747</u>
 Cash overdrawn	 34,283	 103,339

Notes to the Core Financial Statements

Financial Instruments Gains / Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £000	Loans and receivables £000	Total £000
Interest expense	-53,870		
Losses on derecognition	-950		
Impairment losses	0	-474	
Interest payable and similar charges	-54,820	-474	-55,294
Interest income		4,965	
Gains on derecognition	1,971		0
Interest and investment income	1,971	4,965	6,936
Gains on revaluation	0	0	
Losses on revaluation	0	0	
Amounts recycled to the I&E account after impairment	0	0	
Surplus arising on revaluation of financial assets	0	0	
Net gain/(loss) for the year	-52,849	4,491	

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables 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 loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Notes to the Core Financial Statements

The fair values calculated are as follows:

£000's	31 March 2010		Restated 31 March 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
PWLB debt	671,295	777,981	673,098	816,102
Non-PWLB debt	385,966	393,542	385,970	405,039
EKO temporary loan	95	95		
Total debt	1,057,356	1,171,618	1,059,068	1,221,141
Trade Creditors	44,280	44,280	46,342	46,342
Total financial liabilities	1,101,636	1,215,898	1,105,410	1,267,483

The fair value 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 similar loans in the market at the Balance Sheet date.

Money market loans >1 year	35,671	36,196	96,267	101,085
Bonds	0	0	0	0
Trade debtors	2,266	2,266	5,141	5,141
Total loans and receivables	37,937	38,462	101,408	106,226

The differences are attributable to fixed interest instruments payable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each Balance Sheet date, and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result the fair value figures for 31 March 2010 are relatively higher (more costly to redeem) than the 31 March 2009 comparators.

The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference would be immaterial.

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- 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 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 rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance, prudential indicators for the following three years limiting:
 - o The Council's overall borrowing;
 - o Its maximum and minimum exposures to fixed and variable rates;
 - o Its maximum and minimum exposures to the maturity structure of its debt;
 - o Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year, setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a central treasury team. 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 through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

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 managed 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 & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2008 on investments out to 5 years.

Amount at 31 Mar 2010 £000	Historical experience of default %	Adjustment for market conditions at 31 Mar 10 %	Estimated maximum exposure to default £000
(a)	(b)	(c)	(a*c)

Deposits with banks and financial institutions

AAA rated counterparties	41,300	0.000%	0.000%	0
AA rated counterparties	125,000	0.030%	0.030%	38
A rated counterparties	44,988	0.080%	0.080%	36
BBB rated counterparties	10,000	1.220%	1.220%	122
Other counterparties	43,926	42.670%	42.670%	18,743
Bonds - AAA rates				
Trade debtors	2,266	4.400%	4.400%	98
	267,480			19,037

The Council does not generally allow credit for its trade debtors, as such £1.780m of the £2.3m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2010 £000	31 March 2009 £000
Less than three months	1,034	575
Three to six months	270	275
Six months to one year	397	169
More than one year	79	160
	1,780	1,179

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2010 was £30.7m.

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 and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). 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. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Our Medium Term Plan also sets targets for liquidity ratios, which are approved as part of the annual budget setting process.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. 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.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	31 March 2010	31 March 2009
	£000	£000
Less than one year	45,031	60,505
Between one and two years	55,024	45,031
Between two and six years	128,229	183,254
Between six and fifteen years	187,005	187,005
More than fifteen years	627,075	566,604
	<u>1,042,364</u>	<u>1,042,399</u>

The maturity analysis of financial assets is as follows:

	31 March 2010	31 March 2009
	£000	£000
Less than one year	230,214	265,991
Between one and two years	20,000	20,000
Between two and three years	0	15,000
More than three years	15,000	56,000
	<u>265,214</u>	<u>356,991</u>

All trade and other payables of £44.3m are due to be paid in less than one year and are not shown in the table above.

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. 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 Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and Expenditure account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

All the Council's liabilities and assets are at fixed rates and so will not be affected by changes in interest rates. Neither does the Council hold investments that could lose capital value. Nevertheless through its Treasury Management Strategy the Council takes full cognizance of the impact changes in interest rates will have on the overall financing costs of the Council

Price risk - The Council, excluding the pension fund, does not generally invest in equity shares.

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.

Treasury Management Strategy

Each year the CIPFA Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and the following is a summary of the policy for 2009-10.

Debt Management

Due to the differential between debt costs and investment earnings being significant the Council's borrowing strategy was to defer external borrowing as much as possible and use internal resources in lieu of borrowing

Investment strategy

The Council's strategy was to prioritise security over yield; to deposit short term, retaining as much flexibility as possible, and to take account of a wider range of indicators than just credit ratings in the selection of counterparties.

34. Investments in Icelandic banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority had £50.35m deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

Investments included in the current assets figure in the Balance Sheet include the following investments that have been impaired because of the financial difficulties experienced by Icelandic Banks.

Bank	Amount Invested £000's	Interest Rate	Carrying Amount £000's	Updated Impairment to reflect changes to repayment schedules £000's
Heritable	1,500	6.15	1,557	391
Heritable	2,000	6.19	2,173	545
Heritable	2,000	5.6	2,064	501
Heritable	3,250	6.1	3,349	839
Heritable	4,600	5.9	4,848	1,197
Heritable	5,000	6.25	5,154	1,302
Glitnir	5,000	5.5	5,316	577
Glitnir	5,000	6.3	5,193	644
Glitnir	5,000	6	5,372	572
Landsbanki Islands	2,000	6.19	2,173	767
Landsbanki Islands	5,000	6	5,283	1,834
Landsbanki Islands	5,000	5.96	5,273	1,712
Landsbanki Islands	5,000	5.93	5,158	1,778
Total	50,350		52,913	12,659

The carrying amounts of the investments included in the Balance Sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate.

The Balance Sheet shows the net impact of the impairment of the Icelandic Banks investment in the Financial Instruments Adjustment Account. Regulations issued in March 2009 allow the Authority to defer the impact of an impairment loss on the General Fund. Such amounts are instead transferred to the Financial Instruments Adjustment Account, an account that records the timing differences between charging these amounts to the General Fund in accordance with proper practice and in accordance with the regulations. The Authority has taken advantage of the regulations, and has transferred the amounts to the Financial Instruments Adjustment Account.

Under the regulations, the Authority must transfer the balance on the Financial Instruments Adjustment Account to the General Fund no later than 31 March 2011 and must also credit the Financial Instruments Adjustment Account with interest earned until such time as the balance has been transferred to the General Fund.

The £12.659m impairment reflects an increase of £2.01m on the figures for 2008-09.

Of the £50.35m, £1.3m was deposited on behalf of the Kent and Medway Fire Authority and £16m on behalf of the Pension Fund. The current predicted loss for the Council is £3.5m. Debtors of £236.2k have been raised for the Fire Authority and the Pensions Fund. Under FRS 26 we are required to account for the cashflows at fair value and due to changes in %'s and timing of recovery, the impairment has increased by £2.01m.

Notes to the Core Financial Statements

The current situation with regards to the recovery of the sums deposited varies between each institution. Based on the latest information available the Authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

Heritable Bank

Heritable bank is a UK registered bank under English Law. The company was placed in administration on 7 October 2008. The authority has received dividends up to 31 March 2010 of 34.98% and as at the 31 March 2010, the expected return on our investment is 84.98%. In calculating the impairment of the Authority it has made the following assumptions re timing of the recoveries:

June 2010	5%	September 2011	5%
September 2010	5%	December 2011	5%
December 2010	5%	March 2012	5%
March 2011	5%	June 2012	5%
June 2011	5%	September 2012	5%

Landsbanki

The latest creditors report was issued on the 26 March 2010 and confirms that a settlement has been reached between Landsbanki and the successor bank in Iceland (NBI) about the way in which the successor will compensate Landsbanki for the assets taken over. We have calculated our recovery and impairment based on the authority having priority status. This would see a return of 94.86% of the investment over the following period:

October 2011	22.17%	October 2015	8.87%
October 2012	8.87%	October 2016	8.87%
October 2013	8.87%	October 2017	8.87%
October 2014	8.87%	October 2018	19.47%

If we don't receive priority status the return is estimated to be 38.19%.

Glitnir Bank hf

If local authority deposits retain priority status, 100% of claims will be repaid. No payment is expected to be received prior to the court cases and any appeals in respect of priority status being heard. The earliest date by which payment could be made is the end of June 2011.

June 2011	100.00%
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If we don't receive priority status the return is estimated to be 29%.

Pension Fund Accounts

This is an extract from a more detailed published statement, a copy of which is available for inspection at County Hall. Further information about the Pension Fund Accounts can be obtained from Nick Vickers, Head of Financial Services. Telephone Maidstone (01622) 694603 or e-mail nick.vickers@kent.gov.uk.

In accordance with Government legislation, a Pension Fund has been established and is administered by Kent County Council for the purpose of providing pensions and other benefits for the pensionable employees of Kent County Council, Medway Council (unitary authority), the district councils in Kent and of other employing bodies established within the county area. Teachers are not included as they have their own national pension scheme.

The Fund is maintained by investing in a range of assets, primarily equities, fixed income, property and cash. Employees' contribution rates range from 5.5% to 7.5% of pensionable pay, determined by a seven tier structure based on the level of whole-time pensionable pay as at 1 April in each year. The rate of employer's contribution is determined by the Fund's actuary at a level necessary to assure that the Fund is able to meet 100% of its existing and prospective liabilities. Any shortfall is being spread over a period of 20 years for Local Authority employers and average future working life time for other employers in the Fund.

A triennial valuation of the Fund was carried out as at 31 March 2007 and this set Kent County Council's employer contribution rate at 23.1% of payroll for the three year period commencing 1 April 2008.

The market value of the Fund's assets at the valuation date was £2,573m and the liabilities were £3,558m. The assets therefore, represent 73% of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows -

Valuation of assets:-	assets have been valued at a 12 month smoothed market value
Rate of return on investments	6.1% p.a.
Rate of general pay increases:-	4.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-	3.2% p.a.

The main result of this valuation was to show that the funding level had increased from 63% to 73%.

The next actuarial valuation is due as at 31 March 2010 with the results to be received in November/December 2010 and any change in employer contribution rates as a result of that valuation will take effect from 1 April 2011.

The Fund has been accepted by the Inland Revenue as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from tax on investment income, underwriting commission and gains on selling transactions. By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

Pension Fund Accounts

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - a Statement of Recommended Practice (revised May 2007). However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

Pension Fund cash which is not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund may be invested on behalf of the Pension Fund by Kent County Council. Kent County Council is required, in accordance with the Local Government Pension Scheme (Management and Investment) Regulations 2009, to pay interest to the Pension Fund on these cash investments. The rate of interest is that earned on the Kent County Council investment portfolio. The remaining cash is split between Investment Fund Managers, who hold it on deposit for interest until required.

Employing Bodies. These include Scheduled Bodies which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and Admitted Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admitted bodies may be either voluntary, charitable or similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

As required by statute the Council has approved the following documents: Statement of Investment Principles; Funding Strategy Statement; Governance Compliance Statement and Communication Policy. These documents are available on the Authority's website www.kent.gov.uk. Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

Summary of Main Accounting Policies:

1. Statement of Recommended Practice

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice (revised May 2007). However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

2. Investments

Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2010. Unit Trusts and managed funds are valued at the closing bid price. Unquoted investments are valued by the fund managers at the year end in accordance with generally accepted guidelines.

Derivatives with an initial purchase price are included in the accounts as purchases. Those that do not have an initial purchase price but require a deposit such as an initial margin to be placed with the broker are recorded at cost on purchase. Derivative contracts are included in the net asset statements at fair value.

Open Future contracts are recognised in the net asset statement at their fair value. Amounts included in the change in market value represent realised gains or losses on closed future contracts and the unrealised gains or losses on open future contracts

The industrial and commercial properties were valued at open market prices in accordance with the valuation principles laid down by the Royal Institution of Chartered Surveyors. The valuation has been undertaken by Colliers CRE, as at 31 December 2009.

The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2010.

3. Currency Transactions

- Assets and liabilities in foreign currency are translated into sterling at exchange rates ruling at the year-end. Differences arising on the translation of investments are included in investment gains.
- All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.

4. Contributions, Benefits and Transfer Values

- Normal contributions from County Council members, are accounted for in the payroll month to which they relate, contributions from members of other employers are accounted for on a received basis. All contributions are at rates as specified in the rates and adjustments certificate. Augmentation (early retirement costs payable by the employer) are recognised when they vest rather than on a deferred basis when an employer has negotiated payments in later years. Payment of pensions and pensions increases are accounted for on an accruals basis. Lump sum payments are accounted for on the date of retirement or on death.
- Transfer values into and out of the Fund, return of contributions and other intermittent transactions are not dealt with on an accruals basis but are included in the accounts when the transactions occur.

5. Investment Income

- Dividends, rents and cash deposits have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Foreign income has been translated into sterling at the rate ruling at the date of the transaction.
- Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

6. Expenditure

All expenses and benefits are accounted for on an accruals basis except that no account is taken of the long-term liabilities to pay benefits

The administrative costs relating to the payment of pensions, allowances and other benefits, maintaining employees records, arranging transfer values etc are borne by the Pension Fund.

Costs relating to investments are also borne by the Fund. Fees in respect of investment management, including custody, are calculated as a percentage of the value of the investments under management.

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2010 £'000	2009 £'000
Contributions and Benefits			
Contributions Receivable:			
From employers	1	175,531	187,015
From employees	1	48,849	47,245
Transfers In	2	14,876	8,555
		239,256	242,815
Benefits Payable			
Pensions	3	-123,803	-114,119
Lump Sums	3	-33,353	-32,924
Payments to and on account of leavers			
Refunds of contributions		-231	27
Transfers Out	4	-18,678	-9,487
Administrative & other expenses borne by the scheme	5	-3,211	-2,833
		-179,276	-159,336
Net additions/withdrawals(-) from dealings with Members		59,980	83,479
Returns on Investments			
Investment Income	6	65,462	76,533
Change in Market Value of Investments	7	689,461	-564,920
Overseas Irrecoverable Taxation		-311	-2,177
Loss on Icelandic Investment	9	874	-1,104
		755,486	-491,668
Investment Management Expenses			
Investment Managers		-5,116	-5,152
Actuarial (Investment Consultancy)		-107	-45
Performance Measurement		-50	-49
Other expenses		-417	24
		-5,690	-5,222
Net Return on Investments		749,796	-496,890
Net increase/decrease(-) in Fund during the year		809,776	-413,411
Opening Net Assets of the Scheme at 1 April		2,075,687	2,489,098
Closing Net Assets of the Scheme at 31 March		2,885,463	2,075,687

There has been a change in accounting for augmentation, applicable to the 2009-10 accounts. Employer contributions have been restated for 2008-09 to provide comparative figures

Pension Fund Accounts

Net Assets Statement as at 31 March 2010

	Notes	2010		2009	
		£'000	£'000	£'000	£'000
Investments at Market Value	7				
Fixed Interest Securities					
- Public		0		85,953	
- Other		0		98,200	
			0		184,153
Equities					
- UK		527,343		332,331	
- Overseas		659,241	1,186,584	439,050	771,381
Index-Linked Securities					
- Public			30,540		0
Pooled Investment Vehicles					
- UK		855,019		529,814	
- Overseas		440,396		214,317	
- Property		64,334	1,359,749	37,344	781,475
Derivative Contracts			151		38,321
Property - Freehold			168,177		142,262
Cash Deposits			63,706		45,159
Other Investments			5,715		11,810
			2,814,622		1,974,561
Investment Liabilities	8		-3,703		-29,890
Current Assets	8		80,926		137,587
Current Liabilities	8		-6,382		-6,571
Net Assets			2,885,463		2,075,687

During 2009-10 the Goldman Sachs mandate was changed and they no longer hold derivatives. Note 14 shows the derivatives open at 31 March 2010

The accounts summarise the transactions of the Pension Fund and deal with the net assets available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Pension Fund year. The actuarial position of the Pension Fund, which does take account of such obligations is dealt with in the Actuary's Report included in the Annual Report and these accounts should be read in conjunction with that report. The full actuarial valuation is available on www.kent.gov.uk

Notes to the Pension Fund Account

1. Contributions Receivable

		2010	2009
		£'000	£'000
From Employers	Normal	110,379	106,366
	Augmentation (Early Retirements recoverable costs)	4,219	24,009
	Deficit Funding	60,933	56,640
		175,531	187,015
Analysis of Employers' Contributions	Kent County Council	80,214	90,013
	Scheduled Bodies	85,125	86,701
	Admitted Bodies	10,192	10,301
		175,531	187,015
From Employees		2010	2009
		£'000	£'000
	Kent County Council	21,758	21,084
	Scheduled Bodies	24,215	23,354
	Admitted Bodies	2,839	2,752
Lump Sum Contributions	37	55	
	48,849	47,245	
Note:	As at 31 March the comparative numbers of members are:	2010	2009
	Kent County Council	22,945	22,039
	Scheduled Bodies	19,628	19,380
	Admitted Bodies	1,936	1,966
		44,509	43,385

2. Transfers In

		2010	2009
		£'000	£'000
Individual		14,876	8,555
Bulk		0	0
		14,876	8,555

Notes to the Pension Fund Account

3. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2010	2009
	£'000	£'000	£'000	£'000	£'000
Pensions					
Retirement pensions	37,458	39,070	3,703	80,231	75,144
Widows' pensions	2,254	2,847	247	5,348	5,124
Children's allowances	78	129	12	219	181
Pensions increase	19,763	21,506	1,313	42,582	38,128
Less benefits recovered directly from employing authorities	0	-4,448	-129	-4,577	-4,458
	59,553	59,104	5,146	123,803	114,119
Lump Sums					
Retirement (Lump Sums)	12,903	14,688	2,778	30,369	29,858
Death gratuities	959	1,884	141	2,984	3,066
	13,862	16,572	2,919	33,353	32,924

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

4. Transfers Out

	2010	2009
	£'000	£'000
Individual	18,678	9,487
Bulk	0	0
	18,678	9,487

5. Administrative and other Expenses borne by the Scheme

	2010	2009
	£'000	£'000
Internal Administration	2,511	2,474
Actuarial Fees	199	158
Audit Fee	50	55
Legal and Other Professional Fees	221	91
Other miscellaneous expenses	230	55
	3,211	2,833

6. Summary of Income from Investments

	2010		2009	
	£'000	%	£'000	%
Fixed Interest				
- UK	2,304	3.52	8,471	11.07
- Overseas	757	1.16	2,395	3.13
Equities				
- UK	15,522	23.71	19,671	25.70
- Overseas	12,193	18.63	16,462	21.51
Pooled Investment Vehicles				
- UK	17,121	26.15	2,500	3.27
- Overseas	3,764	5.75	5,132	6.71
- Property	1,075	1.64	1,557	2.03
Property - Freehold	10,935	16.71	11,629	15.19
Total Income From Investments	63,671	97.27	67,817	88.61
Currency Deposit Accounts	2	0.00	26	0.03
Cash Balances	1,310	2.00	8,143	10.64
Sub-Underwriting Commission/other	447	0.68	173	0.23
Stock Lending	32	0.05	374	0.49
Total	65,462	100.00	76,533	100.00

7. Analysis of Change in Market Value of Investments

	Market Value 31.03.09 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value 31.03.10 £'000
<u>Fixed Interest Securities</u>					
- UK Public	85,953	39,803	-124,743	-1,013	0
- UK quoted	78,071	32,739	-125,094	14,284	0
- Overseas quoted	20,129	2,033	-27,501	5,339	0
<u>Equities</u>					
- UK quoted	332,331	121,993	-98,342	171,361	527,343
- Overseas quoted	439,050	264,532	-254,188	209,847	659,241
<u>Index Linked</u>					
- UK Public	0	32,648	-1,555	-553	30,540
<u>Pooled Investment Vehicles</u>					
Managed Funds					
- UK	124,086	21,101	0	58,997	204,184
- Overseas	129,506	1,774	-1,774	50,320	179,826
Unit Trusts					
- UK Public/Fixed Interest	159,867	96,180	-87,597	10,368	178,818
- UK	245,861	135,950	-37	90,243	472,017
- Overseas	84,811	119,360	-1,400	57,799	260,570
- Property	13,859	29,634	0	3,309	46,802
- Property Overseas	23,485	126	0	-6,079	17,532
Property - Freehold	142,262	9,318	-12,224	28,821	168,177
Derivatives					
- UK bond future contracts	32,527	0	-33,059	532	0
- Overseas bond future contracts	-17,290	22,314	-5,056	32	0
- UK equity future contracts	74	1,623	-1,708	0	-11
- Overseas equity future contracts	587	611	-1,000	-36	162
	<u>1,895,169</u>	<u>931,739</u>	<u>-775,278</u>	<u>693,571</u>	<u>2,745,201</u>
Cash					
- Cash Deposits	60,374			-4,110	63,706
- Cash backing open future contracts	-15,215				0
Other Investments					
- Debtors - Outstanding Sales	1,786				2,213
- Creditors - Outstanding Purchases	-7,467				-3,682
- Profit/Loss on Forward Currency	2,849				-21
- Investment Income Accruals	7,175				3,502
Total	<u>1,944,671</u>			<u>689,461</u>	<u>2,810,919</u>

Liabilities of £3,703,000 have been netted off against the assets in this note to give total assets of £2,810,781,000. The investment liabilities are explained in Note 8.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £28,597,559 (2008-09 £22,924,106). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

Notes to the Pension Fund Account

The following reflects the monetary and percentage split of the investments of the Fund at 31 March 2010 and previous year comparisons.

	2010		2009	
	£'000	%	£'000	%
Alliance Bernstein	253,065	9.0	176,131	9.1
Baillie Gifford	512,705	18.3	324,776	16.8
DTZ	233,090	8.3	182,262	9.4
GMO	179,826	6.4	126,506	6.7
Goldman Sachs	226,217	8.1	186,872	9.7
Henderson	6,432	0.2	8,128	0.4
Invesco	326,931	11.6	236,756	12.2
JP Morgan	23,119	0.8	27,264	1.4
Schroders	794,675	28.3	549,364	28.4
Société Générale	0	0	29	0
State Street Global Advisors	251,276	8.9	112,325	5.8
YFM	1,434	0.1	1,232	0.1
	2,808,770	100.0	1,931,645	100.0

The investment manager totals exclude investment debtors and creditors.

8. Current Assets and Liabilities

	2010		2009	
	£'000		£'000	
Investment Liabilities				
Derivatives Contracts		0		22,423
Outstanding Purchases		-3,682		7,467
Loss on forward currency		-21		0
		-3,703		29,890
Current Assets				
Contributions due from				
-Scheduled Bodies	23,424		26,233	
- Admitted Bodies	850	24,274	1,351	27,584
Other current assets		1,187		1,036
Cash		55,325		108,967
		80,786		137,587
Current Liabilities				
Unpaid Benefits		-4,369		-4,016
Other current liabilities		-2,013		-2,555
Total		-6,382		-6,571

9. Loss on Icelandic Investment

The 2008-09 accounts included £1.104m representing the loss to the pension fund on cash investments in the Icelandic banks which collapsed in 2008. For 2009-10, this loss has been reduced by £874,000 to £230,000 based on the assumption that KCC has priority creditor status.

Other notes to the Accounts

10. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. The AVC provides secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The sum deducted from KCC members and paid over to the AVC providers was: £371,311 (£878,712 in 2008-09). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Value at 1 April	3,265	2,777	1,586	2,002	1,195	1,483
Income						
Contributions Received	760	665	160	192	11	13
Transfer Values Received	40	149	3	15	0	
Interest & bonuses	30	107	0	0	139	-8
Total	830	921	163	207	150	5
Expenditure						
Retirement Benefits Paid	-255	-316	-105	-296	-119	-270
Transfer Values Paid	-33	-24	-8	-6	-3	-21
Refund of Contributions	-16	-33	0		0	0
Total	-304	-373	-113	-302	-122	-291
Change in Market Value	115	-60	446	-321	-1	-2
Value at 31 March	3,906	3,265	2,082	1,586	1,222	1,195

11. Related Party Transactions

Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.

In respect of interest received on cash deposits

Outstanding transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable by 19 April 2010.

	2010 £'000	2009 £'000
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,647	2,536
In respect of interest received on cash deposits	1,259	6,429
Outstanding transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable by 19 April 2010.	993	143

Included within the employer related investment figure of £993,377 are balances due at the year end from the following related parties: Gravesham Borough Council £301,227, Tonbridge & Malling Borough Council £267,265, Canterbury College £86,821, Ashford Leisure Trust £46,532, Maidstone Housing Trust £42,230, Town & Country Housing Group £36,488, Folkestone Academy £30,307, Robert Napier School £23,232, Astor College for the Arts £22,537, Angley School £21,466, Wilmington Hall School £17,657, Swanley Town Council £12,768, Fort Pitt Grammar School £11,274, Thanet Leisure Force £10,099.

Notes to the Pension Fund Account

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £993,377 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

There were no related party transactions with members or senior officers.

12. Investment Commitments

As at 31 March 2010 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Total Commitment	Invested	Outstanding
YFM Private Equity	£4m	£3m	£1m
Aurora European Property Fund	£31.2m (35m euros)	£31m (34.76m euros)	£203k (227k euros)
Quercus	£8m	£2.7m	£5.3m

13. Stock Lending

In March 2008, the Pension Fund suspended the stock lending programme with the fund's Custodian JP Morgan. No new loans have been made since this date. The remaining open loans continued to be serviced by JP Morgan until their natural closure. At the year end 31 March 2010, there were no open loans.

14. Derivative Contracts

Futures

Contract	Manager	Expiration	Fair Value £'000's	Margin £000's	Total £000's
UK					
FTSE 100 IDX	Alliance Bernstein	June 2010	224	-11	213
US					
S&P 500 Future	Alliance Bernstein	June 2010	768	40	808
S&P 500 EMINI Future	Alliance Bernstein	June 2010	1114	83	1,197
JAPAN					
TOPIX INDX FUTR	Alliance Bernstein	June 2010	276	-3	273
EUROPE					
DJ EURO STOXX 50	Alliance Bernstein	June 2010	509	42	551
			2,891	151	3,042

The Alliance Bernstein future is held to maturity as a hedge against their general shareholding positions.

All futures are exchange traded.

Forward FX

Contract	Manager	Expiration	Loss on contract £'000's
Euro Forward Currency	Alliance Bernstein	June 2010	-61

Notes to the Pension Fund Account

Scheduled Bodies

Local Authority and District Councils

Ashford Borough Council
Canterbury City Council
Dartford Borough Council
Dover District Council
Gravesham Borough Council
Kent County Council
Maidstone Borough Council

Medway Council
Sevenoaks District Council
Shepway District Council
Swale Borough Council
Thanet District Council
Tonbridge and Malling Borough Council
Tunbridge Wells Borough Council

Schools

Allington Primary School
All Souls County Primary School
Angley School
Archbishops CE School
Aylesford School
Barton Court Grammar School
Bennett Memorial School
Borough Green Primary School
Bradbourne School
Brockhill Park School
Canterbury Campus
Charles Dickens High School
Chatham Grammar School for Girls
Chatham House Grammar School for Boys
Chaucer Technology School
Cheyne Middle School
Cranbrook School
Dane Court Grammar School
Dartford Grammar School for Boys
Dartford Grammar School for Girls
Ditton Infant School
Ditton CE Junior School
Dover Grammar School for Boys
Folkestone School for Girls
Fulston Manor School, Sittingbourne
Gravesend Grammar School for Boys
Gravesend Grammar School for Girls
Greatstone County Primary School
Halfway Houses County Primary School
Harcourt County Primary School
Hayesbrook High School for Boys
Herne Bay High School
Herne Bay Junior School
Hillview School for Girls
Holy Family RC Primary
Holy Trinity County Primary School, Dartford
Holy Trinity County Primary School, Gravesend
Homewood School, Tenterden
Horton Kirby County Primary School
Howard School

Meopham School
Minster College
New Brompton College
Newington Junior School
Northfleet School for Boys
Oakwood Park Grammar School
Our Lady of Hartley RC Primary School
Park Farm County Primary School
Pent Valley Secondary School
Queen Elizabeth's Grammar School
Rainham Mark Grammar School
Robert Napier School
Rochester Grammar School for Girls
Roseacre Junior School
Sandwich High School
Simon Langton Grammar School for Boys
Sir Roger Manwood School
Skinners School
Snodland County Primary School
St Anselm's RC Comprehensive School
St Bartholomew County Primary School
St Botolphs County Primary School
St Edmund of Canterbury Comprehensive
St Francis County Primary School
St George's School, Broadstairs
St George's School, Gravesend
St Gregory's Catholic Comprehensive
St John Fisher RC School
St John RC Comprehensive
St Joseph RC Primary School
St Simon Stock School
Stella Maris RC Primary School
Sutton at Hone County Primary School
Thamesview School
Thomas Aveling School
Tonbridge Grammar School for Girls
Tunbridge Wells High School
Westlands School
Wilderness School
Willesborough County Primary Junior School

Hugh Christie School
Larkfield Brookfield Junior School
Malling School
Maplesden Noakes School, Maidstone
Mascalls School

Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Grammar School for Girls
Wincheap County Primary School
Wrotham School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
Mid Kent College

North West Kent College
South Kent College
Thanet College
West Kent College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Chestfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
East Malling and Larkfield Parish Council
Eastry Parish Council
Edenbridge Town Council
Eynsford Parish Council
Eythorne Parish Council
Farningham Parish Council
Faversham Town Council
Folkestone Town Council
Great Mongeham Parish Council
Hartley Parish Council
Hawkhurst Parish Council
Hawkinge Parish Council
Herne & Broomfield Parish Council
Horton Kirby and South Darenth Parish Council
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Towns Fire Authority
Kent Police Authority
Kent Probation and After Care Committee

Kent Top Temps Limited
Kent Valuation Tribunal
Kings Hill Parish Council
Leigh Parish Council
Longfield and New Barn Parish Council
Lower Medway Internal Drainage Board
Margate Charter Trustees
Minster on Sea Parish Council
Minster Parish Council
Otford Parish Council
Pembury Parish Council
Ramsgate Charter Trustees
River Stour Internal Drainage Board
Romney Marsh Levels Internal Drainage Board
Sandwich Town Council
Seal Parish Council
Sevenoaks Town Council
Snodland Town Council
Southborough Town Council
Staplehurst Parish Council
Stone Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Temple Ewell Parish Council
Tenterden Town Council
Upper Medway Internal Drainage Board
West Kingsdown Parish Council
Westerham Parish Council
Woodnesborough Parish Council
Yalding Parish Council

Academies

Cornwallis Academy
Folkestone Academy
Isle of Sheppey Academy
Leigh Technology Academy
The Marlowe Academy

Longfield Academy
Marsh Academy
New Line Learning Academy
Skinners Academy
Spires Academy
Strood academy

Agency

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

Accounting

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The Best Value Accounting Code of Practice provides guidance on the content and presentation of costs of service activities.

Budget

A statement defining the Council's policy over a specified period and expressed in financial or other terms.

Capital expenditure

Expenditure on the provision and improvement of permanent assets such as land, buildings and roads.

Capital receipts

Money obtained on the sale of a capital asset.

Credit arrangements

An arrangement other than borrowing where the use of a capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

Capital expenditure funded from revenue under statute

Capital expenditure funded from revenue under statute includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

Employee expenditure

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

Government grants

Part of the cost of local government's services is paid for by central government from its own tax income. These grants are of two main types. Some (specific grants and supplementary grants) are for particular services such as Highways and Transportation. Others are in aid of local services generally.

Intangible Assets

Capital spend on items such as software licences and patents.

Long-term debtors

Amounts due to Kent County Council where payment is to be made over a period of time in excess of one year.

Minimum Revenue Provision

The amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

Glossary of terms

Net operating expenditure

This comprises all expenditure minus all income, other than the precept and transfers from reserves.

Non Delegated

Spend on Education Services which is not delegated to schools.

Precept

The levying of a rate by one authority which is collected by another. Kent County Council precepts upon the district councils collection funds for its income but some bodies, e.g. the Environment Agency, precept upon Kent County Council.

Public Works Loans Board

A government controlled agency that provides a source of borrowing for public authorities.

Related party transaction

A related party transaction is 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.

Revenue expenditure

Expenditure to meet the continuing cost of services including salaries, purchase of materials and capital financing charges.

Specific grants

See 'government grants'.

Support service costs

The 'overhead' cost to Service Directorates of support services, such as architects, accountants and solicitors.

Usable capital receipts

The proportion of the proceeds arising from the sale of fixed assets that can be used to finance capital expenditure.

By: Cabinet Member for Finance
Director of Finance

To: Governance & Audit Committee – 30 June 2010

Subject: **DEBT RECOVERY**

Classification: Unrestricted

Summary: To report on the Council's debt recovery position.

FOR INFORMATION

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with a summary of the Council's debt recovery position.
2. This report concentrates mainly on debt over 6 months old.

MANAGEMENT SUMMARY

3. The overall outstanding debt as at 30 April 2010 as shown on Oracle Accounts Receivable is £52,587,839. This represents KASS social care debt from SWIFT of £12,768,860 and sundry debt (which includes some social care Health debt) of £39,818,979.

The difference between the £12,768,860 and the figure quoted in Section 10 of this report of £16,470,417 is £3,701,557. This is explained by a 4 weekly billing run of £3,933,070 which interfaced on the 4th May. The remaining balance of -£231,513 would be due to transactions in relation to income received and adjustments made between 1st and the 4th May 2010.

4. Since October 2009 the responsibility for the collection and monitoring of KASS social care debt returned to the Directorate and therefore this report focuses on sundry debt with a section provided by KASS on Social Care debt.
5. Please note that throughout this report Chief Executive will include the old Corporate debt, CFE will include the old Education debt, and EHW will include the old Strategic Planning and E&R debt. We are unable to retrospectively amend Oracle to reflect the new directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date.

6. The table below is an analysis of the summary position as at 30 April 2010.

Directorate	Outstanding Debt (excluding debts not yet due) £	Over 6 Months £
Chief Executive	2,600,509	50,506
CFE	4,631,870	1,369,906
EHW	2,096,829	328,737
Communities	10,469,748	86,699
KASS (Sundry)	2,252,546	426,646
Total	22,051,502	2,262,494

The above figures do not include those debts which are not yet due, which total £17,767,477.

PERFORMANCE

7. There are two performance indicators that the Debt Recovery Team aims to achieve. The percentages are based on the total outstanding unsecured debt.
- Total outstanding sundry debt under 60 days old – greater than 65%
 - Total outstanding sundry debt over 6 months old – less than 20%
8. As at 30 April 2010 87% of the total sundry outstanding debt is under 60 days old and 6% is over 6 months old so these targets are being exceeded.

DEBT LEVELS OVER SIX MONTHS OF AGE

9. Below is an analysis of the categories of debt over 6 months old.

Directorate	Status of Debt	Amount Over 6 Months Old £
Chief Executive	Instalments	2,830
	Referred to legal services	23,650
	Referred for write off	0

	Referred to directorate for action	13,285
	Ongoing action	10,741
	Sub total	50,506

CED

- Of the £50k outstanding debt over 6 months old, there is one outstanding invoice of £10k for Kent Commercial Services (classed as internal debt) which they are disputing and discussions are on-going.
- A further £23k represents 2 invoices that Legal Services are reviewing.

		£
CFE	Instalments	13,791
	Referred to legal services	17,854
	Referred for write off	4,178
	Referred to directorate for action	1,112,189
	Ongoing action	10,713
	Internal school charges	211,181
	Sub total	1,369,906

CFE

- Of the £1.37 million outstanding debt over 6 months old, there is £1 million relating to an invoice to Folkestone Academy for the sale of land which is in dispute.
- There is £81k of Health debt.

		£
EHW	Instalments	700
	Referred for write-off	1,504
	Ongoing action	64,349
	Referred to directorate for action	149,733
	Insurance	23,484
	Referred to legal services	88,968
	Sub total	328,738

EH&W

- Of the £329k outstanding debt over 6 months old there is a large invoice of £146.8k to Interroute Ltd. This has since been paid..
- There is one invoice of £62k to Veolia ES (UK) Ltd for costs associated with emergency repairs.

		£
KASS (Sundry debt)	Instalments	17,611
	Referred to legal services	17,948

	Referred for write-off	24,929
	Ongoing action	33,967
	Health debt	286,110
	Referred to directorate for action	32,808
	Estate	1,833
	Secured	1,664
	Collect Opening balance	9,776
	Sub total	426,646

KASS

- Of the £426k outstanding debt over 6 months old there is £286.1k owing by the Health Authorities.
 - Of this debt, £53k is under 1 year old;
 - £186k is debt between 1 and 5 years old;
 - £24k is debt over 5 years old
 - £23k is debt over 6 years old.
- There is a total of £13.5k relating to overpayment of fees to residential/nursing homes for social care.
- The £10k of COLLECT closing balances refer to the transition of charging software from COLLECT to SWIFT.

		£
Communities	Instalments	6,818
	Referred for write-off	650
	Referred to directorate for action	58,567
	Ongoing action	11,075
	Referred to legal services	9,589
	Sub total	86,699

Communities

- Of the £87k outstanding debt over 6 months old, £52.8k relates to one invoice to West Kent Primary Care Trust raised by KDAAT for a joint commissioning manager for the year 08/09.

General comments

- Health Authorities have long term debts with 4 of the directorates. This income is difficult to collect and involves protracted discussions.
- Exchequer Services are making more use of the Small Claims Court which now accessible on-line.
- When items are referred to legal services the process can be protracted as it can involve negotiation and court processes.
- Direct Debits are encouraged for instalment arrangements and there is a process of regular review.

- Write off process for KASS is long and drawn out and therefore there are more debts for KASS tagged as referred to write off than other directorates.
- The Exchequer Services Manager reviews 100 cases per month (randomly by value, age or directorate). She is confident that every debt is continually monitored.

TRENDS

9. Listed below is the outstanding debt over 6 months old as the percentage of the total debt as at 30 April for the last 5 years

30 April 2010	30 April 2009	30 April 2008	30 April 07	30 April 06
6%	11%	12%	20%	22%

The authority is therefore reducing the level of outstanding debt that is over 6 months old as a percentage of the total debt.

SOCIAL CARE DEBT

10. **Client Charging**

- (1) Clients are financially assessed to determine their contribution towards either their residential or domiciliary care costs.
- (2) Residential Charging - this charging is distinct from non-residential (domiciliary) charging in that councils have a duty to charge for services under section 22 of the National Assistance Act 1948. Councils have no discretion in how they charge individuals, and all councils are required to do so.
- (3) Non-Residential Charging – Section 17 of the Health and Social Security and Social Services Adjudication Act 1983 gives councils the power to charge a person for non-residential services no more than it appears reasonable for them to pay. This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute to the costs. In Kent we only charge for domiciliary type care.
- (4) In 2009-10 the total amount of income charged to clients was as follows:

Residential	£48,231K
Domiciliary	£ 9,410K
Total	£57,641K

11. Analysis of Client Related Debt

- (1) The £16,470K client related debt, the debt can be broken down as follows:

Residential	£13,810K
Domiciliary	£ 2,254K
Health Contributions	£ 406K
Total	<u>£16,470K</u>

- (2) Of the £16,470K only £12,064K is actually due for payment, invoices had only just been dispatched for the remaining £4,406K. The £12,064k is different from the figure in paragraph 3 because of a different month end. Clients and health have 28 days to pay their invoices.
- (3) The £12,064K can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£5,088K
• Unsecured – terminated/ deceased clients	<u>£ 1,028K</u>
Total Unsecured	<u>£6,116K</u>
• Secured with legal charges	£5,564K
• Health contributions	£ 384K
Overall Total of due debt	<u>£12,064K</u>

- (4) A long term presentation of all KASS debt is shown in the Appendix.

12. Aged Analysis of Unsecured Debt

	Under 6 months	Over 6 months	Total
Unsecured – ongoing client debt	£3127K	£1961K	£5088K
Unsecured deceased/terminated Client debt	£393K	£635K	£1028K
Total unsecured client debt	£3520K	£2596K	£6116K

Unsecured-Ongoing client debt over 6 months equates to 271 debtors

Unsecured –Deceased/Terminated Client Debt equates to 255 debtors for those with debts just over 6 months

Unsecured –Deceased/Terminated Client Debt equates to 80 debtors for those with debts both under/over 6 months

13. **Numbers of Unsecured Debtors**

	Numbers
Unsecured – ongoing debtors with debts	11404
Unsecured deceased/terminated debtors with debts	609
Total Unsecured Debtors	12013

14. **Secured Debt**

During 2009 KASS carried out a full review of all of the debts that we have been secured by legal charges on clients houses. This review has ensured that the estimated valuation of the properties are not less than the value of the deferred debts, and if so 100% provision has been allowed for.

15. **Bad Debt Provision-Client Related**

(1) The total bad debt provision that exists for client related debt is £3,972K. This is calculated by looking at the value of all of the debts under various debt categories of those secured and unsecured. It also takes into account the age of the debt.

(2) Generally the percentages for the main categories used are as follows:

Unsecured - ongoing (under 6 months) - 5%
Unsecured - ongoing (over 6 months) - 60%
Unsecured - terminated (under 6 months) - 33%
Unsecured – terminated (over 6 months) - 75%

(3) The general provision is £2,405K. This covers all debts, secured, unsecured and health. This provision is re-calculated on a monthly basis, and any required changes are forecast within the revenue monitoring.

(4) In addition to the general provision that is calculated as described above we have allowed for an additional £1,567K of specific provisions. These relate to individual named clients for which we believe there is a high risk of the debt not being paid. This is

reviewed during the course of the year to see if any payments have been made.

16. **Write Off's**

In 2009-10 £421K of client related debt was written off. The trend has been similar to previous years.

17. **Reasons for Debt**

- (1) Many of the clients who we are charging do not actually manage their own financial affairs, especially those in residential and nursing care. It is likely that a family member is managing their affairs on their behalf. However the debt must remain the responsibility of the client, and we can take not specific debt recovery action against the family member, only the client. In many debt cases, the client is not even aware that their relative is not paying the monies due. This makes debt recovery against vulnerable people very difficult.
- (2) When we are made aware that others may be misappropriating a client's finances, we can approach the Pension Service and ask that KCC becomes appointee for the client's benefit. This can be a complicated and lengthy process, and depends entirely on whether the client has mental capacity, and if so whether they agree to us becoming responsible for their finances. In cases such as this it is likely that any debt that has accrued before we take on appointeeship, will never be paid, and will probably end up being written off.

18. **Debt Recovery Structure**

- (1) Since October 2009 we have restructured and the debt recovery staff are now within KASS, they were previously within CED. As part of the restructure we have placed a debt recovery officer within each of the new localities within the KASS operational structure. They are however managed by the Area Finance Managers.
- (2) In total we have 6 Debt Recovery Officers, and 2 Senior Debt Recovery Officers. The posts have now all been recruited to.
- (3) The new posts are situated alongside the Finance & Benefit Assessment Officers. We have changed the emphasis of their roles to ensure that they follow up all financial assessments they undertake to ensure that the debt does not accrue at the outset, as we believe that a high proportion of the debt we end up writing off is due to it growing at an early stage. It will only be after their input that the debt is passed to the Debt Recovery Officers.

- (4) We believe that this approach will reduce new debt accruing, however as can be seen from the figures above, we have a significant amount of debt that is over a year old, which needs to be investigated. Although a significant amount of this is covered by the bad debt provision, we feel that some of these should continue to be pursued if necessary through Legal Services.
- (5) We have agreed to continue to employ 2 additional temporary staff members till September 2010 to focus purely on reducing the level of aged debt, so that our newly appointed debt recovery staff are able to focus more on new debts and the prevention strategy.

RECOMMENDATION

- 19. Members are asked to note this report.

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By: Cabinet Member for Finance
Director of Finance
To: Governance and Audit Committee – 30 June 2010
Subject: **Kent County Council - Audit Fee 2010/11**
Classification: Unrestricted

Summary: Each year the Audit Commission must confirm the audit work that it proposes to undertake, including the amount of fee to be charged.

FOR DECISION

Introduction and background

1. The Audit Commission are required to notify the Council as to the nature and scope of work to be undertaken in relation to the 2010/11 financial year. The notification includes the level of fee to be charged.

Annual Audit and Inspection Fee 2010/11

2. The letter attached sets out the audit plan and fee for the 2010/2011 financial year. The fee letter was drafted prior to the Government's announcement in relation to the abolition of the Comprehensive Area Assessment (CAA) and restrictions of the inspection regimes. These elements of the fee are therefore subject to change pending the outcome of future consultation.
3. The gross fee proposed of £385,000 is subject to a rebate of £24,494. An analysis of the fee compared to 2009/10 is provided in the table of page 1, but the fee for the year as shown is 7.7% below the average or "scale" for similar types of audit determined by the Audit Commissions work programme and scales of fees.
4. Page 3 of the fee letter sets out the risks identified by the Audit Commission in relation to its work and its proposed response to these. This risk assessment will be revisited in early 2011, with any changes reported to the Committee by the District Auditor.
5. Mr Wells, District Auditor, will provide a verbal update for Members on the latest changes resulting from the Government announcement on CAA.

Recommendations

6. Members are asked to approve the fee proposed.

David Tonks
Head of Audit and Risk
Ext: 4614

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17 May 2010

Mr David Cockburn
 Interim Head of Paid Service
 Kent County Council
 Sessions House
 Maidstone
 Kent ME14 1XQ

Direct line 0844 798 6110
Email d-wells@audit-commission.gov.uk

Dear Mr Cockburn

Annual Audit and Inspection Fee 2010/11

I am writing to confirm the audit and inspection work that we propose to undertake for the 2010/11 financial year at Kent County Council. This year we are setting out audit and inspection fees for you in one letter. Therefore this letter covers my audit responsibilities and those of Claire Bryce-Smith as Kent's Comprehensive Area Assessment Lead.

The fees are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11, and the assessment and inspection work required under the Comprehensive Area Assessment framework and associated guidance.

As I have not yet completed my audit for 2009/10, my risk assessment and audit planning for 2010/11 will continue as the year progresses. If I consider that this has an impact on the fees, I will discuss this with you. Claire will also continue to review the parts of the plan she is responsible for on the same basis and will discuss any significant changes with you.

A summary of the planned fee is shown in the table below:

Audit area	Planned fee 2010/11 £	Planned fee 2009/10 £
Financial statements	282,500	256,890
Use of Resources/VFM Conclusion Including data quality	98,900	117,280
Whole of Government Accounts	3,600	3,600
Total audit fee	385,000	377,770
Managing Performance element of the	18,293	18,293

Audit area	Planned fee 2010/11 £	Planned fee 2009/10 £
organisational assessment		
Joint Inspection with Ashford Borough Council on 'Managing Growth for All in Ashford' (TBC)	£12,000	
Certification of claims and returns (estimated)	24,600	25,000

The Audit Commission has published its work programme and scales of fees for 2010/11 which includes an increase of 6% in the expected audit fees arising from the introduction of International Financial Reporting Standards (IFRS). The Council's proposed audit fee for 2010/11 is 7.7% below scale fee. This compares with the 2009/10 audit fee which was at scale level.

Changes in International Auditing Standards have increased the audit procedures I need to carry out under my professional responsibilities. However, the Audit Commission has decided not to pass these on to audited bodies.

In setting the Council's audit fee, I have increased the resources directed to the audit of the financial statements recognising the increased work associated with the introduction of international financial reporting standards. I will issue a separate opinion plan for the audit of the financial statements by March 2011. This will detail the risks identified, planned audit procedures and any changes in fee. I will first discuss the opinion plan with the Director of Finance in the first instance and then present it to the Governance and Audit Committee.

While writing I would also inform you that in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it will subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities, police and fire & rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £24,494 in April 2010.

For the purposes of setting this fee, I have assumed that my use of resources assessment will continue to be based on the key lines of enquiry as set out in the Audit Commission's work programme and scales of fees 2010/11 publication. These are:

- managing finances;
- governing the business; and
- managing resources.

At this stage, I have highlighted some potential risks in relation to my audit opinion and value for money conclusion that I will consider. For each risk, I consider the arrangements put in place by the Council to mitigate the risk and plan my work accordingly. My initial risk assessment for the financial statements and value for money conclusion is shown below:

Risk area	Planned work	Timing of work
<p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require additional disclosures and the restatement of both opening and closing balances in the 2009/10 accounts. Additional data may need to be collected in a number of areas and existing contracts and transactions reviewed to assess the implications for IFRS accounts. Clear evidence trails will be required to support the restated 2009/10 accounts and any new disclosure requirements in 2010/11.</p>	<p>We are already liaising with the Council's officers on progress with IFRS implementation. We will continue to monitor progress against the Council's project plan. We will also undertake specific work to 2009/10 comparative figures based on IFRS and review the treatment of any complex transactions.</p>	<p>April 2010 to June 2011</p>
<p>The Council needs to make significant financial savings in the future. If these are not made there is a risk that the Council's stated priorities will not be met.</p> <p>There is a likely impact on the structure of the council and staffing levels. There will be a need to ensure that the Council's governance arrangements including its internal control framework continue to be soundly based.</p> <p>Staff redundancies may be an element of restructuring. Any failure to follow due process in their administration can result increased administration and settlement costs</p>	<p>We will assess the robustness of the Council's overall management of its savings plans.</p> <p>We will work closely with Internal Audit to ensure that the Council's governance framework is effective.</p> <p>We will assess the administration of the Council's redundancy plans.</p>	<p>May 2010 – March 2011</p>
<p>The achievement of value for money by the Council might be reduced if it does not work with its partners effectively.</p>	<p>The Council and its partners are working together as part of the 'Total Place' initiative to secure better value for money. We will keep aware of this development and consider the impact for value for money for the Council.</p>	<p>July to March 2011</p>
<p>The Council has identified a risk of failing to adhere to EU procurement law which could result in legal action and penalties against it.</p>	<p>We will assess the Council's arrangements to mitigate this risk, including any relevant work by Internal Audit.</p>	<p>July to March 2011</p>

The quoted fee for grant certification work is an estimate only and will be charged at the Audit Commission's published rates.

The assessment and inspection fee relates to the managing performance element of the organisational assessment. This is the same for all county councils and has been published in the Commission's work programme for 2010/11. A joint regeneration inspection with Ashford Borough Council on 'Managing Growth for All in Ashford' has been included and relates to an identified risk around the delivery of the broad ambitions of the growth area. Area assessment work is grant funded and is not fee based.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1. The organisational assessment for the Council incorporating use of resources and managing performance will be published on the Oneplace website and Claire will confirm the timetable for this once known.

The audit fee excludes any work the Commission may agree to undertake using its advice and assistance powers.

I will be supported in the delivery of the Council's 2010/11 audit by the following key members of my audit team:

Senior Audit Manager	Emily Hill	0844 798 2638
Audit Manager	Liz Robinson	0844 798 1377
Team Leader	Jeremy Jacobs	0844 798 6121
Local Performance Lead	Gordon Brown	0844 798 1355

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs (n-childs@audit-commission.gov.uk).

Yours sincerely

Darren Wells
District Auditor

cc Lynda McMullan, Director of Finance

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to members and/or published.

Planned output	Indicative date
Opinion audit plan	March 2011
Annual governance report	June 2011 (interim) September 2011 (final)
Auditor's report giving the opinion on the financial statements and value for money conclusion	July 2011
Annual audit letter	November 2011
Organisational assessment (incorporating the managing performance assessment and the use of resources assessment)	December 2010
Managing Growth for all in Ashford joint inspection report	December 2010

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By: Cabinet Member for Finance
Director of Finance
To: Governance and Audit Committee – 30 June 2010
Subject: **Kent Superannuation Fund - Audit Plan 2010/11**
Classification: Unrestricted

Summary: Each year the Audit Commission must confirm the audit work that it proposes to undertake on the Superannuation Fund, including the amount of fee to be charged.

FOR DECISION

Introduction and background

1. The Audit Commission are required to notify the Council, as the appointed body for the administration of the Kent Superannuation Fund, as to the nature and scope of work to be undertaken in relation to the audit of the Superannuation Fund. The notification includes the level of fee to be charged.

Kent Superannuation Fund - Audit Plan 2010/11

2. The letter attached sets out the audit plan and fee for the 2010/2011 financial year. The fee proposed of £50,000 is a reduction from that charged for 2009/2010 (£64,250) although it is 7.6% above the average or “scale” for similar types of audit determined by the Audit Commissions work programme and scales of fees.
3. The fee set takes account of additional work in relation to:
 - fund managers that are not covered by the Fund’s custodian arrangements.
 - the many scheduled and admitted bodies of the Fund, increasing the work in relation to Financial Reporting Standard 17 responsibilities and employees’ contributions.
 - the Fund’s significant freehold property portfolio.
 - the Fund’s complex investments.
4. The risk assessment used to determine the proposed fee will be revisited in early 2011, with any changes reported to the Committee.

Recommendations

5. Members are asked to approve the fee proposed

David Tonks
Head of Audit and Risk
Ext: 4614

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Our reference**Your reference** KE117/gb

7 June 2010

David Cockburn
Interim Head of Paid Service
Kent County Council
Sessions House
County Hall
Maidstone ME14 1XQ

Direct line 0844 798 6110
Email d-wells@audit-
commission.gov.uk

— Dear David

Kent Superannuation Fund - Audit Plan 2010/11

Following my discussions with Lynda McMullan, I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year on the Superannuation Fund. I use a risk-based approach to calculate the audit fee in accordance with Code of Audit Practice and have considered work mandated by the Audit Commission for 2010/11.

I do need to inform you that my audit planning for 2010/11 will be subject to review and might be updated as I have not yet completed my audit for 2009/10.

The total indicative fee for the audit for 2010/11 is £50,000 (exclusive of VAT) which compares to the planned fee of £64,250 for 2009/10.

The Commission has published its work programme and scales of fees 2010/11. Based on this the Fund's scale fee is £46,640. The fee proposed is 7.2% above this and reflects my assessment of work required to complete the audit.

In setting the fee I have assumed that the audit risk in the Fund's financial statements does not differ significantly from that expected in 2009/10 but have recognised the need for detailed work for the following reasons:

- there are fund managers that are not covered by the Fund's custodian arrangements and this requires higher levels of substantive testing of transactions;
- the Fund administers many scheduled and admitted bodies which increases the our work in relation to our Financial Reporting Standard 17 responsibilities and employees' contributions;
- the Fund includes a significant freehold property portfolio that requires us to undertake detailed substantive testing; and
- the Fund includes complex investments such as private equity investments and the valuation of these requires detailed audit consideration.

Audit Commission, 16 South Park, Sevenoaks, Kent, TN13 1AN
T 0844 798 1350 F 0844 798 1399 www.audit-commission.gov.uk

A specific plan for the 2010/11 audit of the Fund will be provided in early 2011 which will detail the financial statements risks identified, our planned audit procedures and any changes to the fee. Should I need to make any significant amendments to the fee, I will first discuss it with the Director of Finance and then prepare a report explaining the reasons for discussion with the Governance & Audit Committee.

I will issue some reports on my work over the course of the audit. These are shown at Appendix 1.

The fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each fee will be agreed after agreement of a detailed project specification with you.

The key members of my team for the 2010/11 audit are:

Senior Audit Manager – Emily Hill	0844 798 2638
Audit Manager – Liz Robinson	0844 798 1377
Team Leader – Jeremy Jacobs	0844 798 6121

I am committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Neil Childs, Head of Operations, Southern Region who can be contacted at the following email address n-childs@audit-commission.gov.uk.

Yours sincerely

Darren Wells
District Auditor

cc Lynda McMullan, Director of Finance
Chair of the Governance & Audit Committee
Chair of the Superannuation Fund Committee

By: Cabinet Member, Corporate Support Services &
Performance Management
Director of Personnel & Development

To: Governance and Audit Committee – 30 June 2010

Subject: Criminal Records Bureau checks

Classification: Unrestricted – for information

Summary: This report provides information on the current requirements for undertaking Criminal Records Bureau checks on employees and volunteers working for Kent County Council and its maintained schools.

1. Background

- 1.1 Following discussions on the 2010/11 Internal Audit Strategy and Annual Plan at the April meeting of the Committee, it was agreed that the Director of Personnel & Development be asked to submit a report on Criminal Records Bureau (CRB) requirements and practices to the next meeting.
- 1.2 Work is continuing to ensure the Authority is ready to comply with the new vetting and barring system which comes into force in July this year.

2. Schools

2.1 CRB check requirements

- 2.1.1 In April 2006, it became a statutory requirement for all employees and regular volunteers, newly appointed to schools, to obtain an Enhanced CRB Disclosure. Following national concern from Ofsted further legislation was introduced, effective from 1 January 2007, requiring schools to ensure that a Standard or Enhanced Disclosure check had been carried out, as appropriate, on all staff appointed since March 2002 when CRB checking commenced. In addition, schools were required to compile and maintain a list of their entire workforce, showing that specific recruitment checks had been carried out. This list, known as the single central record, must be available for inspection by Ofsted at the commencement of a school's inspection.
- 2.1.2 There is still no statutory requirement to undertake re-checks on those continuously employed in the Education sector or to ask employees appointed prior to March 2002 to obtain a Disclosure as these staff will have had a police check. All employees and volunteers must have been checked against the list of those barred from working with children, prior to the commencement of their employment, and this is noted on the school's single central record.

2.2 Processes and practices

- 2.2.1 KCC's Schools' Personnel Service (SPS) is funded by the CFE Directorate, through non-delegated school funding, to manage a CRB service to all KCC's maintained schools. Each school has access to an electronic system where CRB disclosure applications are completed by new appointees and submitted via the internet. A school can view the records of all previous CRB Disclosures completed for their employees and volunteers and track the progress of new applications.
- 2.2.2 All Disclosure applications for schools are now submitted to the CRB electronically and results of 'clear' Disclosures are returned electronically via a system known as e-bulk. On average results are received within 9 days with some Disclosures being issued within 48 hours of the application being made.
- 2.2.3 The number of Disclosure applications submitted to the CRB for KCC schools in 2009 was 11,048. An additional 17,699 checks were made by SPS against the list of those barred from working with children, for those not eligible for CRB checks; this includes volunteers and Governors that do not have regular contact with children and contractors working on schools sites in the Building Schools for the Future and Private Finance Initiative programmes.
- 2.2.4 SPS has no involvement in the recruitment of volunteers in schools or in the appointment of staff to schools who choose to buy personnel services from an alternative provider. SPS still process the CRB checks for these schools but have no means of confirming whether schools are checking all relevant volunteers and staff in non-buying schools. However, the electronic system has made it far easier for Schools to ensure they meet their statutory requirements. The indication from CFE compliance visits completed in 2009/10 is that Schools are obtaining CRB checks on their employees. In addition, SPS checks that all new employees, in schools that utilise their services, have submitted an application for a Disclosure.
- 2.2.5 The table at appendix 2 shows the split of employee and volunteer Disclosure checks made for schools and demonstrates how the e-bulk system has considerably reduced the time for a Disclosure to be issued and has eliminated the need to chase for outstanding applications.

3. KCC staff and volunteers

- 3.1 CRB check requirements, processes and practices for KCC are described in the attached document.
- 3.2 A total of 7,448 checks and renewals were processed in 2009.
- 3.3 All new staff CRB checks and renewals are requested by a form from an authorised manager. Volunteers CRB checks are requested in the same

- way. An authorised manager is a manager who has received the CRB code of conduct and been registered as an authorised Identity verifier.
- 3.4 Employees are entered onto Oracle for tracking purposes and may start before the CRB disclosure certificate has been returned if a Supervision form has been signed. Volunteers are entered onto a database and are tracked separately. Volunteers do not start until the manager has received confirmation that the CRB disclosure certificate has been received. CRB disclosure applications are sent on line and there are automatic reminders sent if the application is not completed.
 - 3.5 A robust escalation process is in place to ensure applications are completed.
 - 3.6 The table at appendix 3 shows the split of employee and volunteer Disclosure checks made for non schools. The on line system is significantly faster than the previous paper based one.

Amanda Beer
Director of Personnel & Development
Ext 4136

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Criminal Records Bureau (CRB) Disclosures Procedure



Issued by Personnel & Development
January 2009

Introduction

“The role of the Criminal Records Bureau is to reduce the risk of abuse by ensuring that those who are unsuitable are not able to work with children and vulnerable adults”
comment from *The Home Secretary*

KCC undertake CRB checks as an umbrella body on behalf of its own business units and for Kent maintained schools. The Director of Personnel and Development is responsible for the provision of the Umbrella body service for KCC.

Purpose

This procedure forms part of KCC’s overall recruitment strategy and covers the use of Criminal Records Bureau (CRB) Disclosures for regulated positions. These positions are classified as those providing services for or otherwise involved with children and vulnerable adults; and which are exempt from the Rehabilitation of Offenders Act (ROA) 1974.

This procedure covers anyone engaged in KCC work, whether directly employed by KCC or not.

Note: Throughout this procedure various terms have been used to cover people working in identified positions. For clarity, people covered by this procedure include:

- Employees
- Volunteers
- Apprentices
- Work placements
- Student placements
- Short or long term work experience

KCC Responsibility

KCC’s primary responsibility is to safeguard and promote the welfare of children and vulnerable adults receiving its services.

The CRB process is one element of good recruitment practice and must not be seen as the only responsibility KCC has with regard to effectively stopping unsuitable people working with children or vulnerable adults.

The Criminal Justice and Court Services Act (CJ&CSA) 2000 and the Police Act 1997 (as amended) set out who is eligible for CRB Disclosures and the level of check required.

Local managers are responsible for advising the Employee Services Centre (ESC) CRB Team of those jobs (regulated positions) requiring a CRB check at the point of recruitment or when a position changes. Head Teachers are responsible for initiating a disclosure request with Schools' Personnel Service (SPS) CRB Team.

Managers are responsible for providing reassurance that the person undertaking work or providing services is capable of doing so. Managers should ask to see the individual's copy of the CRB Disclosure, particularly if it has been identified as 'positive' or if the individual is moving from one KCC position to another.

Applicant responsibility

Those engaged in KCC work, whether directly employed or not, must provide the information required for the Disclosure application when asked and within the agreed time limits to avoid delay in the process.

Individuals moving within KCC will be asked to produce their copy of the Disclosure (if they have already been checked under KCC's Umbrella Body) and may also be required to undergo a re-check to provide optimal assurance to the manager.

Monitoring and Recording

KCC will undertake regular monitoring of the overall CRB process to ensure its compliance with its responsibilities and to protect the integrity and security of the system and process.

The individual CRB process will be carefully monitored to ensure the appropriate post is being checked and that it is processed accurately and within agreed time scales

The CRB teams are responsible for holding and processing all information in accordance with KCC's Procedure Statement on the secure storage, handling, use, retention and disposal of Disclosures and Disclosure information.

Information provided by an applicant will be treated as strictly confidential and kept securely in line with the procedure and CRB code of practice.

The Recruitment Process

To allow applicants to self select, all Job Descriptions, Person Specifications and advertisements of 'regulated positions' must make the need for CRB Disclosure clear.

Managers who recruit and employ are responsible for ensuring all applicants granted an interview are asked appropriate questions to ensure they are aware, and understand the implications of, regulated posts.

Managers who recruit and employ are also responsible for making sure identification documents produced in support of a CRB application are checked, recorded and sent to the CRB Team in the Employee Services Centre.

Failure to reveal relevant information at interview which later comes to light through the CRB process, or any other intelligence, may compromise an individual's employment contract or lead to disciplinary action up to and including dismissal, depending on the circumstances.

Disclosure of Information

Information provided to KCC by CRB will only be passed to those entitled to receive the information, in line with the CRB Code of Practice. Generally, this is only the recruiting manager and personnel adviser.

A criminal record will not automatically bar the individual to working with children or vulnerable adults.

KCC reserves the right to judge each case on its merits within the following parameters:

- Nature of conviction
- Length of time elapsed since incident
- Relevance to the post applied for
- Openness of declaration during the recruitment process

KCC decisions will be final with no right of appeal.

Status of CRB Disclosures

All persons working in a 'regulated position' will be subject to a CRB Disclosure check.

- KCC will undertake CRB Disclosure checks at Enhanced level for everyone identified as above.
- Posts will be re-checked every three years*
- Individuals with multiple posts with KCC will be re-checked 3 years* from the date of their most recent check.
- Individuals moving within KCC (i.e. checked under the KCC Umbrella Body) to another identified position will be asked to produce their copy of the Disclosure and may be required to undergo a re-check in order to provide optimal assurance for the recruiting manager. Checks will be renewed every three years.*

* Excluding staff in schools

Identifying appropriate posts

KCC Managers will identify which posts require a CRB Disclosure in line with the Criminal Justice & Courts Services Act (CJ&CSA) 2000, CRB, Independent Safeguarding Authority (ISA) and government department (e.g. Department for Children, Schools and Families) guidance and the support of Personnel Business Support (PBS) and SPS. In general they are:

- Positions in relevant establishments e.g. schools
- Positions with regular or unsupervised access to children
- Positions with regular or unsupervised access to vulnerable adults
- Direct supervisory or management positions relating to workers with direct, regular and unsupervised access to children and vulnerable adults

- Posts which include regular access to sensitive or personal information relating to children, families and vulnerable adults. (NB this will mean more information than name, address, date of birth and will therefore **not apply to most administrative posts**)

New Personnel

Any offer of appointment is conditional upon receipt of a satisfactory CRB Disclosure.

Individuals who have a Disclosure application in progress will only be able to work under supervision until the process has been satisfactorily completed.

It is the Unit Manager's responsibility to make sure procedures are followed.

New personnel who fail without good reason, to correctly complete and return their Disclosure Form within 25 days of starting in post may have their employment terminated for failing to fulfil a contractual term.

KCC undertakes to discuss any matter revealed in a Disclosure with the applicant before making a decision.

Existing Personnel

Where an offence is committed after a CRB Disclosure has been completed the individual must advise their Line Manager or Head teacher accordingly. The manager, with advice from Personnel Business Support, will decide whether the offence has any impact on the individual's ongoing employment or the type of work they are able to carry out.

If a subsequent CRB check reveals information that has not been disclosed, disciplinary action up to and including dismissal will be taken.

Existing personnel in 'regulated positions' who refuse, or persistently fail, to correctly complete a check or re-check will be subject to disciplinary action up to and including dismissal.

Voluntary Workers

This Procedure applies the same standards and processes to volunteers working in regulated positions. Therefore, no distinction is made between those who are paid or unpaid.

Volunteers who do not complete a successful CRB process will not be able to support KCC activities.

Agency Workers

Agencies are contracted to supply workers with valid CRB Disclosure checks, however, **it is the responsibility of the recruiting manager to ensure agency workers have a valid and current check whilst working with vulnerable groups.**

Providing Work For Ex Offenders

KCC will review disclosed information in strict confidence, as defined by the CRB code of practice.

KCC will ensure recruiting or enrolling managers, in consultation with Personnel Business Support or Schools Personnel Services, are able to identify and assess the relevance and circumstances of offences.

At interview, or in a separate discussion, KCC managers will ensure an open and measured discussion takes place on the subject of any offences or other matter that might be relevant to the position. Failure to reveal directly relevant information, could lead to the withdrawal of an offer.

Applicants from Overseas

The CRB cannot currently access overseas criminal records or other relevant information as part of its Disclosure service, so a CRB Check may not provide a complete picture of criminal records that may or may not exist.

Some countries have their own form of criminal record check which applicants may provide.

CRB Disclosure checks must still be undertaken for staff applying for regulated positions, in addition, where possible a check from the country of origin is required.

Managers should not allow workers from overseas to work in a regulated position without discussing and agreeing the case with Personnel Business Support or Schools Personnel Services.

Guidance on how to find further information from some countries is available on KNet.

Foster Carers, Adopters and Guardians

This Procedure applies the same standards and processes to those who wish to foster, adopt or act as Guardians.

Advice and Support

If there is any doubt about the application of this Procedure, further advice must be sought from Personnel Business Support, Employee Services Centre or Schools Personnel Service CRB counter signatories and Personnel Consultants as appropriate.

Review of Procedure

This Procedure will be reviewed in accordance with legislative changes and/or business requirements

Legislative framework

- Rehabilitation of Offenders Act 1974. (as amended)
- Sections of the Police Act 1997 (as amended)
- Protection of Children Act 1999 (as amended)

- The Criminal Justice and Court Services Act 2000 (as amended)
- Care Standards Act 2000
- Sections of the Education Act 2002 (as amended)
- The Safeguarding Vulnerable Groups Act 2006
- The Protection of Vulnerable Adults (POVA) scheme

APPENDIX 2

	(A) Disclosur e checks processed 2009	(B) Average time for issue of Disclosure in 2009	(C) Current average time for issue of Disclosure	(D) Applications made between 3/12/09 and 1/4/2010*	(E) Number at (D) still outstanding with school/ employee		(F) Number at (D) still outstanding with CRB		
					paper	e-bulk	5 – 7 months	3 – 5 months	2 – 3 months
School employees	6231	25 days	9 days	1909	5	0	0	1	4
School volunteers	4817	25 days	9 days	1718	10	0	1	1	6

* there are none outstanding with CRB prior to 3/12/09

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Appendix 3

	(A) Disclosure checks processed 2009	(B) Average time for issue of Disclosure in 2009	(C) Current average time for issue of Disclosure	(D) Applications made between 3/12/09 and 1/4/2010*	(E) Number at (D) still outstanding with school/employee		(F) Number at (D) still outstanding with CRB		
					paper	e-bulk	5 – 7 months	3 – 5 months	2 – 3 months
KCC employees	2905	20 days	9 days	917	0	0	2	2	6
KCC volunteers	1171	Data unavailable	8 days	596	0	0	Data unavailable	Data unavailable	Data unavailable

Calculated in days not working days
None of the figures include Fostering and Adoption

Data unavailable – volunteers are not chased as they do not start until their CRB disclosure has been returned

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By: Roger Gough – Cabinet Member for Corporate Support Services and Performance Management
David Tonks – Head of Audit and Risk

To: Governance and Audit Committee – 30 June 2010

Subject: **STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT IN PUBLIC SERVICE ORGANISATIONS**

Classification: Unrestricted

Summary: In May 2010 the Chartered Institute of Public Finance and Accountancy (CIPFA) began consultation on its Statement on the role of the Head of Internal Audit in public service organisations. This paper summarises the key points from the statement, provides an initial view as to compliance, and sets out the method for responding to the consultation.

FOR INFORMATION

Introduction and background

1. On 19th May CIPFA published its consultation on its Statement on the role of the Head of Internal Audit (HIA) in public service organisations. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against.
2. The statement sets out an overarching principles-based framework which is intended to apply to all HIAs in the UK. The Statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountancy bodies' and the Institute of Internal Auditors' codes of ethics and professional standards.
3. As well as articulating the core responsibilities of the HIA, the statement also identifies the personal and professional skills needed.

Overview of the Statement

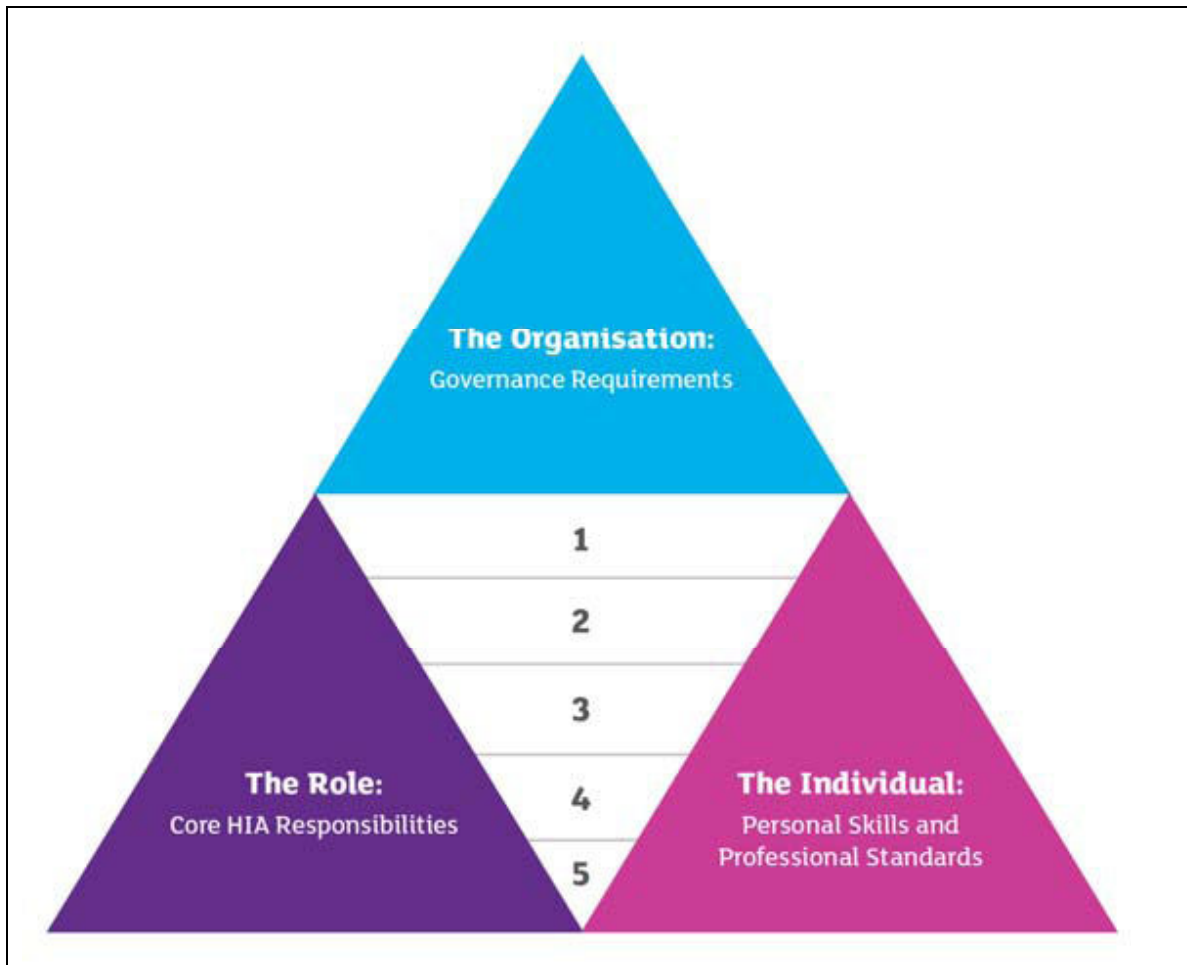
4. The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. For each principle the Statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.

Demonstrating compliance

5. The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. CIPFA recommends that organisations should report publically on compliance to demonstrate their commitment to good practice.

6. The framework, shown in diagram 1 below, follows that used previously in the CIPFA Statement on the Role of the Chief Financial Officer.

Diagram 1:



Source: CIPFA

7. The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:
- championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
 - giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
8. To perform this role the Head of Internal Audit:
- must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
 - must lead and direct an internal audit service that is resourced to be fit for purpose; and
 - must be professionally qualified and suitably experienced.

Initial view of compliance

9. A detailed review against the requirements of the statement will be completed when it is finalised after the consultation closes. However, an initial assessment would indicate that the role of the Head of Audit and Risk at Kent County Council already meets the underlying aims of the five principles set out above.

Consultation process

10. CIPFA is seeking views on the Statement before finalising it. In particular they are seeking views on the following questions:

- i. Do the five principles cover the right ground? If not, how might they be amended or augmented?
- ii. Are there any aspects of the Statement that would reduce its relevance, or prevent it being applied in any areas of the public services? Please explain any potential issues and suggest appropriate alternatives.
- iii. Do you support CIPFA's proposal that organisations should confirm compliance with the statement in their annual governance reports?
- iv. How should CIPFA follow up the Statement to help HIAs, Audit Committees and others make best use of audit resources and maximise the impact that they make?

11. The consultation closes on the 10th September 2010, prior to the next meet of the Committee. It is intended that the Director of Finance and the Head of Audit and Risk prepare a draft response for approval by the Cabinet Member for Corporate Support Services and Performance Management and the Chairman of the Governance and Audit Committee. Should individual members of the Governance and Audit Committee wish to contribute to the draft response this would of course be most welcome.

Recommendations

12. Members are asked to:

- note the draft Statement on the role of the Head of Internal Audit in public service organisations, and;
- agree the approach to responding to the consultation.

Background Papers

CIPFA Statement on the role of the Head of Internal Audit in public service organisations

David Tonks

Head of Audit and Risk

Ext: 4614

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To: Governance & Audit Committee – June 2010

From: Mike Hill, Cabinet Member Community Services
Clive Bainbridge, Director of Community Safety & Regulatory Services

Subject: Annual RIPA report on ‘surveillance’ and other activities carried out by KCC between Jan – December 2009

Classification: Unrestricted

Summary FOR INFORMATION: This report outlines the work undertaken in 2009 by KCC Officers on surveillance and other activities governed by the Regulation of Investigatory Powers Act 2000 (RIPA).

1.0 Background

1.1 The County Council’s Policy and Protocol on Surveillance, including the Acquisition of Communications data, was approved by Cabinet decision taken on 12 January 2009. The document sets out the extent of Kent County Council’s use of RIPA and who can authorise such activity. There remains considerable interest from some media and pressure groups so the County Council wishes to be as open and transparent as possible to assure the public that these powers are used only in a ‘lawful, necessary and proportionate’ manner.

1.2 To achieve maximum transparency and ensure that the County Council maintains public confidence Section 14.3 of the Policy and Protocol on Surveillance requires that:

‘At the end of each year a report shall be submitted by the Director of Community Safety and Regulatory Services to the appropriate Audit Committee, outlining the work carried out in the preceding year by KCC falling within the remit of RIPA.’

This is the second Annual report to this Committee.

2.0 What this report covers

2.1 There are three types of activity where authority is required to be granted to individual officers to carry out a specialist function within the remit of RIPA. These are as follows:

- Acquisition of Communications Data
- Covert Surveillance
- Covert Human Intelligence Source (CHIS)

Each of the above is defined in detail within the Policy document but in simplified form can be described as follows:

Acquisition of communications data – obtaining from a communications service provider names, addresses, telephone billing records and traffic data but not the content of any communication

Covert surveillance – intended to be carried out without the person knowing and in such a way that it is likely that private information may be obtained about a person (not necessarily the person under surveillance). Local authorities are only permitted to carry

out certain types of covert surveillance and for example cannot carry out surveillance within or into private homes or vehicles (or similar “bugging” activity).

Covert human intelligence source (CHIS) – the most common form is an officer developing a relationship with an individual without disclosing that it is being done on behalf of the County Council for the purpose of an investigation. In most cases this would be an officer acting as a potential customer and talking to a trader about the goods / services being offered for sale. Alternatively, a theoretical and rare occurrence would be the use of an ‘informant’ working on behalf of an officer of the Council.

- 2.2 In each of the above scenarios an officer is required to obtain authorisation from a named senior officer before undertaking the activity. This decision is logged in detail, with the senior officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing and signing an authorisation document, which is then held on a central file. There is one central file for KCC, held by the Director of Community Safety & Regulatory Services, which is available for inspection by the Office of the Surveillance Commissioners and the Interception of Communications Commissioner’s Office.

3.0 RIPA work carried out in the year 2009

- 3.1 The appendix to this report gives the date, general purpose or reason for which authority was granted under each of the three headings together with the grade of senior manager that granted the authority. It is not possible to give further details as this may breach confidentiality legislation, such as the Enterprise Act, offend the subjudice rules, interfere with the proper investigation of potential offenders, or disclose other operational information which could hinder past, current or future activities, investigatory techniques or investigations.

- 3.2 It can be seen from the information in the appendix that, across the whole of KCC, the only activities covered by RIPA, were carried out within two services, Environmental Crime (Environment, Highways and Waste Directorate) and Trading Standards (Communities Directorate).

- 3.3 Total number of authorisations granted in 2009 (and 2008 for comparison):

Surveillance 104 (2008 = 23)
(mainly for test purchase under-age sales operations see explanation 5.1)

Acquisition of communications data (Telecoms) 39 (2008 = 38)

Covert human intelligence source (CHIS) 12 (2008 =8)

4.0 The Interception of Communications Commissioner’s Office and the Office of Surveillance Commissioner.

- 4.1 There are two separate national bodies which carry out audits to ascertain standards within those enforcement bodies which carry out covert surveillance and access communications data. These are respectively the Office of the Surveillance Commissioner (OSC) and the Interception of Communications Commissioner’s Office (ICCO). As required by the legislation and Codes, a brief report of usage and of any errors internally detected, has been submitted to the OSC and the ICCO covering this reporting period. There were no errors to report to either regime.

- 4.2 The last audit inspection by the ICCO was on 7th September 2009. The Inspector reported that he was satisfied that “Kent County Council is acquiring communications data lawfully and for a correct statutory purpose”.
- 4.3 The last inspection by the OSC was carried out on 12 February 2009, and was reported in the previous Annual Report to this Committee.

5.0 Developments in 2009/2010

- 5.1 There was a significant increase in the number of Surveillance authorisations in 09/10 in relation to the observation of underage test purchase operations, which accounted for the vast majority of the authorisations. Following the audit in 2009 by an Inspector from the Office of Surveillance Commissioners, he gave the opinion that each separate test purchase event should have an individual authority. This advice was later followed up in the Annual Report by the Commissioner.

However, in March 2010 there was a formal clarification issued which redefined the interpretation and in future, where it is the view of the manager and authorising officer that it is not likely to result in the obtaining of “private information” and no relationship will be established, then a RIPA authorisation is not required as the operation is considered to fall outside the scope of RIPA. The figures for surveillance authorisations should therefore be reduced in future.

Although formal authorisations will not be required, senior managers consider that it is good practice to record the reason why there is a need to carry out ‘surveillance’ during test purchase operations involving the use of young people. For this reason a single document will be prepared and signed (similar to a formal authorisation) but covering a number of test purchases during an operation. This should avoid any challenge at a later time.

- 5.2 Government Review 2009 and outcome:

Last year there was public consultation on RIPA by the Home Office following some media and public concern. The Home Office consulted on which UK enforcement authorities should retain RIPA, the ranks of officers able to grant RIPA authority, and the statutory purposes for which techniques could be used. Of the 222 responses received, most were broadly supportive of the then Government’s and Local Authorities view, that public authorities had a continuing need to use these powers when necessary and proportionate to do so.

The Home Office consequently published the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010. They also revised the Codes of Practice for covert surveillance / property interference and the use of Covert Human Intelligence Sources (CHIS) which came into force on 6 April 2010.

All the existing requirements were maintained but several new requirements were introduced. It was considered good practice for a senior responsible officer, who should be a member of the corporate leadership team, to be made responsible for the integrity and oversight of key aspects of the RIPA regime in the Authority. Another point was that Councilors should review the authority’s use of RIPA and set the policy, at least once a year. Councilors should also consider internal reports on use of RIPA on at least a quarterly basis to ensure that it is being used consistently with the council’s policy and that the policy remains fit for purpose. They should not, however, be involved in making decisions on specific authorisations.

The KCC Policy and Protocols document is being updated to incorporate the amendments and include the reporting procedures and the revised document will go to Cabinet for consideration and approval.

5.3 Coalition Government's: latest proposals

"We will ban the use of powers in the Regulation of Investigatory Powers Act (RIPA) by councils, unless they are signed off by a magistrate and required for stopping serious crime" Source: The Coalition, our programme for government

There are no other details available at this time, although we have been advised that the use of RIPA is of concern to the new Government and we should expect legislative alteration. It is envisaged that the amendments will be available soon which will enable any further updating of the County Council's Policy and Protocol.

5.4 Memorandum of Understanding with Kent Police on CHIS

On the 24th November 2009 Cabinet Member Mike Hill, on behalf of Kent Trading Standards and Chief Constable Michael Fuller, on behalf of Kent Police, signed a formal Memorandum of Understanding relating to the operation and handling of Covert Human Intelligence Sources. The agreement recognises the need to protect "informants" but does not cover our own staff or those operating under our direct control. The handling of informants requires special care, skills and security issues and Kent Police will take the lead and legal responsibility in these circumstances.

5.5 New Head of Paid Services : Confidential material

The Council has not so far ever authorised any directed surveillance where 'confidential material' might be disclosed (for example information relating to confidential and sensitive matters between a doctor / lawyer and their client). However, there is a need to ensure that if, during surveillance, the possibility of this could arise then the authorisation of that surveillance should be carried out by the Head of Paid Services or a deputy. The KCC Policy will be amended to state that the Group Managing Director with Chief Officers deputising will be named as authorising officers in these circumstances. However, in view of the training requirements they will be supported and assisted by one of the existing suitably experienced Authorising Officers before any decision is made to sign an authorisation.

6.0 Recommendation

6.1 Governance and Audit Committee is asked to:

Note this report and the appendix which detail the manner in which KCC's formal Policy and Protocol on Surveillance (including the Acquisition of Communications data) has been used and followed during the previous year, including the type of criminal offences where surveillance has been used or communications data has been requested

*Clive Bainbridge
Director of Community Safety and Regulatory Services
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Appendix – KCC – Use of RIPA Powers 2009

Type	Who	Date	Description
Surveillance	B	15/01/08	Flytipping - rural location
Surveillance	A	23/12/08	Flytipping - rural location
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	D	21/01/09	Observation in relation to under age sales test purchase
Surveillance	A	21/01/09	Flytipping - rural location
CHIS	D	22/01/09	Roadside car sales
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	28/01/09	Observation in relation to under age sales test purchase
Surveillance	D	02/02/09	Observation in relation to under age sales test purchase
Surveillance	D	02/02/09	Observation in relation to under age sales test purchase
Surveillance	D	02/02/09	Observation in relation to under age sales test purchase
Surveillance	D	02/02/09	Observation in relation to under age sales test purchase
Surveillance	D	02/02/09	Observation in relation to under age sales test purchase
Telecomms	D	02/02/09	Doorstep crime
Telecomms	D	02/02/09	Connected with the sale of counterfeit goods
Telecomms	D	02/02/09	Connected with the sale of counterfeit goods
Telecomms	D	02/02/09	Connected with the sale of counterfeit goods
Telecomms	D	03/02/09	Safety investigation
Surveillance	D	04/02/09	Observation in relation to under age sales test purchase
Surveillance	D	04/02/09	Observation in relation to under age sales test purchase
CHIS	D	06/02/09	Roadside car sales
Surveillance	D	06/02/09	Observation in relation to under age sales test purchase
Surveillance	A	07/02/09	Fly-tipping - Rural Location
Surveillance	D	09/02/09	Observation in relation to under age sales test purchase

Type	Who	Date	Description
Surveillance	D	23/02/09	Observation in relation to under age sales test purchase
Surveillance	C	11/03/09	Flytipping - rural location
Telecomms	D	23/03/09	Connected with the sale of counterfeit goods
Telecomms	D	23/03/09	Investigation concerning illegal landing of an animal
Surveillance	A	26/03/09	Flytipping - rural location
Surveillance	D	02/04/09	Observation in relation to under age sales test purchase
Surveillance	D	02/04/09	Observation in relation to under age sales test purchase
Telecomms	D	09/04/09	Investigation of supply of counterfeit goods
Telecomms	D	09/04/09	Doorstep Crime
Telecomms	D	09/04/09	Doorstep Crime
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Surveillance	D	14/04/09	Observation in relation to underage sales test purchase
Telecomms	D	26/04/09	Doorstep crime
CHIS	D	11/05/09	Investigation of supply of counterfeit goods
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Surveillance	D	23/05/09	Observation in relation to underage sales test purchase
Telecomms	D	26/05/09	Doorstep crime
Telecomms	D	26/05/09	Doorstep crime
Telecomms	D	03/06/09	Doorstep Crime
Telecomms	D	03/06/09	Doorstep Crime
Telecomms	D	03/06/09	Doorstep Crime
Surveillance	A	04/06/09	Investigation into Travellers
Telecomms	D	11/06/09	Fly tipping

Type	Who	Date	Description
Telecomms	D	15/06/09	Roadside cars
Telecomms	D	15/06/09	Roadside cars
Telecomms	D	15/06/09	Roadside cars
Telecomms	D	15/06/09	Roadside cars
Telecomms	D	15/06/09	Roadside cars
Telecomms	D	18/06/09	Doorstep crime
Telecomms	D	25/06/09	Investigation of car sales
CHIS	D	26/06/09	Investigation of supply of counterfeit goods
Telecomms	D	29/06/09	Doorstep Crime
Telecomms	D	29/06/09	Doorstep Crime
Telecomms	D	07/07/09	Doorstep crime
Telecomms	D	07/07/09	Doorstep Crime
Telecomms	D	07/07/09	Doorstep Crime
Telecomms	D	07/07/09	Doorstep Crime
Surveillance	A	13/07/09	Flytipping - Private land
Surveillance	D	20/07/09	Observation in relation to under age sales test purchase
Surveillance	D	20/07/09	Observation in relation to under age sales test purchase
Surveillance	D	20/07/09	Observation in relation to under age sales test purchase
Surveillance	D	20/07/09	Observation in relation to under age sales test purchase
Surveillance	D	20/07/09	Observation in relation to under age sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	22/07/09	Observation in relation to underage sales test purchase
Surveillance	D	28/07/09	Observation in relation to underage sales test purchase
CHIS	D	05/08/09	Connection with counterfeit sales
Surveillance	D	05/08/09	Investigation into counterfeit sales
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase

Type	Who	Date	Description
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase
Surveillance	D	11/08/09	Observation in relation to under age sales test purchase
Surveillance	A	19/08/09	Flytipping - Bridleway
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	26/08/09	Observation in relation to underage sales test purchase
Surveillance	D	01/09/09	Observation in relation to under age sales test purchase
Surveillance	D	01/09/09	Observation in relation to under age sales test purchase
Surveillance	D	01/09/09	Observation in relation to under age sales test purchase
Surveillance	D	01/09/09	Observation in relation to under age sales test purchase
Surveillance	D	01/09/09	Observation in relation to under age sales test purchase
Telecomms	D	11/09/09	Investigation into counterfeit sales
Telecomms	D	11/09/09	Investigation into counterfeit sales
Surveillance	D	17/09/09	Observation in relation to under age sales test purchase
Surveillance	D	17/09/09	Observation in relation to under age sales test purchase
Surveillance	D	17/09/09	Observation in relation to under age sales test purchase
Surveillance	D	17/09/09	Observation in relation to under age sales test purchase
Surveillance	D	17/09/09	Observation in relation to under age sales test purchase
Surveillance	D	18/09/09	Observation in relation to under age sales test purchase
Telecomms	D	21/09/09	Doorstep Crime
Telecomms	D	23/09/09	Doorstep crime
Telecomms	D	12/10/09	Doorstep Crime
CHIS	D	13/10/09	Investigation into credit offences
CHIS	D	13/10/09	Investigation into credit offences
CHIS	D	13/10/09	Investigation into credit offences
CHIS	D	13/10/09	Investigation into credit offences
Surveillance	D	19/10/09	Observation in relation to under age sales test purchase
Surveillance	D	26/10/09	Observation in relation to underage sales test purchase

Type	Who	Date	Description
Surveillance	D	29/10/09	Observation in relation to under age sales test purchase
Surveillance	D	29/10/09	Observation in relation to underage sales test purchase
Surveillance	D	05/11/09	Possible illegal movement of livestock
Telecomms	D	06/11/09	Doorstep caller
CHIS	D	18/11/09	Sale of unsafe goods
CHIS	D	26/11/09	Investigation of supply of counterfeit goods
Surveillance	D	01/12/09	Observation in relation to underage sales test purchase
Surveillance	D	01/12/09	Investigation of unauthorised use of logo
Surveillance	A	02/12/09	Fly tipping - Rural Location
CHIS	D	04/12/09	Sale of unsafe goods
Surveillance	A	08/12/09	Fly tipping - Rural Location
Telecomms	D	11/12/09	Sale of unsafe goods
Telecomms	D	17/12/09	Investigation of claims of membership to organisation
Telecomms	D	18/12/09	Investigation of marketing scam
Surveillance	A	12/12/2009	Fly tipping - Rural Location

Grand Totals
Surveillance = 104
Telecomms = 39
CHIS = 12

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By: Cabinet Member for Finance
Director of Finance

To: Governance & Audit Committee – 30 June 2010

Subject: **Spending the Council's Money**

Classification: Unrestricted

Summary: To agree updates to “Spending the Council's Money”.

FOR DECISION

INTRODUCTION

1. “Spending the Council's Money” is the document detailing the Council's procurement policies and procedures and contains a mixture of legislation, rules, guidance on good practice and examples of potential pitfalls. It is intended to be a helpful, useable, reference for all those involved in procurement within the Council at whatever stage, whether they are specifying, contracting, ordering, managing or scrutinising.
2. The Spending The Council's Money document incorporates the Council's procurement rules which are referred to as ‘the Code’. The Code forms part of the Council's overall governance arrangement and key parts are included in an Appendix of the Constitution.
3. To ensure that ‘the Code’ is not hidden amongst the general text shading is used to draw Officers and Members attention to the Council's mandatory rules that cover all of its procurement activity.
4. The implementation of “Spending The Council's Money” was approved by this Committee at its meeting on 27 June 2007 and includes the following requirements for amendments:

“Proposed changes to the Code must be approved by the Governance and Audit Committee prior to implementation.

Changes to “Spending The Council's Money” other than to the Code must first be approved by the Director of Finance.”

WHY ARE CHANGES NECESSARY?

5. The proposed revisions are intended to reflect the up to date position in the Council, bringing Spending The Council's Money back in to line with the other interdependent documents and the Council's structure. There are no procurement rule or policy changes being proposed in this revision.

Appendix 1 gives the generic headings of proposed changes by chapter and the draft of the new version is available for review online.

RECOMMENDATIONS

6. Members are asked to agree the proposed amendments to 'Spending The Council's Money'.

Lynda McMullan
Director of Finance
Ext 4550

Background Documents:

The current version of 'Spending The Council's Money' is available at:

<http://knet2/policies-and-procedures/finance-and-procurement/procurement/spending-the-councils-money>

The draft version containing all the proposed changes is available from Chris Luke (chris.luke@kent.gov.uk)

Appendix 1

The following changes are proposed to the Code in Spending The Council's Money.

Chapter 1	updating the linkage between Spending The Council's Money and 'The Local Management for Schools' documents.
Chapter 2	revising the extracts from the Kent Code in line with latest version revising the extracts from Financial Regs in line with latest version
Chapter 4	revising the extracts from Financial Regs in line with latest version amending references to senior staff in line with current structure
Chapter 5	updating reference from 'Kent Compact' to 'Kent Partners Compact'
Chapter 6	amending references to senior staff in line with current structure
Chapter 9	strengthening text around the primacy of procurement legislation over KCC's internal rules amending references to senior staff in line with current structure
Chapter 11	amending references to senior staff in line with current structure
Chapter 12	revising the extracts from Financial Regs in line with latest version
Chapter 13	amending references to senior staff in line with current structure updating scrutiny references to include Scrutiny Board
Chapter 15	amending references to senior staff in line with current structure
Chapter 16	revising the extracts from Financial Regs in line with latest version
Chapter 17	revising the extracts from Financial Regs in line with latest version

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