

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 30th June, 2011

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a presentation on the Role of External Audit and Final Accounts at 9.30am for Members of the Committee.



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 30th June, 2011, at 10.00 am
Darent Room, Sessions House, County
Hall, Maidstone

Ask for: **Andrew Tait**
Telephone: **01622 694342**

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

Membership (13)

Conservative (12) 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, Ms A Hohler, Mr R A Marsh, Mr R J Parry,
Mr R Tolputt Mr C T Wells

Liberal Democrat (1): Mr T Prater

Webcasting Notice

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UNRESTRICTED ITEMS

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

1. Introduction/Webcasting (1 - 2)
2. Membership
To note that Ms A Hohler and Mr R A Marsh have replaced Mr P W A Lake and Mr J F London on the Committee.
3. Substitutes
4. Declarations of Interest in items on the agenda for this meeting
5. Minutes - 16 March 2011 (3 - 8)
6. Committee Work Programme (9 - 12)
7. Treasury Management Annual Review 2010/11 (13 - 24)
8. External Audit Governance report (25 - 26)

9. Internal Audit Annual Report (27 - 52)
10. Draft Statement of Accounts 2010/11 (53 - 210)
11. Company Protocol (211 - 222)
12. Review of Complaints (223 - 228)
13. Debt Management (229 - 238)
14. Annual Audit Fee 2011/12 (239 - 248)
15. Kent Superannuation Fund Audit Plan 2011/12 (249 - 254)
16. Update on progress of Savings Programme (255 - 258)
17. 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
(01622) 694002

Wednesday, 22 June 2011

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.

TERMS OF REFERENCE

Governance and Audit Committee

13 Members

Conservative: 12; Liberal Democrat: 1.

The purpose of this 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.

On behalf of the Council this Committee will ensure the following outcomes:

- (a) Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- (b) 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.
- (c) 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.
- (d) The appointment and remuneration of External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- (e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- (f) The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- (g) Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- (h) Accounting policies are appropriately applied across the Council.

- (i) 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.

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 Wednesday, 16 March 2011.

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 P W A Lake, Mr J F London, Mr R Tolputt Mr C T Wells

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

OFFICERS: Mr A Wood (Acting Director of Finance), Mr G Wild (Director of Law and Governance), Mr D Tonks (Head of Audit & Risk), Mrs J Armstrong (Senior Audit Manager), Mr N Vickers (Head of Financial Services), Ms A Mings (Treasury & Investments Manager) Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells and Mrs E Robinson from the Audit Commission.

UNRESTRICTED ITEMS

1. Minutes - 30 November 2010

(Item 4)

RESOLVED that the Minutes of the meeting held on 30 November 2010 are correctly recorded and that they be signed by the Chairman.

2. Work Programme

(Item 5)

(1) The Head of Audit and Risk presented a forward work programme to the Committee for approval.

(2) The Committee asked for a quarterly update report on the delivery of the Council's £95m savings programme, with particular emphasis on those areas deemed at highest risk.

(3) RESOLVED that subject to (2) above, the forward work programme for 2011 be agreed.

3. Treasury Management Quarter 3 Review 2010/11

(Item 6)

(1) The Head of Financial Services presented the Treasury Management Quarter 3 Review.

(2) During discussion of this item, Members of the Committee noted a recent media report about a scheme run by two Local Authorities in partnership with a major Bank to support first time buyers. The Cabinet Portfolio Holder said that he was

aware of this scheme and that he would be considering its merits. If, as a result, any action were suggested, he would report further on progress.

(3) RESOLVED that the report be noted.

4. Impact of KCC's Budget on the Risk Register

(Item 7)

(1) The Acting Director of Finance gave a brief report outlining the risk of non-delivery of the County Council's £95 million savings. He explained how this risk was to be monitored through existing Committees and was consequently built in to the scrutiny process; enabling the Governance and Audit Committee to be given assurance that the risk was being managed and that corrective action would take place as and when necessary.

(2) During discussion of this item, Members of the Committee asked for regular reports on any of the Project Initiation Documents where those responsible for the savings were at risk of failure to meet their targets or where an unforeseen impact on front line services had resulted. They also asked for updates on the impact of the reorganisation and on the risks posed to the County Council by cuts in School budgets.

(3) RESOLVED that the process being developed for managing the increased risk as a result of the 2011/12 Revenue Budget be noted.

5. Audit Commission Opinion Plan

(Item 8)

(1) Mr Wells from the Audit Commission introduced a report which set out the proposed work of the Audit Commission, which would enable them to give an opinion on the County Council's 2010/11 financial statements.

(2) RESOLVED that:-

(a) approval be given to the outcomes of the Audit Commission's updated risk assessment and the assumptions supporting the fee; and

(b) the audit plan and revised fee be approved.

6. Audit Commission Kent Superannuation Fund Audit Opinion Plan

(Item 9)

(1) The Committee considered a report which set out the proposed work of the Audit Commission, which would enable them to give an opinion on the Superannuation Fund's 2010/11 financial statements.

(2) The Committee noted that the Superannuation Fund Committee had not yet considered the opinion plan and therefore agreed that its approval of the Audit Plan would be subject to the views of that Committee.

(3) RESOLVED that subject to the views of the Superannuation Fund Committee:-

- (a) the outcomes of the Audit Commission's updated risk assessment and review of the assumptions supporting the fee be approved; and
- (b) the Audit Plan for the Superannuation Fund be approved.

7. Revised accounting policies

(Item 10)

- (1) The Acting Director of Finance presented a report on revised accounting policies for approval.
- (2) During discussion of this item, Members asked how properties leased to the County Council were monitored to ensure that the repair obligations were being met. It was agreed that the Interim Director of Property Group would respond on this point to all members of the Committee.
- (3) RESOLVED that the accounting policies set out in the report be approved.

8. Company Protocol

(Item 11)

Discussion of this item was postponed to the next meeting of the Committee.

9. Approval of Anti Fraud and Corruption Strategy

(Item 12)

- (1) The Head of Audit and Risk presented a report on the updated Anti-fraud and Corruption Strategy.
- (2) During discussion of this item, Members asked what the legal position was in respect of ensuring that employees took annual leave and on what information could be sought and taken into account regarding a potential employee's criminal record.
- (3) The Committee requested a clarification in the revised strategy that it applied to all acts of dishonesty.
- (4) RESOLVED that subject to (3) above, the promotion of a counter-fraud strategy within the County Council be endorsed and that approval be given to the Anti-Fraud and Corruption Strategy appended to the report.

10. CIPFA Statement on the role of the Head of Internal Audit in public service organisations

(Item 13)

- (1) The Head of Audit and Risk updated the Committee on the consultation by CIPFA on its Statement on the role of the Head of Internal Audit in public service organisations. He provided an initial assessment as to compliance against the governance requirements of the document.
- (2) The Committee noted that the Head of Audit and Risk would report to the next meeting on the actions taken by the Corporate Management Team on those areas identified in the report as non-compliant.

(3) RESOLVED to note:-

- (a) the publication of the Statement on the role of the Head of Internal Audit in public service organisations and that a Local Government version is being developed; and
- (b) the current compliance position.

11. Internal Audit Strategy and Annual Plan

(Item 14)

- (1) The Head of Audit and Risk reported on the Internal Audit Strategy and Annual Plan for 2011/12 which, exceptionally, would aim to provide assurance on the system of internal control.
- (2) RESOLVED that the Internal Audit Strategy and Annual Plan for 2011/12 be approved.

12. Audit Opinions and Recommendations

(Item 15)

- (1) The Head of Audit and Risk reported on changes to audit opinions and recommendations that would be introduced for work completed as part of the 2011/12 Audit Programme.
- (2) The Committee noted the term “Negative Assurance Opinions” as a description that nothing coming to the auditor’s attention about a particular objective that would require comment. It was considered that the term could be misleading (suggesting criticism) and the Head of Audit and Risk was requested to consider whether a suitable alternative could be found.
- (3) RESOLVED that approval be given to:-
 - (a) the amendments to gradings and definitions for audit opinions together with the introduction of “qualified”, “compliance” and “negative assurance” (subject to (2) above) opinions;
 - (b) the amended prioritisation criterion for audit recommendations and the indicative timescales for implementing the recommendations; and
 - (c) the amended reporting to the Committee in relation to the tracking of implementation of recommendations, including the requirement for officers to attend the Committee when deadlines for implementation of High priority recommendations have been missed.

13. Audit Commission Certification of claims and returns Annual Report

(Item 16)

(1) Mrs Robinson from the Audit Commission summarised its work on the certification of funding from government grant-paying departments. She confirmed that she was satisfied with the arrangements, provided that they continued.

(2) RESOLVED that the report be noted.

14. Internal Audit progress Report

(Item 17)

(1) The Head of Audit and Risk summarised progress against the 2010/11 internal audit programme.

(2) RESOLVED to note:-

(a) the amendments to and progress against the 2010/11 audit programme; and

(b) the assurance provided in relation to the County Council's control environment as a result of the outcome of the internal audit programme completed to date.

EXEMPT ITEMS

(Members resolved that under Section 100A of the Local Government Act 1972, the public be excluded from the meeting for the following business on the grounds that it involved the disclosure of exempt information as defined in paragraphs 2 and 7 of Part 1 of Schedule 12A of the Act)

15. Internal Audit - Irregularities

(Item 20)

(1) The Head of Audit and Risk provided brief details of two irregularities that had been reported to Internal Audit in January 2011, together with the measures that would be taken to prevent a recurrence.

(2) RESOLVED that the report be noted.

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By: Chairman of Governance and Audit Committee
David Tonks, Head of Audit and Risk

To: Governance and Audit Committee – 30 June 2011

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. This is 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

2. Annex 1 shows the latest programme of work for the Committee up to November 2011. The content of the programme is matched to the Committee terms of reference and aim to provide the minimum coverage necessary to meet the responsibilities set out. The programme is 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

3. It is recommended that Members:
 - Approve the forward work programme for 2010/11 to meet the Committee's terms of reference, and;
 - Identify any additional items that members would wish to include.

David Tonks
Head of Audit and Risk
Ext: 4614

Category / Item	Owner	Jun-11	Sep-11	Nov-11
Secretariat				
Minutes of last meeting	AT	✓	✓	✓
Work Programme	DT	✓	✓	✓
Trading activities Sub Group	AT			✓
Member Development Programme	DT	✓	✓	✓
Risk Management and Internal Control				
Strategic Risk Register	DT		✓	
Treasury Management quarterly report	NV		✓	✓
Ombudsman Complaints	JH		✓	
Report on Insurance and Risk Activity	DT		✓	
Treasury Management Annual Report	NV	✓		
Treasury Management - half yearly review	NV		✓	
Review of the Risk Management Strategy, Policy and Programme	DT		✓	
Annual Complaints Report	JH		✓	
Update on Savings programme	AW	✓		✓
Annual report on 'surveillance' activities carried out by KCC	DC		✓	
Corporate Governance				
Progress update on Change to Keep Succeeding	KK		✓	
The process for the development of Statements of Required Practice.	JF		✓	
Future of the Trading activities Sub Group	AW		✓	
Annual review of ToR	DT		✓	
Debt Recovery	AW	✓		✓
Annual review the Council's Code of Corporate Governance	GW		✓	
Companies protocol	AW / GW	✓		

Category / Item	Owner	Jun-11	Sep-11	Nov-11
Internal Audit				
Internal Audit Progress Report	DT		✓	✓
Internal Audit Annual Report	DT	✓		
Internal Audit Benchmarking Results	DT		✓	
Internal Audit Strategy and Annual Plan	DT			
Review of Terms of Reference and Charter of Internal Audit	DT	✓		
External Audit				
External Audit Update	DT		✓	✓
Proposal for tracking of External Audit and regulators recommendations	DT		✓	
External Audit Governance Report	DT	✓	✓	
External Audit Annual Audit Letter	DT			✓
Certification Work Report	DT			
Effectiveness of External Audit Liaison	DT			✓
External Audit Annual Plan & Fee	DT	✓		
External Audit Pension Fund Plan & Fee	DT	✓		
External Audit Opinion work programme	DT			
Financial Reporting				
Statement of Accounts & Annual Governance Statement	AW	✓	✓	
Revised Accounting Policies	CH			
Fraud				
Anti-fraud and anti-corruption compliance with "Protecting the Public Purse"	DT		✓	
Review of the Anti-fraud and anti-corruption Strategy	DT		✓	
<i>Update on Irregularities</i>	DT			

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By: Cabinet Member for Finance
Acting Director of Finance & Procurement

To: Governance and Audit Committee – 30 June 2011

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW
2010-11**

Classification: Unrestricted

Summary: To report a summary of Treasury Management activities
in 2010-11.

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 local 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. When this report is agreed by this Committee it will then go forward to full Council.

ECONOMIC BACKGROUND

3. At the time of determining the strategy for 2010-11, interest rates were expected to remain low in response to the fragile state of the UK economy. Spending cuts and tax increases seemed inevitable post the General Election if the government had a clear majority. The markets had, at the time, viewed a hung parliament as potentially disruptive particularly if combined with a failure to articulate a credible plan to bring down government borrowing. The outlook for growth was uncertain due to consumers and corporates trimming their spending and financial institutions exercising restraint in new lending.

4. The economy's two headline indicators moved in opposite directions – growth was lacklustre whilst inflation spiked sharply higher. The economy grew by just 1.3% in calendar year 2010; the forecast for 2011 was revised down to 1.7% by the Office of Budget Responsibility in March. Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%. The Bank Rate was held at 0.5% as the economy grappled with uneven growth and the austerity measures set out in the coalition government's Comprehensive Spending Review.
5. Gilts benefitted from the Comprehensive Spending Review (CSR) plans as well as from their relative 'safe haven' status in the face of European sovereign weakness. 5-year and 10-year gilt yields fell to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.
6. During the year money market rates increased marginally at the shorter end (overnight to 3 months). 6-12 month rates increased by between 0.25% to 0.3% over the 12 month period reflecting the expectation that the Bank Rate would be raised later in 2011. Relevant interest rate indices are attached in Appendix 1.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

7. The overall borrowing position is summarised below:

	Balance on 31/3/2010 £000's	Debt Maturing £000's	New Borrowing £000's	Balance on 31/3/2011 £000's	Increase in Borrowing £000's
Capital Funding Requirement	1,236,211			1,309,517	
Short Term Borrowing					
Long Term Borrowing	1,042,363	46,030	100,000	1,096,333	53,970
TOTAL EXTERNAL DEBT	1,042,363	46,030	100,000	1,096,333	53,970

8. Following the CSR on 20 October 2010, on instruction from HM Treasury, the PWLB increased the margin for new borrowing to average 1% above the yield on the corresponding UK Government Gilt. New fixed rate borrowing rates increased by approximately 0.87% across all maturities, and new variable rate borrowing rates by 0.90%. Premature repayment rates did not benefit from the increase in the margin which potentially makes future rescheduling of PWLB loans more challenging.

9. The type of borrowing taken was:

Loans Borrowed during 2010-11	Principal £000's	Average Rate %	Average Maturity (years)
PWLB Fixed Rate Maturity Loans	70,000	4.12	39.75
PWLB Fixed Rate EIP Loans	20,000	1.94	10
Market Loans	10,000	4.20	31
Total	100,000		

10. Given the large differential between short and longer term interest rates, which is likely to remain a feature for some time in the future, as well as the pressure on Council finances, the debt management strategy sought to lower debt costs within an acceptable level of volatility (interest rate risk). Changes in the debt portfolio over the year have achieved a reduction in the overall debt cost by £4.6m whilst increasing the average life from 27.22 years to 27.82 years.
11. The PWLB remains the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide.
12. No debt rescheduling was undertaken in the year.

INVESTMENT ACTIVITY

13. The Council held average cash balances of £278.67m during the year. These represented working cash balances / capital receipts, and the Council's reserves. This is a significant reduction in the level of balances which is the result of the deliberate decision to run down balances and defer borrowing (due to the low return on deposits and the lack of counterparties) and the separation of Pension Fund working cash.
14. 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 became 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.

15. The criteria agreed by Cabinet on 2 February 2011 for the approval of counterparties are:
- A strong likelihood of Government intervention in the event of liquidity issues based on systematic importance to the UK economy.
 - Credit rating (Council's minimum long term counterparty rating of A+ across all 3 rating agencies, Fitch, Standard & Poor's and Moody's).
 - Credit default swaps.
 - Share price.
 - Reputational Issues.
 - Exposure to other parts of the same banking group.
 - Country exposure.
16. The agreed counterparties were:
- Royal Bank of Scotland
 - Lloyds Banking Group
 - Barclays
 - HSBC
 - Santander UK
 - Nationwide
 - Clydesdale Bank
 - Standard Chartered
17. Santander has been suspended since 30 April 2010 as a result of concerns about the creditworthiness of the Banco Santander group following the downgrading of Spain's long-term sovereign credit rating. Clydesdale has also been suspended linked to issues in the Australian economy for its' parent National Australia Bank. Standard Chartered have not been in the market for deposits. This leaves the Council with the 5 largest UK financial institutions and the Debt Management Office. The Treasury Advisory Group, advised by Arlingclose, continues to look at other options but the parlous state of the banking sector worldwide supports a highly judicious approach.

18. Deposits as at 31 March 2011 are shown in Appendix 2.

ICELANDIC EXPOSURE

19. Heritable – this administration, managed by Ernst & Young, continues to run well. The base case forecast return is 79-85p in the £ and to date 56p in the £ has been recovered realising £10.28 m. Quarterly dividends continue to be received.
20. Landsbanki and Glitnir – on 1 April 2011 the Reykjavik District Court ruled that the funds placed by UK local authorities were deposits and enjoy priority status. This was not only the right outcome but the ruling was highly supportive. International bank and bond holder creditors and the Glitnir Winding Up Board are appealing the decisions to the Icelandic Supreme Court as expected. If priority status holds the anticipated level of recoveries are 100% for Glitnir and 95% for Landsbanki.

COMPLIANCE WITH PRUDENTIAL INDICATORS

21. The Council can confirm that it has complied with its Prudential Indicators for 2010 - 11, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 3.

TREASURY ADVISER

22. On 2 March 2011 Arlingclose was appointed by the Acting Director of Finance & Procurement in conjunction with the Treasury Advisory Group as the Council's sole treasury adviser for a 5 year period. This ended the use of both Sector and Arlingclose. Butlers contracts and staff had transferred to Sector in October 2010. The Office of Fair Trading has referred the Butlers acquisition by Sector to the Competition Commission.

RECOMMENDATION

23. 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

Appendix 1

Interest Rates

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2010	0.50	0.35	0.35	0.42	0.51	0.81	1.26	1.54	2.07	2.82
30/04/2010	0.50	0.30	0.30	0.43	0.53	0.83	1.29	1.70	2.23	2.95
31/05/2010	0.50	0.45	0.50	0.61	0.60	0.85	1.35	1.46	1.89	2.58
30/06/2010	0.50	0.35	0.35	0.45	0.61	0.94	1.38	1.40	1.79	2.42
31/07/2010	0.50	0.40	0.40	0.50	0.71	1.01	1.46	1.36	1.75	2.39
31/08/2010	0.50	0.40	0.55	0.50	0.71	1.00	1.45	1.20	1.47	2.02
30/09/2010	0.50	0.30	0.25	0.51	0.72	1.01	1.46	1.24	1.51	2.05
31/10/2010	0.50	0.48	0.40	0.51	0.72	1.01	1.46	1.26	1.53	2.08
30/11/2010	0.50	0.40	0.51	0.51	0.72	0.88	1.46	1.32	1.66	2.30
31/12/2010	0.50	0.40	0.40	0.51	0.72	1.01	1.47	1.49	1.94	2.61
31/01/2011	0.50	0.40	0.55	0.52	0.64	1.04	1.52	1.74	2.21	2.90
28/02/2011	0.50	0.40	0.54	0.53	0.68	1.09	1.56	1.85	2.29	2.95
31/03/2011	0.50	0.30	0.50	0.54	0.80	1.11	1.58	1.85	2.31	2.96
Minimum	0.50	0.30	0.25	0.42	0.51	0.75	1.00	1.13	1.37	1.92
Average	0.50	0.39	0.43	0.50	0.67	0.98	1.44	1.50	1.90	2.54
Maximum	0.50	0.55	0.55	0.80	0.80	1.11	1.58	1.97	2.49	3.19
Spread		0.25	0.30	0.38	0.29	0.36	0.58	0.84	1.12	1.26

Table 2 : PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.81	2.84	4.14	4.21	4.60	4.61	4.63
30/04/2010	089/10	0.85	2.86	4.13	4.20	4.61	4.61	4.60
28/05/2010	127/10	0.73	2.46	3.76	3.83	4.36	4.38	4.38
30/06/2010	171/10	0.67	2.27	3.54	3.62	4.22	4.28	4.27
30/07/2010	217/10	0.70	2.29	3.55	3.62	4.32	4.41	4.40
31/08/2010	259/10	0.63	1.84	3.05	3.13	3.82	3.93	3.93
30/09/2010	303/10	0.64	1.88	3.14	3.86	4.00	4.03	4.02
29/10/2010	346/10	1.58	2.90	4.23	5.06	5.2	5.22	5.2
30/11/2010	390/10	1.56	3.05	4.40	5.18	5.26	5.25	5.23
31/12/2010	430/10	1.65	3.33	4.58	5.18	5.23	5.20	5.16
31/01/2011	040/11	1.79	3.57	4.80	5.40	5.46	5.44	5.40
28/02/2011	080/11	1.87	3.61	4.75	5.33	5.38	5.35	5.31
31/03/2011	126/11	1.89	3.57	4.71	5.27	5.30	5.27	5.24
	Low	0.60	1.81	3.05	3.82	3.93	3.93	3.92
	Average	1.19	2.79	4.05	4.72	4.79	4.78	4.76
	High	1.99	3.84	5.00	5.50	5.55	5.53	5.48

Table 3: PWLB Borrowing Rates - Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.78	2.94	4.18	4.53	4.60	4.62
30/04/2010	089/10	--	1.82	2.96	4.16	4.53	4.61	4.62
28/05/2010	127/10	--	1.52	2.55	3.79	4.24	4.36	4.39
30/06/2010	171/10	--	1.38	2.36	3.58	4.06	4.23	4.27
30/07/2010	217/10	--	1.42	2.38	3.58	4.11	4.33	4.40
31/08/2010	259/10	--	1.12	1.92	3.09	3.61	3.82	3.91
30/09/2010	303/10	--	1.14	1.96	3.18	3.67	3.87	3.96
29/10/2010	346/10	--	2.11	2.98	4.27	4.84	5.07	5.16
30/11/2010	390/10	--	2.19	3.14	4.44	4.99	5.19	5.25
31/12/2010	430/10	--	2.43	3.42	4.62	5.05	5.19	5.23
31/01/2011	040/11	--	2.62	3.66	4.84	5.25	5.40	5.45
28/02/2011	080/11	--	2.71	3.69	4.79	5.18	5.33	5.38
31/03/2011	126/11	--	2.69	3.65	4.74	5.14	5.28	5.31
	Low		1.10	1.89	3.09	3.61	3.82	3.91
	Average		1.91	2.87	4.08	4.55	4.72	4.77
	High		2.88	3.93	5.03	5.38	5.51	5.55

Appendix 2

Deposits as at 31 March 2011

Instrument Type	Counterparty	Principal Deposit Amount at 31/03/11	End Date	Interest Rate	Territory
Fixed Deposit	Dexia Bank	£10,000,000	31/10/2011	0.5050	Belgian Bank
	Total Belgian Bank Deposits	£10,000,000			
	Total Icelandic Bank Deposits	£41,155,209			
Fixed Deposit	Barclays Bank	£5,000,000	31/05/2013	6.8000	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000	08/08/2011	1.0900	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000	06/09/2011	1.1700	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	05/04/2011	1.1700	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	05/07/2011	1.3000	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	07/10/2011	1.6000	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	09/01/2012	2.0000	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000	19/09/2011	1.0556	UK Bank
Fixed Deposit	Royal Bank of Scotland	£5,000,000	06/01/2012	1.4000	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000	18/10/2013	1.3700	UK Bank
Same Day Call Deposit	Bank of Scotland	£19,999,975	n/a	0.8500	UK Bank
Same Day Call Deposit	Barclays Bank	£25,000,000	n/a	0.7000	UK Bank
Same Day Call Deposit	Royal Bank of Scotland	£20,600,000	n/a	1.1500	UK Bank
	Total UK Bank Deposits	£115,599,975			
Fixed Deposit	Nationwide Building Society	£5,000,000	05/05/2011	0.7400	UK Building Society

Fixed Deposit	Nationwide Building Society	£5,000,000	06/06/2011	0.8500	UK Building Society
LIBOR Fixed Deposit	Principality Building Society	£5,000,000	21/04/2011	1.3756	UK Building Society
	Total UK Building Society Deposits	£15,000,000			
Fixed Deposit	Debt Management Office	£18,000,000	01/04/2011	0.2500	UK Govt.
Fixed Deposit	Debt Management Office	£2,800,000	05/04/2011	0.2500	UK Govt.
Fixed Deposit	Debt Management Office	£8,000,000	06/04/2011	0.2500	UK Govt.
Fixed Deposit	Debt Management Office	£10,000,000	07/04/2011	0.2500	UK Govt.
Fixed Deposit	Debt Management Office	£8,950,000	08/04/2011	0.2500	UK Govt.
	Total UK Govt. Deposits	£47,750,000			
	Grand Total of All Deposits	£229,505,184			

Appendix 3

PRUDENTIAL INDICATORS

1. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

Estimates of the Council's cumulative maximum external borrowing requirement for 2010 -11 to 2012 -13 are shown in the table below:

	31/3/2010 Actual £000s	31/3/2011 Actual £000s	31/3/2012 Estimate £000s	31/3/2013 Estimate £000s
Capital Financing Requirement	1,236,211	1,309,517	1,308,640	1,300,156
Less: Existing Profile of Borrowing	1,042,363	1,096,333	1,096,333	1,096,333
Less: Other Long Term Liabilities	0	0	0	0
Cumulative Maximum External Borrowing Requirement	193,848	213,184	212,307	203,823

In the light of current commitments and planned expenditure, forecast net borrowing by the Council will not exceed the Capital Financing Requirement.

2. Operational Boundary for External Debt

The operational boundary for debt is determined having regard to actual levels of debt, borrowing anticipated in the capital plan, the requirements of treasury strategy and prudent requirements in relation to day to day cash flow management. The operational boundary for debt has not been exceeded in 2010 -11

(a) Operational boundary for debt relating to KCC assets and activities

	Prudential Indicator 2010-11 revised £m	Actual as at 31/3/2011 £m
Borrowing	1,142	1,046
Other Long Term Liabilities	0	0
	1,142	1,046

- (b) Operational boundary for total debt managed by KCC including that relating to Medway Council etc (pre Local Government Reorganisation)

	Prudential Indicator 2010-11 revised £m	Actual as at 31/3/2011 £m
Borrowing	1,192	1,096
Other Long Term Liabilities	0	0
	1,192	1,096

3. **Authorised Limit for External Debt**

The authorised limit includes additional allowance, over and above the operational boundary to provide for unusual cash movements. It is a statutory limit set and revised by the County Council. The revised limits for 2010 -11 are:

- (a) Authorised limit for debt relating to KCC assets and activities

	£m
Borrowing	1,182
Other long term liabilities	0
	1,182

- (b) Authorised limit for total debt managed by KCC including that relating to Medway Council etc

	£m
Borrowing	1,232
Other long term liabilities	0
	1,232

The additional allowance over and above the operational boundary has not needed to be utilised and external debt, has and will be maintained well within the authorised limit.

4. **Upper Limits for Fixed Interest Rate and Variable Interest Rate Exposures**

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- 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 deposits.

	Limits for 2010/11 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

5. 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.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/11 £000's	% Fixed Rate Borrowing as at 31/03/11	Compliance with Set Limits?
under 12 months	25	0	57,024	5.20	Yes
12 months and within 24 months	40	0	77,021	7.03	Yes
24 months and within 5 years	60	0	91,209	8.32	Yes
5 years and within 10 years	80	0	108,003	9.85	Yes
10 years and above	90	40	763,076	69.60	Yes

6. Upper Limit for Principal Sums Invested for Periods Longer than 364 days

- This indicator allows the Council to manage the risk inherent in deposits longer than 364 days.
- The limit for 2010 -11 was set at £50m.
- The Council's policy has been to keep deposit maturities to a maximum of 12 months and no deposits were made for a period greater than 364 days during this period.

By: John Simmonds, Cabinet Member for Finance
Andy Wood, Acting Corporate Director of Finance and Procurement

To: Governance and Audit Committee – 30 June 2011

Subject: External Audit Annual Governance Report

Classification: Unrestricted

Summary: This paper sets the context to the external Auditor's Annual Governance Report.

FOR ASSURANCE

Introduction and background

1. The Audit Commission, as our External Auditor, is required to report to the Committee the findings from their audit of the 2010/11 financial statements. The report includes the key messages arising from the audit the Superannuation Fund statements, and the results of the work undertaken to assess the Council's arrangements to secure value for money.

Process

2. The audit of the financial statements commenced on 13th June, following receipt of the accounts on the agreed date of 10th June. The changes to the compilation and presentation of the accounts, due to the introduction of International Financial Reporting Standards (IFRS), as well as changes to the International Standards of Audit have meant that significantly more audit time (approx 50%) is required this year than in prior years.
3. Despite the pressures on the audit it is anticipated that the work will be substantially complete by 1st July. As in previous years the District Auditor, Mr Darren Wells, will present a draft Annual Governance Report to the Committee, or at least provide a verbal update on the main findings. Obviously the very tight timescales set out above preclude Mr Wells from sending out a finalised report with the Committee papers.
4. Members will be able to ask Mr Wells any questions pertaining to the audit of the accounts to help inform their decision on the approval of the financial statements. The final version of the Annual Governance Report will be presented to the Committee in September along with the final audit opinion.

David Tonks
Head of Audit and Risk
Ext: 4614

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By: David Tonks – Head of Audit and Risk
To: Governance and Audit Committee – 30 June 2011
Subject: INTERNAL AUDIT ANNUAL REPORT
Classification: Unrestricted

Summary: The Head of Audit and Risk's Annual Report summarises the output of the Internal Audit annual plan and provides commentary on the performance of the Internal Audit section. The Annual Report also contains the Head of Audit and Risk's opinion on the Council's system of internal control.

FOR ASSURANCE

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 the 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. The opinion for the 2010/2011 financial year is one of substantial assurance – i.e. there is some limited exposure to risk of error, loss, fraud, impropriety or damage to

¹ Chartered Institute of Public Finance and Accountancy

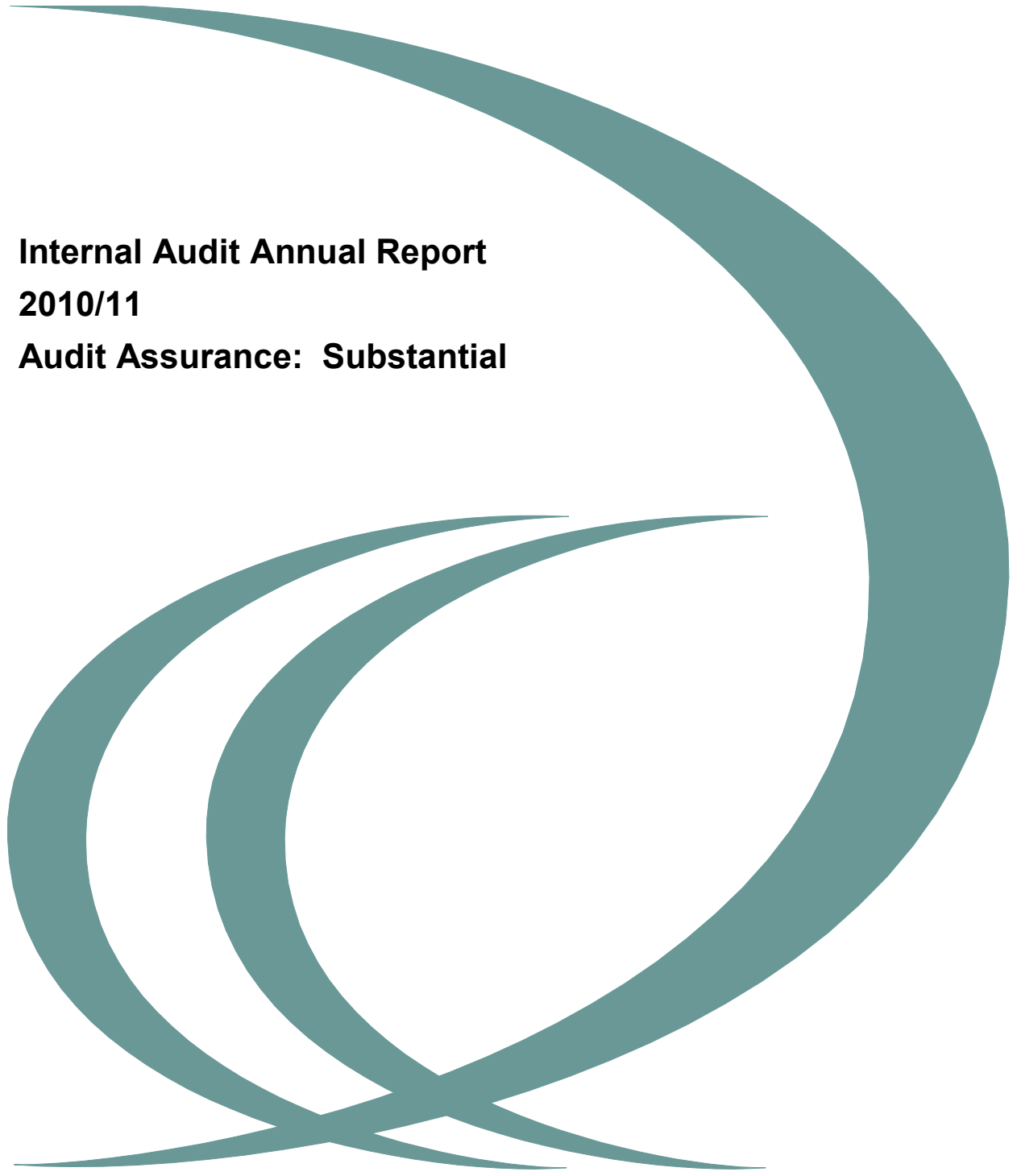
reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.

Recommendations

3. Members are asked to note for assurance the internal audit annual report for 2010/11.

David Tonks
Head of Audit and Risk
Ext: 4614

**Internal Audit Annual Report
2010/11
Audit Assurance: Substantial**



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4.	The review of the effectiveness of the system of internal audit
Appendix A: Summary of Minimal and Limited Assurance	
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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 that Internal Audit has performed and covers the period 1st April 2010 to 31st March 2011
- 1.2. 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 Managing Director, Cabinet Members, Managing and Executive Directors and their senior management teams.

Overview of work done

- 1.3. The original Internal Audit Plan (the Plan) for 2010/11 included a total of 71 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.
- 1.4. As a result of this liaison, changes have been agreed to the Plan during the year. A number of projects have been deleted from the Plan as the result of changes to government initiatives and priorities following the general election in 2010, or if other assurances are available to the Council. Details of the changes to the Audit Plan have been reported to the Governance and Audit Committee throughout the year. The total number of projects undertaken in 2010/11 was 60, excluding the advisory work. At the time of preparing this report, most substantive work had been completed, and the reporting position was as follows:
 - 35 – final report/assurance work completed
 - 25 – draft reports issued or in the process of being finalised.
- 1.5. Internal Audit also undertook 17 investigations relating to potential fraud or other irregularities by staff or third parties, one of which was considered significant in relation to the control and risk framework of the Council.

2. Objectives, Scope, Responsibility and Assurance

Objectives

- 2.1. The majority of projects internal audit 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.

- 2.2. 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.

Scope

- 2.3. 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.
- 2.4. For 2010/2011 we prepared our internal audit plan based upon a variety of key factors including:
- Evaluation of the Council's risks using risk registers.
 - 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

- 2.5. 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 providing assurance on the controls in place. Internal Auditors cannot be held responsible for internal control failures.
- 2.6. Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness that could result in fraud or error, Internal Audit procedures alone do not guarantee that fraud will be detected, this should be a function of the controls put in place by management. Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, misappropriation or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 2.7. 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.

Limitations to the scope of our work

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

Limitations on the assurance that Internal Audit can provide

- 2.9. 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.

Assurance (Opinion)

- 2.10. 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:
- Corporate Governance
 - Risk Management
 - Internal Control.
- 2.11. This is collectively referred to as "the system of internal control".
- 2.12. 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 system of internal control at KCC. Audit testing has confirmed that the majority of key controls are working in practice, with some specific exceptions. Where improvements to control or compliance are required, we are satisfied that appropriate action has been taken by the relevant managers.

Basis of our assessment

- 2.13. The opinion on the adequacy of the system of internal control 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.

Key issues and implications for the Annual Governance Statement

- 2.14. 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 2010/2011, although the work completed identified a number of improvements to be made, these do not constitute a systematic failure of internal control. There have been a number of irregularities reported in year (see anti-fraud below), one of which was significant in scale and another which highlighted particular issues in one business unit. We have summarised the key themes to be developed for each of the three categories of the Council's system of internal control below, and section 3 provides more detail of the work completed in year.

Corporate Governance

- 2.15. The Council's approved and adopted code of corporate governance is consistent with the principles of governance set out in the CIPFA Good Governance Standard (2004). The code is kept under review by the Council's Monitoring Officer and amended as necessary. The outcome of the review and any resultant changes is reported to the Governance and Audit Committee.

- 2.16. 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. The corporate governance audit for 2009/10 focused on 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.
- 2.17. For 2010/11 our work assessed how Members and Officers worked together to achieve a common purpose, including clarity of functions and roles, and the taking of informed and transparent decisions which are subject to effective scrutiny and the management of risk. Although there were some medium and low priority recommendations made as a result of the review, we are able to give *substantial* assurance that Corporate Governance is operating effectively.
- 2.18. Recognising the importance to service delivery of partnerships, the Audit Plan again included a review on the Governance of Individual Partnerships. This work is nearing completion but it is likely the opinion will be *substantial* assurance.
- 2.19. During 2010/11 the Council embarked on an organisation-wide transformation project called Change to Keep Succeeding. The underlying design principles of the programme, whilst enabling changes to the Council's culture and service provision, will have a direct impact on the Council's governance. A new internal management control framework has been put in place, and during 2011/12 a series of Statements of Required Practice (SORPs) will be implemented. These will specify the minimum requirements to be achieved by Kent staff across a range of areas, including Performance Management, Business & Financial Planning, Procurement and Risk Management. We will monitor the development and implementation of these SORPs, to help ensure that they deliver the anticipated improvements to operational governance.

Risk Management

- 2.20. There have been no fundamental changes to the overarching framework for Risk Management during 2010/11, and therefore previous assurance work remains valid. However, it was decided to commission a review of the risk management framework to inform the changes that are needed to increase the sophistication and maturity of risk management across the Council. The work was completed by Deloitte and reported directly to the Acting Corporate Director of Finance and Procurement to avoid any conflicts of interest with the Head of Audit and Risk. The review, whilst recognising the changes that were intended to be implemented, provided *substantial* assurance that the controls around the risk management processes were effective.

Internal Controls

2.21. 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 key themes from our audits where actions were required to secure improvements to the control environment:

- **Information governance:** During 2010/11 six Internal Audit reports have been issued with “Limited” assurance in the area of information management and governance. The most common theme within these reports is the lack of central co-ordination and over reliance on local arrangements to ensure sound information governance. Early steps have been taken to improve the situation, including the formal appointment of the Director of Governance and Law as the Senior Information Risk Officer, or SIRO and the establishment of an Information Governance Group
- **Commercial Services:** Work completed in Commercial Services during 2010/11 highlighted issues around the governance arrangements in place and the level of assurance that was being provided back to the Council, either through management reporting lines or from internal audit. An independent governance review of the service will be completed during 2011 and changes to the control environment have already been implemented. It has also been agreed that a more commercially based internal audit presence will be put in place that will be professionally accountable to the Head of Audit and Risk. For the energy brokering service provide by Commercial Services there will also be an annual assurance statement based on *ISAE 3402 Assurance Reports on Controls at a Service Organisation*.
- **Performance Management:** Our Audit Plan included a review of the Council’s Performance Management framework. At management request this work was significantly reduced in its scope when it was identified that the Performance Management framework was being reviewed. The changes are designed to support the design principles set out in Change to Keep Succeeding. From the limited work that we did complete we did not find anything of significant concern to report.

3. Summary of Internal Audit Work Undertaken

Core work

3.1. The table below provides a summary of the assurance opinions provided on our audit reviews (final and draft reports) during 2010/11.

Summary of Audit Reviews - Final and Draft Reports

Assurance	No. of Reviews
High	10
Substantial	26
Limited	9
Minimal	1
No opinion given	3
Assurance opinion pending completion of work	11
Total	60

3.2. For the eleven audits in progress at the time of writing the report there are no indications of serious control weaknesses.

3.3. Minimal and Limited assurances were given to:

- Payroll - East Kent Shared Service (draft report) – Minimal
- Databases and Spreadsheets (draft report) – Limited
- End User Controls – (final report) – Limited
- Building Consultants Framework–(final report) –Limited
- Unstructured Data Processing – KASS & CFE (draft reports) - Limited
- Handling Information Risk – Information Governance Follow Up (draft report) - Limited
- Permit Scheme Application – (final report) - Limited
- Highways Maintenance Programme (draft report) - Limited
- Data Protection (draft report) – Limited

3.4. Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits, including those where the report is draft or where the audit work is still in progress, together with their respective overall assurance rating (provisional where still in draft).

Follow ups

3.5. At the end of each audit we make recommendations to improve the control environment. To ensure that the suggested improvements are realised we also follow up those issues that we deem as more important.

3.6. The tables below provide a summary of our follow up activity for 2010/2011.

	Critical	High	Medium
Number of recommendations made	2	6	36
Recommendations implemented by the deadline		3	13
Recommendations monitored but not yet due	2	2	22
Recommendations overdue		1	1

3.7. The two overdue recommendations relate to the audit of the Accounts Payable system in Commercial Services. The original deadline for implementation of both recommendations was January 2011; this has been deferred to 30th June 2011.

3.8. The critical recommendations made in 2010/11 are set out below. -

Audit	Finding
Databases & Spreadsheets	There is no requirement for directorates to apply the development standards established by Information Services Group (ISG) when implementing bespoke applications such as spreadsheets and databases. This could result in data being compromised through weak development or design, and decisions being made on low quality data. There is also the increased risk of inappropriate storage and data handling, leading to a breach of statutory duties <i>To be resolved by 31 October 2011</i>
End User Controls	Microsoft patches, updates and fixes are not applied to all network devices in a timely manner, increasing the risk that vulnerabilities may be exploited for malicious purposes. <i>To be resolved by 30 September 2011.</i>

Anti-fraud work

3.9. There were 17 suspected/potential irregularities reported to and investigated by Kent Audit in 2010/11. An analysis of the types of irregularities reported is shown below.

Type of Irregularity	Number
Theft/loss of cash and equipment	6
Fraudulent attempt to obtain/use of Blue Badge	2
Overtime and Mileage claims	2
Contract fraud by an employee	1
Change of supplier bank details by third party	1
Financial mismanagement	4
Conflict of interest	1
Total	17

- 3.10. Four of these cases were reported to the police. One member of staff has resigned, one has been dismissed and another is subject to an ongoing investigation and disciplinary procedure. This last case is significant in scale and has been separately reported to the Governance and Audit Committee. A member of the public received a caution for attempting to fraudulently obtain a Blue Badge; while another has been arrested for obtaining cash by purporting to be a KCC supplier and diverting monies from a genuine supplier payment. The majority of this money has since been recovered.
- 3.11. We have continued to deliver fraud awareness training during 2010/11. This has helped to highlight potential fraud risks to managers.
- 3.12. The Council is required to take part in the Audit Commission's bi-annual National Fraud Initiative (NFI), the purpose of which is to identify any potential frauds by matching data sets from other public sector bodies (for example housing benefits, payroll, pensions etc). Any 'matches' are flagged in a report that is returned to the Council for checking and investigation. No assumption can be made that because there are positive matches that fraudulent activity has taken place. The audit section work closely with other local authorities who have matches to the Council's data sets. This exercise is still in progress for 2010/11 and so far no potential frauds have been identified.

Liaison with External Audit

- 3.13. We have continued to work very closely with the External Auditors (the Audit Commission) and enjoy a good working relationship with them. A paper was presented to the November 2010 Governance and Audit Committee which acknowledged that although the relationship continues to work well, there is potential for External Audit to increase the reliance they place on internal audit work. In particular aspects of the work of Internal Audit on financial systems could be tailored to provide assurance required by External Audit. Authority wide reviews could be utilised by the External Auditors to better inform their risk assessment of the Council.

4. The review of the effectiveness of the system of internal audit

- 4.1. 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.'
- 4.2. 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.

¹ Jan 2009

- 4.3. As part of the development for the risk based plan for 2010/11 consideration was given to the assurance that could be provided to the Council by external bodies, including the Audit Commission, Ofsted, 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.
- 4.4. The Council was the subject of three inspections from Ofsted during 2010/11, two of which focussed on Children's Services and one on Community Learning and Skills. In Autumn 2010 an unannounced inspection of safeguarding and looked after children services was completed by Ofsted. This inspection was formally reported in November 2010, and concluded that the overall effectiveness of services in Kent to ensure that children and young people are safeguarded and protected was inadequate, and that the capacity to improve was also inadequate. The report identified 13 areas for improvement, four of which were for immediate action, six to be completed within three months and three within six months.
- 4.5. In November 2010 the outcome of the performance analysis of the Council's Adult Social Services for 2009/10 was announced by the Care Quality Commission. The Council was awarded 'Excellent' in three of the seven outcomes and was judged as 'Good' in the other four outcomes. A performance rating of 'Performing well' was awarded overall.

Internal Audit Performance

- 4.6. 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%	100%
Efficiency		
% of plan delivered*	95%	87%
% of available time spent on direct audit work	80%	86%
% of draft reports completed within 10 days of finishing fieldwork	89%	75%
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%	88%

- 4.7. During 2010/2011 a redesign of the internal audit service was initiated, the first stage of which was to restructure the section. This process did reduce the capacity for about half the year, and the section is only now moving towards full establishment. This issue, combined with a number of resource intensive irregularity investigations has meant that the section has been unable to deliver the expected level of work. However, key elements of the plan have been delivered in sufficient depth to enable the overall audit opinion to be given.

Compliance with the Code of Practice for Internal Audit

- 4.8. 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.
- 4.9. 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 in 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 a good quality output is achieved.
- 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.

Compliance with the CIPFA Statement on the role of the Head of Internal Audit in public service organisations

4.10. In March 2011 the Governance and Audit Committee were updated on the level of compliance against the above statement, which highlighted the following gaps:

- There is no mechanism in place to ensure that the Head of Audit and Risk is consulted on all proposed major projects, programmes and policy initiatives.
- Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Audit and Risk.
- The terms of reference for Internal Audit have not been agreed with CMT.
- The Head of Audit and Risk prepares the draft Annual Governance Statement.
- The basis on which the Head of Audit and Risk can give assurances to other organisations and the basis on which the Head of Audit and Risk can place reliance on assurances from others has not been documented or agreed.
- The Head of Audit and Risk 's responsibilities relating to partners including joint ventures and outsourced and shared services have not been documented or agreed.

As part of the process to develop the Council's Annual Governance Statement the above issues were reviewed by Corporate Management Team. The areas of non-compliance were not considered significant and will therefore be developed when appropriate.

Internal Audit Charter

4.11. 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 will be redrafted during 2011 to reflect the redesign of the Internal Audit Section, and will be submitted to Governance and Audit Committee for approval. The current version of the Charter can be seen at appendix C.

Summary of Minimal and Limited Assurance

Payroll – East Kent Shared Service

Scope

The objective of this audit was to review the implementation and subsequent operation of the shared payroll service operated by KCC Employee Services for East Kent Human Resource Partnership member councils (Thanet, Dover, Shepway district councils and Canterbury City Council).

Overall Assessment (Draft) – Minimal

The audit was carried out against a constantly changing and developing situation and discussions were held with Employee Services staff and the Corporate Director of Human Resources throughout the audit. The response to these discussions has been positive, with immediate action either taken or planned to resolve the issues identified.

The original timetable for the payroll project was for a staged implementation with all payrolls live by April 2010. There were delays in completing the necessary legal agreements and the software solution was not procured until December 2009. Development work did not start until January 2010. The original project plan was based on a high degree of harmonisation of working practices between the constituent councils. This was not the responsibility of KCC. This harmonisation was not achieved and different conditions of service, extensive local agreements, differing treatments of pay elements and other inconsistencies complicated the system build.

The problems and delays experienced with the system development increased the project costs and impacted on the subsequent payroll administration.

The inability to provide a working general ledger interface with Employee Services, Midland Consultancy and the constituent councils until late in the financial year and several months after the system went live is of particular concern. While working files are now being produced, some issues remain and not all councils have signed off on the content of the interface file. The considerable delay in resolving the issue created problems for budget monitoring of salary costs by the constituent councils and resulted in a loss of confidence in the payroll system.

However, the provision of new payroll systems for four councils (five payrolls) within the changed ambitious timescales was a substantial achievement for all concerned. It is important that this is recognised whilst accepting that the development process and the subsequent payroll operation were flawed.

Six recommendations have been made which have been accepted by management who have put in action plans to address the issues.

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 (Draft) – Limited

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 used across the council. 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.

We also carried out reviews in two of the directorates looking at their arrangements to manage unstructured data processing. Work is still required to identify the applications in use and assess their use, much of which will be dependent on any Information Governance Policy to be implemented at Council level.

Recommendations have been made to address the issues identified.

End User Controls

Scope

The scope of the audit was to review the technical management of the Councils IT systems to help protect data and manage end user behaviours when using IT systems or equipment.

Overall Assessment (Final) – Limited

An end user is generally a person that uses IT hardware once it has been installed and is ready for use. End user devices include laptops, Personal Digital Assistants (PDA) and Smartphones. Some end user devices such as portable USB data storage devices, may be used solely for the purpose of transferring data from one device to another.

There was one critical rated recommendation relating to the regular patching of network devices including workstations, laptops, bridges, routers, switches and gateways.

Summary of Minimal and Limited Assurance

Although the security configuration at the workstation/laptop level tended to be relatively strong, the key areas of weakness were around the more portable devices, such as portable data storage devices (e.g. external hard drives, writable CDs and USB drives) which can hold large volumes of data and be easily moved around.

There are three key areas which impact on this. The first is Information Governance which is now being developed within KCC. The second is the ability to monitor and manage portable devices' ability to connect to the Council's systems through end point security. The third area relates to policy awareness and training for users which are key in providing the tools to make decisions around how to use end user equipment.

Building Consultants Framework

Scope

The objective of the audit was to review the process involved in setting up the framework to ensure that legislation was complied with and that the tendering process as published was correctly followed.

Overall Assessment (Final) - Limited

The Property Group has set up a four year consultancy framework contract which commenced in April 2009, with 153 consultants covering nine Property Services related disciplines. The purpose of the framework contract is to enable KCC sites to commission consultants without having to undertake a lengthy procurement process for each commission. We found that there was a lack of clarity on the role of the Project Manager as well as the Contract Performance and Financial Monitoring Manager regarding their responsibilities to ensure the accuracy and completeness of the tendering process. This had resulted in incomplete monitoring of the tendering process.

Recommendations have been made which have been accepted by management.

Handling Information Risk – Information Governance Follow Up

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 Information Governance audit which gave a limited assurance.

Overall Assessment (Draft) – Limited

Although a follow up is usually only undertaken where a minimal level of assurance is given, the risk of political and reputational damage which may be caused through the loss of, or unauthorised distribution of restricted or sensitive data is seen as high.

Initial work undertaken indicated that the progress towards the implementation of recommendations made in the original audit was minimal, and subsequent audits

Summary of Minimal and Limited Assurance

around Data Protection and End User Controls also backed up these findings. There are some good practises being adopted within parts of the Council, but the key stumbling block appears to be a lack of responsibility or appetite at corporate level to manage information risk consistently throughout the Council. Until the area of responsibility is adequately addressed it will be far more difficult to implement the remainder of the recommendations.

Since the audit took place the Director of Law and Governance has been appointed as the Senior Information Risk Officer (SIRO). This should ensure that there is a corporate responsibility to manage risk consistently throughout the Council. Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Permit Scheme Application

Scope

The objective of the audit was to review the software application used to manage the road permit scheme.

Overall Assessment (Final) – Limited

Kent County Council was the first county council to apply to the Secretary of State for Transport to operate a Permit Scheme. Under the Kent Permit Scheme, a company planning to dig up a road (e.g. utilities companies) must apply for a permit from Kent Highways Services (KHS). KHS must also comply with the scheme for the work that they carry out.

The audit found that the Mayrise application is well managed, with controls to ensure that data processed is accurate and timely. The database is backed up nightly and the retention period allows rollback to a daily, weekly or monthly interval as required.

The primary reason for the limited assurance is because of the weak access controls to the application. However, we acknowledge that the software produced by Mayrise was developed from the original software used for notification and at that time the financial implications were much lower. As such the system is still being developed and management were aware of some of the weaknesses identified in the audit. We have been informed that management have already implemented the majority of the audit recommendations including the one that was considered to be a high risk.

Summary of Minimal and Limited Assurance

Highways Maintenance Programme

Scope

The scope of the audit was to provide assurance that the KHS maintenance programme is consistent with the County's obligation under the Highways Act 1980.

Overall Assessment (Draft) – Limited

The audit found that there were inconsistent practises across Highways in respect of recording data, prioritising maintenance and the inspection process. These inconsistencies provide challenges to the Insurance Section when assessing the suitability of a claim as the information they require may be held in the Works and Asset Management System (WAMS) or held as a paper copy.

The audit reviewed the inspection and repair time processes; we found from our sample that the majority of the roads are inspected in time/within accepted tolerances. However, our sample indicated that 42% of repairs are completed outside of the scheduled timeframe. KCC could potentially be liable for any claims where it is found that there has been a breach of KCC policy.

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

Data Protection 2010/11

Scope

The scope of the audit was to review KCC's compliance with the eight principles of the Data Protection Act (1998).

Overall Assessment (Draft) Limited

At the time of the audit, the Council had not formally appointed a Senior Information Risk Officer (SIRO) and therefore the corporate responsibility for data protection at a senior management level had not been clearly defined and assigned.

The data processing systems within the Council had not been formally reviewed to ensure that data is being processed in compliance with the Act; and there is no formally documented and approved Data Protection policy at a corporate level.

The audit found that data protection notices are well managed and that the ISO/IEC27001:2005 Information Security Management system (ISMS) standard had been adopted within the council to help ensure that data is adequately protected. However, there are not periodic compliance checks undertaken to help provide assurance that the standards are being appropriately applied.

Since the audit took place the Director of Law and Governance has been appointed as the SIRO. Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Appendix B

Summary of Internal Audit Projects in 2010/11

Audit - Directorate	Progress at May 2011	Overall Assurance
Authority Wide		
Corporate Governance	Completed	Substantial
Governance of Partnerships	Work in progress	Expected to be substantial
Authority Wide – ISG Management /Strategy Development	Completed	Substantial
Website Management	Completed	Substantial
Use of Consultants	Completed	Substantial
Data Protection	Draft	Limited
Website Management	Completed	Substantial
Performance Management Framework	Completed	N/A
Handling Risk Information	Draft	Limited
ICT Management/Strategy	Draft	Substantial
Use of databases and spreadsheets	Draft	Limited
Risk Management	Completed	Substantial
Chief Executive's Department/S151		
Year End Accounts Closedown (2009/10)	Completed	N/A
Pensions Investment Income	Completed	Substantial
Pensions Contribution	Completed	Substantial
General Ledger	Completed	High
Accounts Payable	Completed	Substantial
Treasury Management	Completed	High
Pensions Payroll	Work in progress	
Payroll – East Kent Shared Service	Draft	Minimal
Capital Monitoring	Completed	High
Building Consultants Framework	Completed	Limited
Operation of the Property Consultants Framework	Completed	Substantial
Building Maintenance Contract	Work in progress	
Employment checks through Kent Top Temps	Completed	High
Medium Term Plan - income	Completed	High
Commercial Services - Accounts Payable	Completed	Substantial
Commercial Services - Accounts Receivable	Completed	Substantial
Commercial Services - General Ledger	Draft	Substantial
Commercial Services – Tender Costing	Work in progress	
Corporate Purchase Cards	Work in progress	
Data backup and data centres	Completed	Substantial
Oracle Database	Work in progress	
Schools' Personnel Service	Draft	Substantial
End User Controls	Completed	Limited
Virus Protection/Spyware	Completed	Substantial

Appendix B

Summary of Internal Audit Projects in 2010/11

Audit - Directorate	Progress at May 2011	Overall Assurance
Children, Families & Education		
Financial Control in Schools	Completed	High
Unstructured data processing	Draft	Limited
Cluster Funding - Follow up	Draft	Substantial
Communities		
Fee Income	Draft	Substantial
Careworks Application	Completed	Substantial
Data Quality	Work in progress	
Libraries – IT Renewal Project	Completed	Substantial
Revenue Budget Monitoring (CMY)	Completed	High
Pre implementation review of self issue kiosks in libraries	Completed	N/A
Kent Adult Social Services		
Transaction Data Matching	Work in progress	
Residential Payments	Completed	Substantial
Unstructured data processing	Draft	Limited
Debt Management	Completed	High
Swift Project Dependency Management	Completed	Substantial
Learning Disability Transfer	Completed	Substantial
Quality of Care in Residential Homes	Draft	Substantial
Key financial controls in KCC establishments – Gypsy & Travellers Unit	Work in progress	
Environment, Highways and Waste		
Key financial controls in KCC establishments	Completed	Substantial
Church Marshes - Waste Transfer Station		
Review of Roadworks Permit Scheme	Completed	High
KHS Road Work Permit Scheme - IT system	Completed	Limited
Highways Maintenance Programme	Draft	Limited
Traffic Light management contract	Completed	N/A
Over 60s travel passes	Work in progress	
Performance and Data Quality	Completed	High

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.

By: Cabinet Member for Finance – John Simmonds
Acting Corporate Director of Finance and Procurement
– Andy Wood

To: Governance and Audit Committee – 30 June 2011

Subject: DRAFT STATEMENT OF ACCOUNTS 2010-11

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2010-11.

FOR DECISION

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2010-11 follows this report. The Accounts and Audit Regulations 2011 made changes to the approval process. They removed the requirement for Accounts to be approved at this meeting and now state that;

...no later than 30th September in the year immediately following the end of the year to which the statement relates

- i) consider either by way of a committee or by the members meeting as a whole the statement of accounts;
- ii) following that consideration, approve the statement of accounts by a resolution of that committee or meeting;
- iii) following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given;

1.2 However, we believe that there are benefits to the Council in approving the Accounts in June and completing the audit early as it frees up finance staff to move forward with new year tasks and projects. As the audit commenced in mid May, Members will have some assurance as to the accuracy of the Accounts from this early process.

1.3 Members are encouraged to scrutinise these Accounts and ask questions.

1.4 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) and is known as the Code.
- 2.2 The Statement of Accounts for 2010-11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. IFRS has required changes to the format of the main financial statements and an increase in the number of disclosure notes. Adoption of the IFRS based Code has also resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009-10. The prior period adjustments on pages 123 to 130 provide details of these changes.

Main changes to the accounts under IFRS

- 2.3 Apart from the general changes e.g. new names for some of the statements and an increase in the number of notes, there have been some technical accounting changes, the biggest of which are highlighted below:
- i) Untaken holiday pay and similar items are accrued at year end.
 - ii) Capital grants have always been manually credited to the Comprehensive Income and Expenditure Statement at year end. Under IFRS we now have to determine whether capital grants and contributions have conditions attached – if they have, they are put on the balance sheet as a Capital Receipt in Advance.
 - iii) Property, Plant and Equipment (PPE). There are a number of changes under this heading. Firstly we are required to depreciate our assets over a number of different components based on their individual useful lives. In 2010-11 we had our secondary and PFI schools revalued and set a threshold for componentisation of £8m. There were 37 schools over this threshold which we componentised. We also had to re-categorise our surplus assets into Assets Held For Sale, Investment properties and PPE.
 - iv) We were required to review all of our leases (over 1900) to determine whether they needed to be re-categorised as finance leases from operating leases or vice versa.

This new burden has had significant opportunity cost for the Council. The cost of staff time over and above non IFRS Accounts is estimated at just over £85k, and additional external costs, as a result of componentisation and leases was approx £19k giving a total of just over £100k.

- 2.4 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-5

- 2.5 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £11.3m 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 20 June.
- 2.6 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.
- 2.7 There has been an increase in the level of general revenue reserves by £890k and these now stand at £26.7m. This increase is the result of the “closure” of the specific reserve for unspent Asylum costs. This is deemed to be an acceptable level based on the current budget and the Council’s identified risks by the Corporate Director of Finance and Procurement.
- 2.8 Capital expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £0.107m more than the latest revised cash limits. Of this, £3.346m reflected re-phasing of capital expenditure plans across all services and £3.453m was due to variations on a small number of projects. These overspent capital resources have been met by bringing funding forward from future years in order to accommodate the revised profiles of capital expenditure.
- 2.9 Schools have £7.3m of capital reserves.
- 2.10 The 2010-11 IAS 19 report shows a reduction in the Pensions Reserve deficit £571.4m. See Paragraph 2.24 for more information.

Statement of Responsibilities Page 6

- 2.11 This statement sets out the respective responsibilities of the Authority and the Corporate Director of Finance and Procurement in relation to the production of the final accounts.

Annual Governance Statement Pages 7-18

- 2.12 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 Accounts include an Annual Governance Statement on pages 7 to 18 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 2010-11, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies two significant governance issues.

- 2.13 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 into 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 conclusions from the external auditors.

Auditor's Report Pages 19-22

- 2.14 Within the Accounts and Audit Regulations 2011 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 2010-11 Accounts commenced on the 13th June and ends on the 8th July.
- 2.15 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 2011 and its income and expenditure for the year ended 31 March 2011. The audit started in May and is progressing well, although the additional work required as a result of IFRS means that the Auditor's written report to this Committee will be despatched later than usual. 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 25 July, assuming no material errors are found that remain uncorrected. Pages 19-22 are blank to accommodate this report.

Accounting Policies Pages 28-38

- 2.16 Our accounting policies have been changed to reflect the IFRS changes and are consistent with the Code. They were approved at this meeting on the 16th March.

Financial Statements Pages 23-27

Movement in Reserves Statement (MiRS)

- 2.17 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have increased by £3.2m in 2010-11.
- 2.18 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:
- i) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
 - ii) The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets.
 - iii) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

Comprehensive Income and Expenditure Statement

- 2.19 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority during the financial year. As authorities do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.
- 2.20 The CIES has two sections:
- i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
 - ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

Balance Sheet

2.21 The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local authorities do not have equity, the bottom half is comprised of reserves that show the disposition of an authority's net worth, falling into two categories:

- i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and
- ii) Unusable Reserves, which include:
 - unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
 - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

2.22 Long-term assets have increased by £87.8m. This is due to a number of positive and negative circumstances as detailed below:

- Our property, plant and equipment has increased by £112.6m – £69m of this is the construction costs of the 3 BSF schools which became operational in 2010-11. Assets under construction have increased by £56m. Other differences relate to positive and negative outcomes on the 2010-11 revaluation and capital programme.
- A reduction in long term investments of £24.7m.

2.23 Long term liabilities have decreased by £503.1m. £571.4m of this is due to a decrease in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the decrease can be found in Note 39 on page 111-15 of the Accounts, and shows that this is largely a technical issue.

2.24 Our net worth has increased from £21.6m (restated for IFRS changes) to £615.4m. The gains and losses in our net worth are shown in the Movement in Reserves Statement on page 24 and reflect the movement in our net worth between 2009-10 (restated) and 2009-10.

Cash Flow Statement

2.25 Under IFRS, the cash flows of the Council are presented over fewer headings. A key difference is that the statement balances to the movement in "cash and cash equivalents", not just to the movement in cash. Cash equivalents comprise short term deposits with building societies and account for £65.6m of the £67.3m on the balance sheet.

Significant Notes to the Accounts pages 28-123

Adjustments between accounting basis and funding basis under regulations

- 2.26 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. It also supports the line in the MIRS and provides more detail on how this is split across usable and unusable reserves.

Reserves

- 2.27 Details of reserves can be found in the following notes, earmarked reserves in Note 8 on pages 45-51, usable in Note 21 which also includes earmarked reserves, and unusable in Note 22. Earmarked reserves have increased by £2m, the remainder of usable reserves by £1.1m and unusable reserves by £590.1m (£571m of which relates to the Pensions Reserve).

Property, Plant and Equipment

- 2.28 Note 12 on pages 53-61 shows movements on our assets.

Amounts Reported for Resource Allocation Decisions

- 2.29 Note 27 on pages 79-82 is also known as the segmental reporting note and is based on our management structure. It shows outturn information reported by directorate which is then reconciled to the cost of services in the Comprehensive Income and Expenditure Statement.

Officers Remuneration

- 2.30 Note 31 on pages 86-97 provides details of officers' remuneration over £50,000. The note discloses details of senior officers' salary and other payments where they earn over £150k or where they report directly to the Managing Director.

Investments in Icelandic banks

- 2.31 Note 42 on pages 121-122 sets out the latest schedule of anticipated timings of repayments in relation to the Icelandic banks. Under regulations we have had to write the net impairment charge of £7.6m to the general

fund. This was £12.6m of impairment less £5m of accrued interest. Of the £50m deposited we expect to recover approximately 95%.

Prior Period Adjustment pages 124-131

- 2.32 This is a detailed note of the changes that were made to the financial statements as a result of adjustments made to comply with IFRS. They detail the changes that are identified in Section 2.3.

Pension Fund Accounts pages 132-146

- 2.33 Pages 132-146 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary

- 2.34 A glossary of some of the terms used within the Accounts is provided on pages 147-148.

Other Issues

- 2.35 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.
- 2.36 There have been unprecedented changes to the Accounts this year under IFRS and as a result the Accounts have increased by 50% and have considerably more disclosure notes than in previous years. 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 10 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, particularly as they have also audited the 2009-10 restated Accounts directly before being presented with the 2010-11 Accounts. This approach has worked well and enabled both ourselves and the Audit Commission to move seamlessly from the restatement to the 2010-11 Accounts. 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 2010-11 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 (which will be despatched after these main papers).

Cath Head
Chief Accountant
Ext: 1135

Andy Wood
Acting Corporate Director of
Finance and Procurement
Ext: 4662

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Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2010-11 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 Statement of Accounts for 2010-11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. IFRS has required changes to the format of the main financial statements and an increase in the number of disclosure notes. Adoption of the IFRS based Code has also resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009-10. The prior period adjustments on pages 124 to 131 provide details of these changes.

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 147 and 148.

The Accounts consist of:

- A Movement in Reserves Statement on pages 23 and 24.
- A Comprehensive Income and Expenditure Statement on page 25.
- The Balance Sheet on page 26 which sets out the financial position of Kent County Council as at 31 March 2011.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 27.
- Notes to support the above primary statements pages 28 to 131.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 132 to 146.

Revenue Budget and Outturn

In February 2010 the Council approved a net revenue budget for 2010-11 of £943.244m. In addition £8.826m of 2009-10 underspending was rolled forward and added to the budget and we have also received further allocations of Area Based Grant throughout 2010-11 amounting to £0.249m. However, in June 2010 following the Emergency Budget, the Government announced a number of grant reductions and the impact of this on our 2010-11 cash limit was a reduction of £8.349m. 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	-760,870	-761,135	-265
Kent Adult Social Services	337,637	337,154	-483
Environment, Highways & Waste	151,723	151,121	-602
Communities	90,485	89,034	-1,451
Localism & Partnerships	7,057	6,698	-359
Corporate Support Services & Performance Management	9,719	8,050	-1,669
Finance	145,942	139,526	-6,416
Public Health & Innovation	567	567	0
Regeneration & Economic Development	7,236	7,133	-103
	-10,504	-21,852	-11,348
Delegated Schools Budgets	954,474	951,037	-3,437
	943,970	929,185	-14,785

Foreword

	Budget	Outturn	Variance
	£000's	£000's	£000's
FUNDED BY:-			
Reserves (rolling budget reserve)	-8,826	-8,826	0
Formula Grant	-275,715	-275,715	0
Council Tax	-570,910	-570,910	0
Area Based Grant	-88,519	-88,520	-1
Total Funding	-943,970	-943,971	-1
NET OUTTURN POSITION	0	-14,786	-14,786

The net underspending within the portfolios of £11.349m (excluding £3.437m delegated schools underspend) has been carried forward and will be added to the 2011-12 budget to support the re-scheduling of projects and to fund recent County Council and Cabinet decisions affecting the 2011-12 budget.

Schools

In total, schools underspent against their delegated budgets by £3.437m, which has been transferred to school reserves. This includes a £4.448m drawdown from school reserves as a result of 21 schools converting to new style academy status which allows them to take their reserves with them, and a £1.683m underspend against delegated budgets for the remaining Kent schools. There is £5.034m of underspending on the unallocated schools budget, largely in respect of:

- £1.178m underspend on the school reorganisation budget as a result of there being fewer school reorganisations than expected;
- £1.090m savings on rising school roll contingency;
- £1.7m following agreement with the Schools Funding Forum to allow the LEA to retain a greater share of DSG for one year only, which represents the full year effect of school budget changes;
- £1.3m underspend due to dual registered pupil referral unit pupils which has been retained by the LEA following agreement with the Schools Funding Forum, as dual funding ceases in 2010-11;

These underspends are partially offset by a lower than expected reclaim from schools of funding for excluded pupils of £0.136m and £0.099m of other minor variances.

In addition there was £1.168m higher than expected special schools recoupment income, which has been transferred to the unallocated schools budget.

Both the £5.034m and the £1.168m are being held in the unallocated schools budget awaiting Schools Forum agreement on how this will be utilised. In addition, five schools converted to old style academy status during 2010-11. These schools are not able to take their reserves with them and as a result £0.112m has been transferred from the delegated schools revenue budget reserves to the unallocated schools budget reserve. Schools now have some £34.847m of revenue reserves and there is £20.343m of unallocated schools budget reserves.

Impact of Current Economic Climate on KCC

The more significant impact of reducing the national deficit is being felt during 2011-12 and beyond, as reflected in the Spending Review 2010. However, we have been feeling the impact of the recent recession through a number of our services. Slow housing growth and tight margins have reduced our developer contributions. Debt needs to be even more closely managed than before to ensure recovery rates are not adversely impacted. The cut in Government funding for 2011-12 meant that we needed to introduce a moratorium on non-essential spend in the latter part of 2010-11 in order to reduce the impact of those cuts in 2011-12. We will continue to develop robust medium term financial planning to ensure that we respond intelligently and sensibly to the financial situation we face.

Council Restructure

Kent County Council is going about the changes identified above intelligently and in the best interests of the council taxpayers in Kent. We are currently undergoing a major restructure of the organisation to be more efficient in the way we deliver our services. A number of senior directors who were earning over £100k have already left the organisation – see Note 31 on pages 86-97. The payments for staff shown in the Statements of Accounts reflect the immense changes taking place at Kent County Council in response to the toughest financial challenge that Local Government has ever faced - £165m of savings over the next 24 months for this council alone. Redundancies always incur an unavoidable cost, as governed by employment law. The resulting redundancy costs of these departures total a one-off cost of £350,000. Changes to the overall senior structure will yield savings of £700,000 per annum with a further £20m of savings expected once the restructure of the whole organisation has been completed.

Foreword

The clear savings return on the cost of this restructure compares very favourably with the best practice in the private sector. The salaries of all our current senior directors are published on our website, along with an explanation of what they do for the people of Kent and the immense responsibility that they carry. It is important to note that the cost of interim directors includes the fees paid to the agencies supplying them. When you analyse them and take into account the fact that we do not have to pay pension contributions, holiday or sickness payments, employers national insurance, etc, the costs are almost identical if not in a number of cases cheaper than employing a permanent member of staff. We are challenging everything the council does so we can continue to provide good services. We are clearly responding to this financial challenge, delivering taxpayer savings while protecting front line services. We will be working together as one council, continuing a track record of keeping a tight rein on our finances and really delivering for the people of Kent.

Revenue Reserves

The general reserve position at 31 March 2011 is £26.725m, which is an increase of £0.890m from the position as at 31 March 2010 due to the transfer of the residual balance from the Asylum earmarked reserve into general reserves.

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 Council 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. The £50.35 represented 10.9% of the total deposits of the Council of £462.8m. In 2010-11 there have been repayments from Heritable and changes to the expected timing and recovery of repayments from all 3 institutions. We are currently accounting for preferred creditor status which will mean a 93% recovery of the deposits. In 2010-11, Regulations require us to write back £7.6m (being the net impairment loss in the Financial Instruments Adjustment Account) to the General Fund. More information can be found in Note 3 on page 38 and Note 42 on pages 121-122.

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 £377.1m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Children, Families & Education	154,533	156,361	1,828
Kent Adult Social Services	4,109	3,721	-388
Environment, Highways & Waste	138,177	137,690	-487
Communities	25,230	24,890	-340
Regeneration & Economic Development	5,653	5,733	80
Corporate Support Services & Performance Management	11,915	11,272	-643
Localism & Partnerships	499	556	57
	<u>340,116</u>	<u>340,223</u>	<u>107</u>
Devolved Capital to Schools	43,886	36,632	-7,254
	<u>384,002</u>	<u>376,855</u>	<u>-7,147</u>
Property Enterprise Fund 1		169	169
Property Enterprise Fund 2		123	123
	<u>384,002</u>	<u>377,147</u>	<u>-6,855</u>

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £0.107m more than cash limits. Of this, £3.346m reflected re-phasing of capital expenditure plans across all services and £3.453m was due to variations on a small number of projects. These overspent capital resources have been met by bringing funding forward from future years in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2010-11 was £36.632m and at 31 March 2011 schools have in hand some £7.254m of devolved capital funding, a decrease of £6.853m on 2009-10, which will be carried forward to 2011-12 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 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 economic 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 Council to take a longer term view on achieving the best value from our assets.

PEF2 was earmarked to provide funding support to the capital programme of £0.110m. This was offset by £11.188m capital receipts realised through the fund, giving a surplus of £10.955m. When this is added to the £31.418m deficit brought forward from 2009-10, the deficit on PEF2 at the end of 2010-11 was £20.463m.

Details of the financing of capital expenditure are on page 102.

Foreword

Capital Reserves

At 31 March 2011 the Council has earmarked and other capital reserves of £77.3m as shown on page 69.

Insurance Fund

IAS 37 Provisions, Contingent Liabilities and Contingent Assets 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 2011 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 IAS 37. Details can be found on page 68.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of IAS 19 - Employee Benefits. Under IAS 19, the Council 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. IAS 19 is based upon 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 Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

IAS 19

The 2010-11 IAS 19 report shows that the Pension Fund now has a deficit of £558m. This is a decrease in the deficit of £571m in year. These changes are largely due to the triennial valuation as at 31 March 2010.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2010-11, earlier years and for future years. The balance currently stands at £1,110.9m 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 (EKO) is a "Joint Arrangement which is Not an Entity" (JANE) and in 2010-11 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.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council 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 Council, that officer is the Corporate Director of Finance and Procurement;
- 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.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 30 June 2011 on behalf of Kent County Council and have been re-signed as authorisation to issue.

Councillor Richard Long
Chairman of the Governance and Audit Committee

The Corporate Director of Finance and Procurement's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this Statement of Accounts, the Corporate Director of Finance and Procurement 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 Corporate Director of Finance and Procurement 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.

I confirm that these accounts give a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31 March 2011.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood
Corporate Director of Finance and Procurement

Scope of Responsibility

Kent County Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, 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, the Council 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 Governance and Law.

This statement explains how the Council 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 the Council'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 2011 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described below:

The Council's vision of its purpose.

Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users. 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. *Vision for Kent*, launched in 2006, is the county wide Sustainable Community Strategy. It was agreed by the Local Strategic Partnership (the Kent Partnership) and was developed in consultation with over 40 partners, including district councils, health, police, voluntary and community sector and local businesses.

In support of the delivery of a *Vision for Kent* was the Council's four year plan *Towards 2010*. This document set out 63 targets requiring cross-directorate and partnership working aimed to achieve an improvement in the quality of life for Kent's residents.

Vision for Kent comprises 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 Local Area Agreement, Kent Agreement 2 (KA2). Kent Agreement 2, for the period April 2008 to March 2011, was agreed between the Kent Partnership (with KCC acting as the Responsible Authority) and Government in 2008 and comprised 35 targets selected from Government's National Indicator Set. Six monthly progress reports on each of these targets have been brought to the Kent Public Service Board so that management action can be taken to ensure targets are met.

In October 2010 the Secretary of State for Communities and Local Government wrote to all authorities revoking all designations of targets in Local Area Agreements along with the associated performance reward grant. In response the Kent Public Service Board, on behalf of the Kent Partnership, reviewed all 35 targets in KA2 and determined that 12 of them were fundamentally important and were supported by robust and meaningful measures and should therefore continue to be monitored. Performance management of these 12 targets continues and a final report on them will be considered at Joint Kent Chief Executive's meeting in July 2011.

With all of the changes to the political, administrative and financial context the 2006 version of the *Vision for Kent* has looked increasingly dated. In the latter half of 2010 work to refresh the Vision commenced. After significant consultation across partner bodies three countywide ambitions have been agreed. These will bind together partners across Kent to identify and focus on priorities. These three ambitions are the same as those in *Bold Steps for Kent* (see below).

The recent changes to the context also indicated that the previous partnership arrangements were dated. Consequently changes have been made to the strategic level partnerships in Kent. The county level Local Strategic Partnership (the Kent Partnership) has been dissolved and replaced by the Kent Forum. The Kent Forum is the high-level strategic group bringing together the family of local government in Kent. It was formed in 2010 following the development of the Kent Recommitment between Kent's 13 District and County councils. It comprises the democratic leaders of Kent's local authorities and has overall responsibility for co-ordinating and agreeing shared priorities and progress, encouraging community leadership and supporting new initiatives. The Kent Forum is chaired by the Leader of the Council. These responsibilities include overseeing Kent's Sustainable Community Strategy (*Vision for Kent*) and supporting the development of Locality Boards across the county. The creation of Locality Boards emphasises a new way for the County and District Councils to work together.

Locality Boards aim to inject much more democratic accountability into locality partnerships and stimulate effective joint working by local partners to deliver locality and county priorities.

Following public and partner consultation in October – November 2010, our new medium term plan, *Bold Steps for Kent*, was approved by County Council on 16 December 2010 and sets out our ambitions over the next four years, centred on three core priorities. These are:

- To help the Kent economy to grow.
- To put the citizen in control.
- To tackle disadvantage.

Bold Steps for Kent not only sets out our ambitions and priorities for the next four years, but also our determination to transform how Kent County Council works and engages with the communities it serves and our partners in the public, private and voluntary sector, in order to continue to deliver high quality services in what is expected to be a tight financial settlement over the medium to long term as the Government seek to reduce the structural deficit. At the heart of *Bold Steps for Kent* is an ambition to see a greater variety of providers from the public, private and the social and voluntary sector play an increasing role in service delivery for the County Council. Over the course of Summer 2011, the Council will finalise the delivery framework for *Bold Steps for Kent* and report progress on this annually.

Engaging with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Good governance means engaging stakeholders and making accountability real.

All service plans declare what consultation, communication and marketing activity is to be done in order that this activity can be better planned, costed and corporately co-ordinated as a major campaign if appropriate.

Annual Governance Statement

In 2010-11 the Council has provided a number of different opportunities for residents, service users and other interested groups to influence decision making and service delivery. The main ones used and examples of activities during the year are:

- Surveys and questionnaires (e.g. The Highways Tracker Survey, the Children & Young People of Kent Survey and the Country Parks Visitor Survey)
- User groups and forums (e.g. East Kent Adult Social Care Focus Group)
- Special interest networks, groups and forums (e.g. The Kent Reference Panel and the Kent Countryside Access Forum)
- Workshops and focus groups (e.g. Annual Budget & Council Tax Consultation, The Coastal Action Network workshop)
- Feedback cards (e.g. comment cards in Country Parks and Libraries)
- Complaints, Compliments and Comments (all units)
- Formal consultation documents (e.g. Learning Disabilities Day Opportunities Consultation)
- Stakeholder events (e.g. 'Growth without Gridlock')
- Collaborative working and partnerships (e.g. Kent Children's Trust)
- Participation (e.g. Youth Service interview panel)
- Civic engagement (e.g. Neighbourhood Forums and Kent Youth County Council)
- Delegated decision making (e.g. Youth Opportunities / Capital Funds)
- The use of online social media (e.g. Explore Kent's use of Twitter and Facebook)
- Market research (e.g. Libraries).

The *Have Your Say* area of the Council website has continued to develop as a key way of improving the awareness of the wide range of consultations and engagement activity carried out by the Council and making it easier to take part in them. The site now includes:

- **The Consultation Register** - A new online register showing the Council's current, past and future consultations is available. Relevant officers have undertaken training in how to use the register, and all services are required to update their entries in the database regularly to ensure that the public are accessing the most up to date and complete record of information on our consultations. Local people and community groups can sign up to be automatically notified by email when a new consultation is added to the register.

- **Links** to other local and national consultations. This allows people to access as many consultations affecting the local area as possible from one place.

- **Petitions** - The Council welcomes petitions and recognises that petitions are one way in which people can let us know their concerns. A scheme for e-petitions was agreed by the County Council in July 2010 which now allows the community to petition the Council on-line on issues of concern.

- **Get involved** - This scheme encourages local people to join local community meetings at which the Council's team of Community Engagement Managers provide a key link between local people, local organisations and decision makers in Kent. One of the roles of the team is working with elected members to arrange public meetings in each of the districts in Kent. The meetings are an opportunity for the Council to engage with the local community and understand their views. The form of these meetings varies from district to district, and can be varied to suit the issues being raised. These meetings are an opportunity for local leaders to listen to the views of their communities and for local people to have their say.

- **Community and Seldom Heard Groups** can sign up to be involved in our engagement activities.

- **Kent Health Watch** is a 24 hour helpline for people to call about any worries they have about health or social care. Any time of the day or night, 365 days a year, there is a real person ready to listen and respond to any concerns, complaints or compliments patients or their families have.

- **Kent's Social Innovation Lab (SILK)** was set up in 2007 to test the effectiveness of gathering in-depth insight into customers. The best solutions come from the people who are closest to the problem, be that service users, residents or staff. This goes much further than community consultation and involves people being actively engaged in the design of services that they are going to use or deliver. SILK focuses on connecting the right people with the right projects to ensure that the correct people are in place to create services that are useful for the people who will be using them.

- **The Kent Youth Service** working with the Public Health team and other partners have continued to develop the successful and innovative 'House' model which went live in December 2008. 'House' is a space aimed at young people aged 13 to 19 years old, giving them somewhere to 'chill out', where they can get informal lifestyle information to suit them in a relaxed and unthreatening environment. The results have been phenomenal, the project has made contact with more than 11,000 young people, including many young people who are currently unknown to and do not access existing services. 'House' is now continuing and engagement with young people produced the design brief for a mobile facility that is able to reach into local communities themselves, rather than town centres. 'House' activities can therefore be taken directly into the estates and communities that can most benefit.

Roles and responsibilities of the executive, non-executive, scrutiny and officer functions

Good governance means performing effectively in clearly defined functions and roles. In Kent this is primarily achieved through the mechanisms set out in our constitution.

The Council consists of 84 Members, elected by eligible Kent residents every four years. The Constitution of the Council is determined in accordance with legislation and periodically reviewed and amended by the Council as necessary. The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed. The Constitution is divided into 16 Articles, which form the basic rules governing the Council's business; more detailed procedures and codes of operating are included in the appendices. It seeks to provide effective decision making procedures, ensuring that the Cabinet is accountable to the body of the Council, while providing a role for non executive Members in quasi-judicial committees, in policy formation, overview and scrutiny.

The Council elects a Leader at the beginning of each four year term. The Leader, as the head of the Executive, appoints a Cabinet and allocates accountabilities, responsibilities and delegates powers.

The Leader with the Cabinet has executive authority over all the Council's functions and activities except those that are reserved to the Council and its committees by statute. The Council has the power to dismiss the Leader through a vote of no confidence.

The Council, advised by the Managing Director and the Leader, determines the overall officer structure to deliver the Council's responsibilities, under the management of Managing Director, Corporate Directors and officers. The Council appoints the Managing Director as Head of Paid Service and designates appropriate senior officers as Monitoring Officer and Chief Finance Officer, who are responsible for resolving constitutional disputes and other matters laid down in the Constitution. It also agrees financial, employment and procurement procedures, together with terms and conditions of employment for staff.

The Council has in place policies and procedures to ensure that, as far as possible, its elected members and officers understand their respective responsibilities. New members and employees receive induction and continued training on key policies and procedures as these are developed within the Council.

All Directors and Heads of Service have responsibility for maintaining a sound system of internal controls and management processes within their area of responsibility.

Standards of conduct and behaviour

Good governance means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour.

The Council takes the lead in establishing and promoting values for the organisation and its staff. These values are over and above legal requirements (for example, anti-discrimination, equal opportunities and freedom of information legislation) and build on the Good Governance principles. They reflect public expectations about the conduct and behaviour of individuals and groups who control public services:

the Members' Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and ten general principals governing Members' conduct. After the last election all Members received training 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. Although the Localism Bill proposes the removal of local standards committees, the Council may seek to retain this mechanism for ensuring that high standards of conduct and behaviour are maintained.

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.

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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 has a Whistleblowing Policy and an Anti Fraud and Corruption Policy in place, the latter of which was revised and approved by the Governance and Audit Committee in year.

The Director of Governance and Law is the Monitoring Officer. This role has responsibility for maintaining the Constitution and supports a Standards Committee. The Council's Governance and Law 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 Constitution contains a statement on Resource Management Responsibilities which includes the Council's Financial Regulations. These are prepared and maintained by the Corporate Director of Finance & Procurement and the Managing Director and endorsed by the Leader and the Governance and Audit Committee. The Council revised its Financial Regulations during 2009-10, and these were agreed by the Governance and Audit Committee in April 2010 for subsequent approval at Full Council in July 2010.

The Corporate Director of Finance & Procurement, as the Section 151 Officer, is also responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control.

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 has, in the past, operated a devolved approach to complaints, comments and compliments management. This is now in the process of being centrally managed, and although individual directorates and business units will remain responsible for compiling detailed responses, they will do so in accordance with the Council's Complaints, Comments and Compliments policy. 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.

Decision making, scrutiny and risk management

Good governance means taking informed, transparent decisions and managing risk.

Within its constitution the Council has formally stated the types of decisions that are delegated to the executive and those that are reserved for the full Council.

The Leader with the Cabinet comprise the Executive and are responsible for all of the Council's functions that are not the responsibility of any other part of the Council, whether by law or under the Constitution. Operational matters requiring a decision are delegated to council officers as outlined in Appendix 2 Part 4 of the Constitution.

Forthcoming key decisions by the Cabinet are published in the Cabinet's Forward Plan in so far as they can be anticipated. The Forward Plan is published under the name of the Leader of the Council and covers a six month period; two months more than is required by statute.

Under section 21 of the Local Government Act 2000, the Council has appointed the Cabinet Scrutiny Committee, the Scrutiny Board, the Policy Overview and Scrutiny Committees and the Health Overview and Scrutiny Committee from among the non-executive Members. Their terms of reference cover all the main services of the Council and the Council's duty under the Health and Social Care Act 2001 to scrutinise the health services in Kent.

The Council maintains an Internal Audit department that operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom. The Head of Internal Audit and Risk reports to the Corporate Director of Finance & Procurement and has direct access to the Managing Director, Members and the Chair of the Audit Committee.

Annual Governance Statement

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 a large proportion of audits that review and report on the Council'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.

The Governance and Audit Committee is comprised of 13 Members representing the two largest political parties. The Terms of Reference of the Governance and Audit Committee were extensively revised during 2010-11 and now exceed the requirements of the CIPFA guide for Audit Committees in local authorities.

Its responsibilities are set out in the Constitution and its overarching purpose is described as:

- ensuring that the Council's financial affairs are properly and efficiently conducted, and;
- reviewing assurance as to the adequacy of the risk management and governance framework and the associated control environment.

To enable oversight of the Council's trading activities, the Council has 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 three Members drawn from the membership of the main committee.

During the year the Council has developed its open data and transparency programme. Open data means making the non-personal information the Council holds freely available to everyone in a format that can be reused. Open data currently available on the Council's website includes:

- Corporate Management Team salaries and expenses
- Corporate Management Team register of gifts and hospitality
- Council Spending
- Councillors' allowances and expenses
- Education Budget and Outturn Statements
- Invoices over £500
- Kent area profiles

Our programme meets and in some cases exceeds the expectations of central government.

Developing capacity and capability of Members and officers

Good governance means developing the capacity and capability of the governing body to be effective.

Member development is delivered under the Member Development Charter which was achieved in 2010. 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). In addition to this, generic leadership and personal development programmes are part of the offering, which is revised on a yearly basis. All Members have been asked which courses provided by the Council (both Member specific and those accessed by officers) would be of benefit to them. This takes place during their annual personal development planning meeting with a dedicated officer.

All officers of the Council are subject to the appraisal and personal development process (Total Contribution Pay), which has been enhanced this year by the introduction of performance appraisal and management for the Corporate Management Team. These processes are expected to provide a tailored action and development plan that meets the needs of the individual officers and delivery of objectives in support of their service unit. The personal plans are supported by a comprehensive range of development programmes.

For the first three quarters of the year, up to December 2010 the County Council has delivered staff performance and development in accordance with the explicit aspirations of the "Strategy for Staff"; health & attendance, skills for life and self service are examples of significant successes. Since December 2010 to March 2011 the Council has begun its transformation - *'Change to Keep Succeeding'* which has established a clear expectation that all staff will have an appreciation of our shared values and of the behaviours expected to continue to provide excellent customer service. Whilst this transition is being made we have maintained the principles of performance management and development as outlined in the Total Contribution scheme.

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

The Corporate Director of Finance and Procurement (as Chief Financial Officer) has reviewed the Council's compliance against 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. The gaps that do exist will be considered and addressed over the next financial year if appropriate.

Compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government (2010)

The Head of Audit and Risk (as the Council's senior audit professional) has reviewed the Council's compliance against the CIPFA statement on the Role of the Head of Internal Audit in Local Government (2010). As reported to the Governance and Audit Committee in March 2011 the Council's arrangements comply in all significant respects with the principles set out in the CIPFA statement.

Organisational design principles

The Council has clearly stated that it must continue to change to succeed, and that to deliver the agenda set out in Bold Steps for Kent there must be a new organisational structure and culture. The Council has approved seventeen organisational design principles upon which the new KCC structure and approach to service delivery will be established. These design principles will also enhance the governance framework of the Council, and will be supported through the application of Statements of Required Practice (SORPs), which will cover topics such as :

- Performance Management
- Business & Financial Planning
- Procurement
- Risk Management

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 previously described, and supplemented by specific sources of evidence described below.

Planning

The Council's planning process is fundamentally driven by the strategic direction set out by our four year plan *Towards 2010* and now by *Bold Steps for Kent*, our new Medium-Term Plan for the next four years. Our achievement of the aims of *Towards 2010* was reported to Cabinet in October 2010. This showed that the final status of the 63 targets as follows:

- 'Completed' – 49 targets (78%)
- 'Good progress' – 13 targets (20%)
- 'Not achieved' – 1 target (2%)

The financial framework within which our plans are delivered is articulated in the Medium Term Financial Plan and the Budget Book, both of which were approved by the County Council in February 2011, despite the incredibly difficult financial pressures facing the Council.

Each business unit has its own annual Service Level Business Plan which sets out how it will contribute towards our medium term plans, and identifies the key planned activities, performance measures and priorities at a service level within this overarching framework. Business Plans for 2010-11 were considered and approved by Cabinet in March 2010.

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Following the restructure of KCC on the 4th April 2011, a review of organisational business planning will commence in summer 2011. This will ensure that the business planning process remains fit for purpose in the new structure and to provide consistency with the new corporate one-council approach set out in *Change to Keep Succeeding* report from the Managing Director, approved by County Council in December 2010. Should any changes to the business planning process be required approval will be sought through Cabinet and County Council as appropriate.

Performance Management

As well as regular reporting on the achievement of the targets set out in *Towards 2010*, performance within the Council is monitored through the Core Monitoring Report, which contains a range of data on actual performance against target indicator levels. This report is considered by the Corporate Management Team, Cabinet and the Policy, Overview and Scrutiny Committees.

Progress against our budget, major projects, risks, staffing matters and Health and Safety performance data are all reviewed by various Committees of the Council, although Cabinet, in delivering its executive role, receives all relevant performance data.

There was also a performance management process operating within all Directorates of the organisation, and this is underpinned by the management of personal performance through the Total Contribution Pay process.

Cabinet

During the year Cabinet have received and reviewed regular reports relating to the performance of the Council's system of internal control, including the Strategic Risk Register, Revenue & Capital Budget Monitoring, Treasury Management and Core Monitoring (Performance and business plans). It has also considered the outcomes of the work of our external regulators, the Care Quality Commission and Ofsted. Cabinet has also reviewed and approved a number of key strategy documents, including *Bold Steps for Kent*, our new Medium Term Plan to 2014. Cabinet also approves the Directorate Business plans.

Policy Overview and Scrutiny Committees

The Cabinet Scrutiny Committee has met 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 are able to 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.

There were eleven Policy Overview and Scrutiny Committees operating during the year reviewing the key issues and risks managed by the Council's directorates.

The Standards Committee

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 continued to work 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, and the number of complaints has remained low, with just two reviewed in 2010-2011 (two in 2009-10), neither of which were upheld.

The Governance and Audit Committee

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. Members of the Committee can also commission reports on any risk area that they feel they need greater assurance on.

Statutory Officers

The statutory functions undertaken by the Head of Paid Service, Monitoring Officer, S151 Officer, Director of Adult Social Services (Managing Director of Adult Social Services) and Director of Children's Services (Managing Director of Children, Families and Education) were effectively fulfilled during 2010-11.

Management

Managing Directors, Executive Directors and Directors of Services have provided assurance, through their signing of a Statement on Internal Controls, Governance and Risk Management Processes, that:

- They fully understand their roles and responsibilities.
- They have made an assessment of the significant risks to the successful discharge of the Council's key priorities.
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.
- They have confirmed which improvements have already been made to controls in certain areas during the year.
- They have identified certain areas where key internal controls still need to be enhanced.

In relation to the last point, areas where internal control still needs to be developed that are considered significant are listed under the section significant governance issues below.

Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit, which provides independent and objective assurance across the whole range of the Council's activities.

It is a professional requirement for the Head of Internal Audit to give an opinion to the accounting officer, at least annually, on the overall adequacy and effectiveness of the Council's:

- Risk management.
- Internal Control.
- Governance processes.

This is collectively referred to as "the system of internal control". This opinion is used to inform the Annual Governance Statement.

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. However, there are some specific concerns that will need to be addressed over the next year if the level of assurance is to be maintained.

During 2010-11 six Internal Audit reports have been issued with "Limited" assurance in the area of information management and governance. The most common theme within these reports is the lack of central co-ordination and over reliance on local arrangements to ensure sound information governance. Early steps have been taken to improve the situation, including the formal appointment of the Director of Governance and Law as the Senior Information Risk Officer, or SIRO.

In common with most large organisations the Council is subject to fraud, although in recent years this has usually been at a low level. Toward the end of 2010-11 the Council became aware of a significant irregularity in one of its service areas. As a live case currently under investigation by the police, further detail cannot be provided, but the case did bring to the fore questions about the governance arrangements of the service concerned. The Council immediately commissioned an external review to ascertain the specific control failures that gave rise to the issue, and is currently seeking to commission a wider governance review of the service area during 2011. Changes to the control environment have already been implemented and more will need to follow, including establishing a more commercially aware internal audit presence.

During 2010-11 the Council embarked on an organisation-wide transformation project called *Change to Keep Succeeding*. This programme will inevitably impact on the Governance of the Council, and it is important that the work recently initiated on the internal management control framework is sufficiently comprehensive to also address all aspects of operational governance.

The results of all Internal Audit reviews have been reported to the Governance and Audit Committee and distributed to a wide number of senior officers and Cabinet Members. This ensures that senior managers consider any issues arising from Internal Audit's work and agree how to progress and implement recommendations particularly for authority wide and cross cutting audits.

Review of Internal Audit

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.

External Audit and other regulators

The Audit Commission is currently the Council's appointed External Auditor. Each year the District Auditor issues an opinion on the Council's financial statements and arrangements for value for money. The opinion for 2009-10 was unqualified, and it is expected that a similar opinion will be issued for 2010-11.

The Council is also subject to other regulatory regimes, and during 2010-11 received assessments of its services from Ofsted and Care Quality Commission (CQC).

Ofsted

The Council was the subject of three inspections from Ofsted during 2010-11, two of which focussed on children's services and one on Community learning and skills.

The inspection of the Kent Community Learning and Skills service concluded that the Council's overall effectiveness of provision was good, as was its capacity to improve. The report identified four areas for improvement, although no time scale was attached to these.

In August 2010 Ofsted completed an unannounced inspection of contact, referral and assessment arrangements within local authority children's services. The inspection identified one area for priority action alongside areas of strength, satisfactory practice and areas for development. The findings of the inspection and the identified area for priority action were identified as likely to limit the annual assessment to 'performs poorly'.

Immediately after the unannounced inspection Ofsted conducted an inspection of safeguarding and looked after children services. This inspection was formally reported in November 2010, and concluded that the overall effectiveness of services in Kent to ensure that children and young people are safeguarded and protected was inadequate, and that the capacity to improve was also inadequate. The report identified 13 areas for improvement, four of which were for immediate action, six to be completed within three months and three within six months.

As in previous years Ofsted have also provided an annual children's services assessment. In response to the outcomes of the inspections above the overall assessment has been reduced from "Performs well" to that of "Performs poorly".

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In response the Council met with the Minister for Children and his officials in December 2010 to review arrangements for improvement, and to consider next steps. This included discussion of a draft improvement and plan which was subsequently amended in the light of the targets set in the improvement notice.

The Council has also established the Kent Improvement Board to support rapid and sustainable improvement of services in the county that safeguard children and/or support looked after children. Its key roles are to agree, monitor and report progress on the actions in the Kent Children's Services Improvement Plan. The Board has appointed an independent chair, Liz Railton, which has been approved by the Parliamentary under Secretary of State for Children and Families. The Chair will report directly to the Minister and the Leader of the Council on progress on a quarterly basis.

Care Quality Commission

In November 2010 the outcome of the performance analysis of the Council's adult social services for 2009-10 was announced by the Care Quality Commission. The Council was awarded 'Excellent' in three of the seven outcomes and was judged as 'Good' in the other four outcomes. A performance rating of 'Performing well' was awarded overall.

Six areas for improvement were identified and an action plan has been developed which will be monitored on a regular basis by the Council and by the Care Quality Commission.

On 3rd November 2010, the Minister of State for Care Services announced that the Care Quality Commission will no longer conduct an Annual Performance Assessment of councils' commissioning of care under the existing framework. The discontinuation of the Annual Performance Assessment will take place with immediate effect and there is therefore no CQC Annual Performance Assessment for 2010-2011.

Risk Management

The Council managed its risks during 2010-11 in accordance with the approved Risk Management Strategy and Risk Management Toolkit. The Corporate Management Team and Directorate Management Teams formally considered risk on a regular basis throughout the year. Half-yearly risk reports were submitted to Cabinet and Governance and Audit Committee which included key corporate and directorate risks. Directorate risk registers were reported to relevant Policy Overview and Scrutiny Committees. The framework for the management of the Council's risks will be updated during 2011/12, based on the ISO 31000, to ensure it can meet the requirements of the internal management framework developed through Change to Keep Succeeding and address known issues in the current arrangements.

The Internal Audit Plan for 2010-11 presented to the Audit Committee in April 2010 was linked to the Council's Strategic and Directorate Risk Registers so that Internal Audit could provide assurance on the effectiveness of the internal control framework during 2010-11.

Annual Governance Statement

Significant governance issues

The following issues have been assessed as being significant for the purpose of this Annual Governance Statement. We will over the coming year take appropriate steps to address these matters and further enhance 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.

Source	Issue	Proposed Action	Owner
Ofsted report	Findings of the Inspection of safeguarding and looked after children services.	Full implementation of the targets set out in the improvement notice issued after the inspection.	Corporate Director, Families & Social Care
Notification of irregularity	Potential control weaknesses resulting in an irregularity	Full implementation of the independent review of the control environment	Corporate Director, Enterprise & Environment

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Paul Carter
 Leader
 On behalf of Kent County Council

.....

Katherine Kerswell
 Managing Director

Opinion on the Council's accounting statements

Respective responsibilities of the Director of Finance and auditor

Basis of audit opinion

Opinion

Opinion on the Superannuation Fund accounts

Respective responsibilities of the Director of Finance and auditor

Basis of audit opinion

Opinion

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

Auditor's responsibilities

Conclusion

Certificate

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

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	Year ended 31 March 2010				
	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2009	-25,835	-165,408	-14,379	-34,566	-240,188
Movement in Reserves during 2009-10					
Surplus or (Deficit) on Provision of Services	91,480				91,480
Other Comprehensive Expenditure and Income	0				0
Total Comprehensive Expenditure and Income	91,480	0	0	0	91,480
Adjustments between accounting basis & funding basis under regulations - Note 7	-94,022		-1,637	-30,787	-126,446
Net increase/Decrease before Transfers to Earmarked Reserves	-2,542	0	-1,637	-30,787	-34,966
Transfers to/from Earmarked Reserves	2,542	-2,542			0
Increase/Decrease (movement) in Year	0	-2,542	-1,637	-30,787	-34,966
Balance at 31 March 2010 carried forward	-25,835	-167,950	-16,016	-65,353	-275,154
Movement in reserves during 2010-11					
Surplus or (Deficit) on provision of services	-194,128				-194,128
Other Comprehensive Expenditure and Income					
Total Comprehensive Expenditure & Income	-194,128	0	0	0	-194,128
Adjustments between accounting basis & funding basis under regulations - Note 7	186,891		-488	4,563	190,966
Net Increase/Decrease before transfers to Earmarked Reserves	-7,237	0	-488	4,563	-3,162
Transfers to/from Earmarked Reserves	6,347	-6,347			0
Increase/Decrease in Year	-890	-6,347	-488	4,563	-3,162
Balance at 31 March 2011 carried forward	-26,725	-174,297	-16,504	-60,790	-278,316

Movement in Reserves Statement

	Year ended 31 March 2010		
	Total Usable Reserve	Unusable reserves	Total Council Reserves
	£'000	£'000	£'000
Balance at 31 March 2009	-240,188	-184,852	-425,040
Movement in Reserves during 2009-10			
Surplus or (Deficit) on Provision of Services	91,480		91,480
Other Comprehensive Expenditure and Income (total of *'s on CIES)		311,948	311,948
Total Comprehensive Expenditure and Income	91,480	311,948	403,428
Adjustments between accounting basis & funding basis under regulations	-126,446	126,446	0
Net increase/Decrease before Transfers to Earmarked Reserves	-34,966	438,394	403,428
Transfers to/from Earmarked Reserves	0	0	0
Increase/Decrease (movement) in Year	-34,966	438,394	403,428
Balance at 31 March 2010 carried forward	-275,154	253,542	-21,612
Movement in reserves during 2010-11			
Surplus or (Deficit) on provision of services	-194,128		-194,128
Other Comprehensive Expenditure and Income (total of *'s on CIES)		-399,631	-399,631
Total Comprehensive Expenditure & Income	-194,128	-399,631	-593,759
Adjustments between accounting basis & funding basis under regulations	190,966	-190,966	0
Net Increase/Decrease before transfers to Earmarked Reserves	-3,162	-590,597	-593,759
Transfers to/from Earmarked Reserves	0		0
Increase/Decrease in Year	-3,162	-590,597	-593,759
Balance at 31 March 2011 carried forward	-278,316	-337,055	-615,371

Comprehensive Income and Expenditure Statement

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 2011			2009-2010
		Gross Expenditure	Gross Income	Net Expenditure	Restated Net Expenditure
		£'000	£'000	£'000	£'000
Service					
Regulatory Services and Emergency Planning		9,517	3,734	5,783	7,377
Court Services		3,114	439	2,675	2,456
Arts & Libraries		28,774	10,013	18,761	26,388
Waste Management		68,987	6,513	62,474	59,758
Environmental, Planning and Other Services		54,804	24,341	30,463	23,038
Children's and Education Services		1,597,657	1,387,732	209,925	225,225
Highways, Roads and Transport Services		150,700	96,752	53,948	97,780
Adult Social Care		549,826	149,490	400,336	357,081
Corporate and Democratic Core		19,937	17,437	2,500	30,133
Non Distributed Costs				-205,850	17,386
Cost of Services		2,483,316	1,696,451	581,015	846,622
Other operating Expenditure	9			70,683	36,857
Net Surplus on trading accounts	28			-9,218	-8,616
Financing and Investment Inc and Exp	10			99,101	107,146
Taxation and Non Specific Grant Income	11			-935,709	-890,529
(Surplus) or deficit on Provision of Services				-194,128	91,480
(Surplus)/deficit arising on revaluation of non current assets			*	-28,551	-67,461
Actuarial (gains)/losses on pension fund assets / liabilities			*	-362,177	380,355
(Surplus)/deficit arising on loans and receivables			*	-8,903	-946
Total Comprehensive Income and Expenditure				-593,759	403,428

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.

		31 March 2011		31 March 10	31 March 09
	Notes	£'000	£'000	Restated	
				£'000	£'000
Non Current Assets					
Property Plant & Equipment	12	2,420,139		2,306,454	2,207,579
Investment Property	13	21,078		21,294	33,782
Intangible assets	14	1,632		2,544	3,551
Total Property Plant & Equipment			2,442,849	2,330,292	2,244,912
Long-term investments	15	10,962		35,671	96,268
Long-term debtors	16	59,146		59,154	54,712
Total long-term assets			2,512,957	2,425,117	2,395,892
Inventories		6,694		6,231	5,937
Assets held for sale (>1yr)	18	4,275		9,595	18,386
Short term debtors	16	223,521		210,803	193,644
Investments	15	134,555		89,026	258,358
Cash and Cash equivalents	15	67,310		100,734	
Total current assets			436,355	416,389	476,325
Temporary borrowing	15	-57,350		-45,240	-60,641
Short term Lease Liability	15	-4,923		-3,983	
Short term provisions	20	-34,105		-37,235	-33,518
Creditors	19	-291,766		-284,534	-298,747
Cash and Cash equivalents	17				-98,748
Total Current liabilities			-388,144	-370,992	-491,654
Creditors due after one year	19	-2,949		-823	
Provisions	20	-14,077		-14,423	-12,428
Long-term borrowing	15	-1,053,557		-1,012,116	-998,427
Other Long Term Liabilities		-833,994		-1,347,187	-909,090
Capital Grants Receipts in Advance	34	-41,220		-74,353	-35,578
Long Term Liabilities			-1,945,797	-2,448,902	-1,955,523
Net Assets			615,371	21,612	425,040
Usable Reserves	21		-278,316	-275,154	-240,188
Unusable Reserve	22		-337,055	253,542	-184,852
Total Reserves			-615,371	-21,612	-425,040

Cash Flow Statement

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

	Notes	2010-2011 £'000	2009-2010 £'000
Net (Surplus) or deficit on the provision of services		-194,128	91,480
Adjustments to net surplus or deficit on the provision of services for non cash movements	23	104,742	-132,019
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		0	0
Net cash flows from operating activities	24	-89,386	-40,539
Investing Activities	25	145,508	-176,916
Financing Activities	26	-22,698	17,973
Net increase(-) or decrease in cash and cash equivalents		33,424	-199,482
Cash and cash equivalents at the beginning of the reporting period		100,734	-98,748
Cash and cash equivalents at the end of the reporting period	17	67,310	100,734

Note 1. Accounting Policies

General

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2003 in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Council Accounting in the UK 2010-11 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis.

Accruals of Income and Expenditure

The 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.

Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They comprise call and business accounts.

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

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Note 1 - Accounting Policies

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

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Service lines within the Comprehensive Income and Expenditure Statement, but is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post Employment Benefits

The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- Teachers

The Council 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 and no liability for future payments of benefits is recognised in the Balance Sheet.

- Other employees

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

Note 1 - Accounting Policies

The assets of Kent pension fund attributable to the Council are included in the Balance Sheet at their fair value:

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

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

Events After the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

Financial assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement (debited to the appropriate service) 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 to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Note 1 - Accounting Policies

Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Intangible Assets

Assets that do not result in the creation of a tangible asset, (which is an asset that has physical substance) 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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and jointly controlled entities. However, as the majority of the transactions (largely with Kent Top Temps) are between the Council and the subsidiary we are not preparing group accounts.

Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Note 1 - Accounting Policies

JANE (Joint Arrangement Not an Entity)

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

The proportion of transactions and balances of JANES that relate to the Council are included in the Council's single entity accounts.

Leasing

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- contingent rents, the difference between the rent paid in year and the original amount agreed in the contract (e.g. following a rent review) also debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

Note 1 - Accounting Policies

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense on the same basis as rental income.

Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with CIPFA's Best Value Accounting Code of Practice 2010-11 (BVACOP):

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Property, Plant and Equipment

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

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the 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".

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

The Council 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. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

Note 1 - Accounting Policies

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

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

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve

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

Depreciation

Depreciation is 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	- useful life as determined by the valuer
Vehicles, plant and equipment	- 3-15 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil

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

Property will be split into five components:

- Land
- Structure
- Mechanical and Electrical
- Fixtures and Furnishings
- Temporary Buildings

These components are a significant value of the asset as a whole and have significantly different useful lives.

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page 39.

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

Disposals and Non-current Assets Held for Sale

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Note 1 - Accounting Policies

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Gains and Losses on Disposal of Non Current Assets

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in reserves Statement.

Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

PFI Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment 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 property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Non current 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 Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page 68 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

Note 1 - Accounting Policies

Contingent Liabilities

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

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The 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.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. Details of the Council's reserves are shown in the notes to the Accounts on pages 49-51 and 69-71.

Landfill Allowance Schemes

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

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 a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. 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 Movement in Reserves Statement to mitigate any impact on council tax.

Inventories

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

Accounting for Value Added Tax (VAT)

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

Collection Fund Accounting Policy

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. 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing Council from Council Tax debtors that belongs proportionately to the billing Council 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.

Note 2. Accounting Standards that have been issued but have not yet been adopted

For 2010-11 the only change relates to FRS 30 Heritage Assets. The impact of this reporting standard will be in the 2011-12 accounts

Note 3. Critical Judgements in applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council had £50.35m deposited with Icelandic Banks which went into administration. The Icelandic courts ruled in our favour on 1 April 2011 but this decision has been appealed by the non-priority creditors. Legal advice has been obtained to support a judgement that this status will be secured and that 93% of the amount of the deposit will be repaid. The legal procedures should all be resolved in 2011. We have accounted for this in accordance with CIPFA's LAAP 82 Bulletin Update 4.

Note 4

Note 4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>Under component accounting the Council has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2010-11 secondary schools were revalued and a de minimus of £8m was applied. We also valued a number of primary schools and a de minimus of £2m was applied.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1m for every year that useful lives had to be reduced. Over a period of 5 years (before the next valuation takes place) this could result in an error of £5m - this is not material.</p> <p>If all secondary schools had been componentised the difference between depreciation under componentisation and non componentisation is estimated at £0.199m. Over 5 years this would give a difference of £0.995m - this is not material.</p>
Leases	<p>For a number of leases identified by schools and directorates we have had to make assumptions on the fair value of the assets - this has been obtained by identifying the current costs of similar assets.</p>	<p>As the total depreciated value of leases is only £835k the effect of the estimation is not material.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £44.6m. However, the assumptions interact in complex ways. During 2010-11, the Council's actuaries advised that the net pensions liability had decreased by £98.7m as a result of estimates being corrected as a result of experience and decreased by £258.8m attributable to updating of the assumptions.</p>

Note 5. Material Items of Income and Expense

Items in the Comprehensive Income and Expenditure Statement that are not disclosed on the face of the statement but are material include the pensions service costs and curtailments within the Non Distributed costs line. These two items amount to a credit of £223m.

Note 6. Events after the Balance Sheet Date

There are no events after the balance sheet date.

Note 7 - Adjustments between accounting basis & funding basis under regulations

Note 7. Adjustments between accounting basis and funding basis under regulations

31 March 2011	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-132,616			132,616
Revaluation losses on Property Plant and Equipment	0			0
Amortisation of intangible assets	-1,557			1,557
Capital Grants and contributions applied	251,963			-251,963
Revenue expenditure funded from capital under statute	-145,083			145,083
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	-66,458			66,458
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	55,979			-55,979
Capital expenditure charged against the General Fund	16,873			-16,873
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-4,562		4,563	-1
Application of grants to capital financing transferred to the Capital Adjustment Account	0			0
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		-15,918		15,918
Use of the Capital Receipts Reserve to finance new capital expenditure		15,430		-15,430

Note 7 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve towards administrative costs of noncurrent asset disposals	0			0
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-3,600			3,600
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-111			111
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	120,603			-120,603
Employer's pensions contributions and direct payments to pensioners payable in the year	88,602			-88,602
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	855			-855
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6,003			-6,003
Total Adjustments	186,891	-488	4,563	-190,966

Note 7 - Adjustments between accounting basis & funding basis under regulations

31 March 2010

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-223,307			223,307
Revaluation losses on Property Plant and Equipment	0			0
Amortisation of intangible assets	-1,499			1,499
Capital Grants and contributions applied	203,368			-203,368
Revenue expenditure funded from capital under statute	-117,887			117,887
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	-51,642			51,642
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	50,572			-50,572
Capital expenditure charged against the General Fund	12,237			-12,237
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	30,787		-30,787	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0			0
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	15,394	-15,394		0
Use of the Capital Receipts Reserve to finance new capital expenditure		13,757		-13,757

Note 7 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve towards administrative costs of noncurrent asset disposals				0
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				0
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	540			-540
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-99,079			99,079
Employer's pensions contributions and direct payments to pensioners payable in the year	90,034			-90,034
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	569			-569
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-4,109			4,109
Total Adjustments	-94,022	-1,637	-30,787	126,446

Note 8. Earmarked Reserves

The Council keeps a number of reserves in the Balance Sheet that have been set up voluntarily to earmark resources for future spending plans. These are held for costs which are likely to be incurred but their timing is not certain and they cannot be absorbed within annual spending plans such as emergency costs resulting from severe weather conditions. Earmarked reserves are also used to smooth the impact on the Council Tax payer so that fixed annual contributions are made from the budget for costs which are incurred sporadically e.g. elections, which occur every 4 years.

A thorough review of our Reserves was carried out as part of the 2011-12 budget setting process. This resulted in a net draw-down of our reserves, but this will need re-instating over the medium term. Our Corporate Director of Finance and Procurement, who is responsible for setting the level of Reserves, has deemed the level to be 'adequate' given the level of risk that we face.

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2009, 31 March 2010 or 31 March 2011, the sum of which are shown in the tables on pages 49-51.

Vehicles, plant and equipment (VPE)

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.

Office Strategy

This reserve is to support the implementation of major office strategy projects.

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.

Three Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 3 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.

Note 8 - Earmarked Reserves

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 2010-11 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.

Economic Downturn Reserve

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

Corporate Restructuring Reserve

Given the level of savings required in Local Government over the next few years, this reserve has been set up, largely from underspending in 2009-10, to fund invest to save projects which are essential to helping us re-engineer our business efficiently.

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.

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.

Note 8 - Earmarked Reserves

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 & Efficiency Partnership reserve

This is 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.

Libraries IT PFI final grant settlement reserve

During 2010-11 the Government changed the treatment of this grant and instead of paying this in quarterly instalments each year they have now provided a lump sum final payment to bring the total to that which would have been received if the grant had been calculated on an annuity basis from the start. This reserve will be used to replace the annual grant which we had budgeted to receive quarterly through to 2016-17.

Kent Public Services Network (KPSN) Development Reserve

This reserve will be used to smooth the cost of large upgrades to the Core IT Infrastructure. The KPSN Management Board will determine the timing of these upgrades.

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 2009-12 included support from 2008-09 underspending, which was transferred into this earmarked reserve during 2008-09 and drawn down in 2009-10. Likewise, the medium term plan for 2010-13 included support from 2009-10 underspending, which was transferred into this earmarked reserve during 2009-10 and 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.

Social Care - Supported Living costs reserve

This reserve is required to potentially fund backdated costs in relation to service users in supported living in Kent who are currently funded by other authorities. These costs may arise following legal negotiations.

Note 8 - Earmarked Reserves

Public Inquiries reserve

This reserve is required to smooth the fluctuations in costs incurred in major strategic developments and defence of the County Council's position at a public inquiry, either at an appeal against a County Council's enforcement decision or in response to a strategic decision determined by a Local Planning Authority.

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.

Landfill Allowance Taxation Scheme Reserve

The government allocates each Waste Disposal Authority a quota of Landfill Allowance permits. This determines the amount of biodegradable waste the Authority can send to landfill sites. These permits can either be used, banked for future use or traded with other waste disposal authorities. This reserve represents the value of cumulative unsold Landfill Allowance permits. National guidance on the value per permit is used to calculate the value of this reserve. The reserve is only realised when and if these permits are actually sold.

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 2011-12 or future years as initiatives are completed.

Note 8 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2008	Movement	Balance at 31 Mar 2009
	£'000	£'000	£'000
VPE Reserve	-3,814	-483	-4,297
Special funds	-2,217	-1,346	-3,563
Office Strategy	-682	367	-315
Kings Hill development smoothing reserve	-1,596	2,000	404
Swanscombe School PFI equalisation reserve	-5,309	-275	-5,584
Six schools PFI	-4,107	-1,782	-5,889
Westview/Westbrook PFI equalisation reserve	-855	-567	-1,422
Better Homes Active Lives PFI equalisation reserve	13	-1,942	-1,929
Reserve for projects previously classified as capital - now revenue	0	-5,644	-5,644
Economic Downturn reserve	0	-1,173	-1,173
Supporting People Reserve	-9,276	-406	-9,682
Every Child Matters Contact Point reserve	-533	-20	-553
Environmental initiatives reserve	-3,231	1,295	-1,936
Rolling budget reserve	-7,889	393	-7,496
Asylum Reserve	0	-4,093	-4,093
Emergency Conditions Reserve	-813	-600	-1,413
Elections Reserve	-706	-206	-912
Dilapidations reserve	-1,795	70	-1,725
Workforce Reduction reserve	-2,402	-531	-2,933
South East Improvement and Efficiency Partnership	-1,035	320	-715
IT Asset Maintenance reserve	-6,159	1,340	-4,819
PRG Reserve	-1,051	-2,130	-3,181
Earmarked Reserve to support next years budget	-1,435	-2,734	-4,169
Prudential Equalisation Reserve	-9,119	1,465	-7,654
Dedicated Schools Grant - Central Expenditure	-3,428	-2,407	-5,835
Other	-6,091	545	-5,546
Total	-73,530	-18,544	-92,074
Insurance Reserve			
KCC	-10,206	965	-9,241
LATS Reserve			
Landfill Allowance Taxation Scheme	-792	792	0
	-84,528	-16,787	-101,315
Commercial Services Earmarked Reserves	-1,487	675	-812
Total Earmarked Reserves	-86,015	-16,112	-102,127

Note 8 - Earmarked Reserves

Other Earmarked Reserves	Balance at	Movement	Balance at
	1 April 2009		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 - now revenue	-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	-5,457	-942	-6,399
Total	-92,074	-10,802	-102,876
Insurance Reserve			
KCC	-9,241	3,347	-5,894
	-101,315	-7,455	-108,770
Commercial Services Earmarked Reserves	-812	-1,469	-2,281
EKO	0	-5,025	-5,025
Total Earmarked Reserves	-102,127	-13,949	-116,076

Note 8 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2010	Movement	Balance at 31 Mar 2011
	£'000	£'000	£'000
VPE Reserve	-3,677	-278	-3,955
Special funds	-4,365	-788	-5,153
School Maintenance Indemnity schemes	-699	-237	-936
Kings Hill development smoothing reserve	2,404	2,000	4,404
Swanscombe School PFI equalisation reserve	-5,789	-161	-5,950
Six schools PFI	-6,065	-3,877	-9,942
Three schools PFI	0	-1,429	-1,429
Westview/Westbrook PFI equalisation reserve	-1,941	-403	-2,344
Better Homes Active Lives PFI equalisation reserve	-3,530	-34	-3,564
Reserve for projects previously classified as capital - now revenue	-6,625	1,325	-5,300
Economic Downturn reserve	-8,897	-4,411	-13,308
Corporate Restructuring Reserve	0	-2,667	-2,667
Supporting People Reserve	-6,844	3,666	-3,178
Every Child Matters Contact Point reserve	-584	584	0
Environmental initiatives reserve	-2,233	-192	-2,425
Rolling budget reserve	-8,826	-2,523	-11,349
Asylum Reserve	-1,690	1,690	0
Emergency Conditions Reserve	-1,313	4	-1,309
Elections Reserve	-210	-212	-422
Dilapidations reserve	-1,661	18	-1,643
Workforce Reduction reserve	-4,074	-289	-4,363
Libraries/IT PFI grant settlement reserve	0	-2,270	-2,270
KPSN Development Reserve	0	-1,042	-1,042
IT Asset Maintenance reserve	-4,637	739	-3,898
PRG Reserve	-2,295	1,825	-470
Earmarked Reserve to support next years budget	-1,570	1,570	0
Prudential Equalisation Reserve	-12,359	2,255	-10,104
Dedicated Schools Grant - Central Expenditure	-5,573	1,192	-4,381
Turner Contemporary Investment Reserve	-3,424	266	-3,158
Social Care Supported Living Costs reserve	-325	-1,046	-1,371
Public Inquiries reserve	-309	-326	-635
Other	-5,765	1,487	-4,278
Total	-102,876	-3,564	-106,440
Insurance Reserve			
KCC	-5,894	2,769	-3,125
LATS Reserve			
Landfill Allowance Taxation Scheme	0	-1,208	-1,208
	-108,770	-2,003	-110,773
Commercial Services Earmarked Reserves	-2,281	-51	-2,332
EKO	-5,025	40	-4,985
Total Earmarked Reserves	-116,076	-2,014	-118,090

Note 9. Other Operating Expenditure

	2010-11 £000's	2009-10 £000's
Levies	625	609
Gains/Losses on the disposal of non-current assets	70,058	36,248
	70,683	36,857

Note 10. Financing and investment income and expenditure

	2010-11 £000's	2009-10 £000's
Interest payable and similar charges	79,519	63,932
Pensions interest cost and expected return on pensions assets	31,409	55,171
Interest receivable and similar income	-7,095	-6,612
Income and expenditure in relation to investment properties and changes in their fair value	-260	-276
Other investment income	-4,472	-5069
	99,101	107,146

Note 11. Taxation and non specific grant incomes

	2010-11 £000's	2009-10 £000's
Income from Council Tax	-571,765	-555,103
Non-ringfenced government grants	-364,057	-333,848
Capital grants and contributions	113	-1,578
	-935,709	-890,529

Property, Plant & Equipment - cont

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Cost or Valuation								
Derecognition - Other	-78,649			-23		-1,414	-80,086	
Assets reclassified (to) / from Held for Sale								
Other Movements in cost or valuation	-3,811				-111,419	3,263	-111,967	
At 31 March 2011	1,386,696	82,172	1,202,868	10,006	388,797	37,851	3,108,390	250,756

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - cont

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Accumulated Depreciation and Impairment								
at 1 April 2010	-55,595	-44,624	-509,868	0		-1,749	-611,836	-4,566
Depreciation Charge	-32,066	-9,156	-57,065			-451	-98,738	-4,437
Depreciation written out to the Revaluation Reserve	15,243					12	15,255	3,342
Depreciation written out to the Surplus / Deficit on the Provision of Services								
Impairment losses / (reversals) recognised in the Revaluation Reserve	3,508					507	4,015	
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	29,674					802	30,476	

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - cont

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	87	1,216				375	1,678	
Derecognition - Other	5,269					27	5,296	
Other movements in Depreciation and Impairment	-33,009					-1,388	-34,397	
At 31 March 2011	-66,889	-52,564	-566,933	0	0	-1,865	-688,251	-5,661
Net Book Value								
At 31 March 2011	1,319,807	29,608	635,935	10,006	388,797	35,986	2,420,139	245,095
At 31 March 2010	1,272,462	28,530	631,432	9,141	332,103	32,523	2,306,191	201,218

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment

Movement on balances - Movements in 2009-10 (Restated)

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Cost or Valuation at 1 April 2009	1,290,450	63,412	1,063,432	8,505	295,605	56,118	2,777,522	150,559
Additions	150,963	13,210	83,864	636	105,219	851	354,743	67,700
Donations		20					20	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	47,184					8,584	55,768	-7,149
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-122,121					-43,760	-165,881	890
Derecognition - Disposals	-30,538	-3,488			-53,195	-9,225	-96,446	

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - cont

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Cost or Valuation								
Derecognition - Other	-6,216		-5,996		-15,526		-27,738	-6,216
Assets reclassified (to) / from Held for Sale								
Other Movements in cost or valuation		-1,665				21,968	20,303	
Transfer from / to WIP								
Transfer from WIP to Revenue								
At 31 March 2010	1,328,057	73,154	1,141,300	9,141	332,103	34,536	2,918,291	205,784

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - cont

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Accumulated Depreciation and Impairment								
at 1 April 2009	-75,072	-36,623	-457,000			-1,247	-569,942	-5,211
Depreciation Charge	-21,866	-8,810	-52,868			-391	-83,935	-547
Depreciation written out to the Revaluation Reserve	1,192					10	1,202	1,192
Depreciation written out to the Surplus / Deficit on the Provision of Services								
Impairment losses / (reversals) recognised in the Revaluation Reserve	40,126					143	40,269	
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services								

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - cont

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus, non- operational and investment property £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £,000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	14	868					882	
Derecognition - Other		-59					-59	
Other movements in Depreciation and Impairment	-132					-121	-253	
At 31 March 2010	-55,738	-44,624	-509,868	0	0	-1,606	-611,836	-4,566
Net Book Value								
At 31 March 2010	1,272,319	28,530	631,432	9,141	332,103	32,930	2,306,455	201,218
At 31 March 2009	1,215,379	26,789	606,431	8,505	295,605	54,871	2,207,580	145,348

Note 12 - Property, Plant and Equipment

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, Mark Presland MRICS of Cluttons, Jason Kirkaldy MRICS of Savills, David Poole MRICS of DTZ, Richard G Robson MRICS of Michael Rogers, Tom Dowman of King Sturge and Richard Jones 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:			
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
2010-11	223,774	15,199	238,973

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 2010-11 Secondary Schools land and buildings have been valued as well as non operational assets requiring a new market valuation. For each operational asset an Existing Use Value (EUV) 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/fair value was provided.

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

Contractual Liabilities

These values are for future years payments in relation to contracts over £10m that we are committed to:

	2010 -11 £000
BSF Wave 3	12,225
Sheppey Academy	43,310
Marsh Academy	10,392
East Kent Access Road	26,483

Note 13 - Investment Properties

Note 13. Investment Properties

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

	2010 -11 £000	2009 -10 £000
Rental income from Investment Property	260	276
Direct operating expenses arising from investment property		
Net gain/(loss)	260	276

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

	2010 -11 £000	2009-10 £000
Balance at start of the year	21,294	33,782
Additions:		
• Purchases		
• Construction		
• Subsequent expenditure		
Disposals		
Net gains/losses from fair value adjustments	150	-19,546
Transfers:		
• to/from Inventories		
• to/from Property, Plant and Equipment	-200	1,975
Other changes	-166	
EKO		5,083
Balance at end of the year	21,078	21,294

Note 14 - Intangible Assets and Note 15 - Financial Instruments

Note 14. Movement in intangible assets

	Purchased Software licences	Total
	£000's	£000's
Original cost	13,290	13,290
Amortisation to 1 April 2010	-10,746	-10,746
Balance at 1 April 2010	2,544	2,544
Expenditure in year	645	645
Written off to revenue in year	-1,557	-1,557
Balance at 31 March 2011	1,632	1,632

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

Note 15. 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	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
	£000's	£000's	£000's	£000's
Borrowing	1,053,557	1,012,116	57,350	45,240
	1,053,557	1,012,116	57,350	45,240
Loans and receivables				
Investments	10,962	35,671	134,555	89,026
Cash and cash equivalents			67,310	100,734
	10,962	35,671	201,865	189,760
Total Financial Assets	10,962	35,671	201,865	189,760

Note 15 - Financial Instruments

The debt and investments recorded on the balance sheet comprise the following

	Long Term		Current	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
	£000's	£000's	£000's	£000's
Borrowing:				
Nominal Amount	1,039,309	997,333	57,119	45,126
Accrued Interest	13,602	13,121	231	114
Unamortised Discounts / (Premiums) on Modified Loans	646	1,662		
Total Borrowings as per Balance Sheet	1,053,557	1,012,116	57,350	45,240
Investments:				
Nominal Amount	10,000	35,000	221,205	195,931
Fire and Pension Fund cash			-14,245	-1,212
Accrued Interest	962	671	2,512	2,648
Impairment charge for Iceland			-7,607	-7,607
Total Investments as per Balance Sheet	10,962	35,671	201,865	189,760

Financial Liabilities at amortised cost

Long term	2010-11	Restated
	£000's	2009-10
	£000's	£000's
Long Term Borrowing		
Amounts still owed on loans received from external bodies to acquire capital assets.		
Long term borrowing for repayment after 1 year	1,053,557	1,012,116
Total Long Term Borrowing at 31 March	1,053,557	1,012,116
Lease Liability short term	4,923	3,983
Current		
Borrowing		
Long term borrowing for repayment within 1 year	57,255	45,145
Temporary Borrowing		
EKO	95	95
Total Borrowing at 31 March	1,115,830	1,061,339
Lease Liability	226,647	166,486
Creditors		
The analysis of creditors by category is:		
Government grants	13,487	13,417
Creditors due after 1 year	2,949	823
Other	278,279	271,117
Balance at 31 March	294,715	285,357
Cash and cash equivalents	67,310	100,734

Note 15 - Financial Instruments

Financial Instruments Gains / Losses

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

	<u>2010-11</u>		Total £000's
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and receivables	
	£000's	£000's	£000's
Interest expense	-70,962		-70,962
Losses on derecognition	-950		-950
Impairment losses		-7,607	-7,607
Interest payable and similar charges	-71,912	-7,607	-79,519
Interest income		6,079	6,079
Gains on derecognition		1,016	1,016
Interest and investment income	0	7,095	7,095
Gains on revaluation			
Losses on revaluation			
Amounts recycled to I&E Account after impairment			
Surplus arising on revaluation of financial assets	0	0	0
Net gain/(loss) for the year	-71,912	-512	-72,424

Financial Instruments - Fair Values

The Council's long term financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under short term borrowings or short term investments. This also includes accrued interest for long term investments and borrowings, as well as accrued interest for cash and cash equivalents.

The 2010 Code of Practice requires the Fair Values of these assets to be disclosed for comparison purposes. Fair Value is defined in Financial Reporting Standard 26 (FRS26) as the amount for which an asset could be exchanged, or liability settled, between two parties in an arm's length transaction. The Fair Value of a financial instrument on initial recognition is generally the transaction price.

The Council's debt outstanding at 31 March 2010 and 31 March 2011 consisted of loans from the Public Works Loan Board (PWLB) and market loans.

The PWLB has provided the Council with the Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have to pay to extinguish the loan on these dates. For Market loans the Council's Treasury Advisor has calculated the fair value based on equivalent swap rates at the Balance Sheet date.

Note 15 - Financial Instruments and Note 16 - Debtors

In the case of the Council's investments, these consisted of deposits in call accounts and term deposits with the Debt Management Office (DMO), banks and building societies and the maturity dates of the majority of these deposits were within 12 months of the Balance Sheet date. The contracts of the term deposits do not permit premature redemption. Those with Icelandic banks were impaired.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011		Restated 31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	£000's	£000's	£000's
PWLB debt	714,788	828,027	671,295	777,981
Non-PWLB debt	396,024	391,800	385,966	393,542
EKO temporary loan	95	95	95	95
Total Borrowings	1,110,907	1,219,922	1,057,356	1,171,618
Trade Creditors	52,887	52,887	44,280	44,280
Total Financial Liabilities	1,163,794	1,272,809	1,101,636	1,215,898

The fair value of financial liabilities 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 at the Balance Sheet date.

	31 March 2011	Fair value	Restated 31 March 2010	Fair value
	£000's	£000's	£000's	£000's
Long Term Investments	10,962	11,363	35,671	36,196
Short Term Investments	134,506	134,506	89,026	89,026
Cash and cash equivalents	67,310	67,310	100,734	100,734
Trade debtors	2,528	2,528	2,266	2,266
Total Financial Assets	215,306	215,707	227,697	228,222

The fair value for long term investments at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Note 16. Amounts owed to the Council by debtors

	Restated	
	At 31 March 2011	At 31 March 2010
	£000's	£000's
Long Term debtors:		
Medway Council (transferred debtor)	47,231	49,199
Public bodies	2,134	2,426
Other	9,781	7,529
	59,146	59,154
Other debtors:		
EKO	75	52
Staff advances	64	50
Government Departments	71,296	56,254
NHS Bodies	2,073	490
Payments in advance	23,530	22,008
Other Local Authorities	10,778	5,836
General debtors	115,705	126,113
	223,521	210,803

Note 17 - Cash and Cash Equivalents and Note 18 - Assets Held For Sale

Capital debtors amounting to £39.5m are included in the Accounts at 31 March 2010 (£21.2m in 2009-10). Capital debtors relate to grants towards capital expenditure incurred in 2010-11 which had not been received by 31 March 2011.

Note 17. Cash and Cash Equivalents

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

	At 31 March 2011 £000's	At 31 March 2010 £'000's
Cash held by the Council	-645	535
Bank current accounts	2,345	-34,818
Short-term deposits with building societies	65,610	135,017
Total Cash and Cash Equivalents	67,310	100,734

Note 18. Assets Held for Sale

	Current	
	2010-11 £000's	2009-10 £000's
Balance outstanding at start of year	9,595	18,386
Assets newly classified as held for sale:		
Property, Plant and Equipment	875	495
Intangible Assets		
Other assets/liabilities in disposal groups		
Revaluation losses	-200	-814
Revaluation gains	900	690
Impairment losses	-350	-902
Assets declassified as held for sale:		
Property, Plant and Equipment		
Intangible Assets		
Other assets/liabilities in disposal groups		
Assets sold	-6,545	-8,260
Transfers from non-current to current		
Other Movements		
Balance outstanding at year-end	4,275	9,595

Note 19 - Creditors and Note 20 - Provisions

Note 19. Amounts owed by the Council to creditors

	At 31 March 2011 £000's	At 31 March 2010 £'000's
EKO	82	70
Kent and Essex Sea Fisheries	340	811
Receipts in advance	55,203	56,771
General creditors	213,777	204,424
Other local authorities	4,861	6,147
Deferred capital receipts		0
Deferred income	3,178	2,703
Central government bodies	13,487	13,417
NHS bodies	838	191
	291,766	284,534
Creditors due after 1 year	2,949	823

Capital creditors amounting to £67m are included in the Accounts at 31 March 2011 (£65m in 2009-10).

Note 20. 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.

The Post Employment Provision covers the costs of early retirements, redundancy costs and any other post employment costs for ex-employees/employees who have confirmed leaving dates.

The Accumulated Absences Provision is required to cover the costs of annual leave entitlements carried over to the following financial year. If an employee were to leave, they would be entitled to payment for this untaken leave.

	Insurance £'000	Post Employment £'000	Accumulated Absences £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2010					
- short term	-5,063	-3,593	-25,720	-2,859	-37,235
- long term	-8,171	-6,253			-14,424
	-13,234	-9,846	-25,720	-2,859	-51,659
movement					
- short term	-895	-947	5,172	-200	3,130
- long term	-141	488			347
	-1,036	-459	5,172	-200	3,477
Balance at 31 March 2011					
- short term	-5,958	-4,540	-20,548	-3,059	-34,105
- long term	-8,312	-5,765	0	0	-14,077
	-14,270	-10,305	-20,548	-3,059	-48,182

Other Provisions

The £3,059k in other provisions comprises some 12 provisions ranging from £810k to £10k.

Note 21 - Usable Reserves

Note 21. Usable Reserves

Reserve	Balance 1 April 2010 £'000	Net Movement in year £'000	Balance 31 March 2011 £'000	Purpose of Reserve
Usable Capital Receipts	-16,016	-488	-16,504	Proceeds of fixed assets available to meet future
General Fund	-25,835	-890	-26,725	Resources available to meet future unforeseen events
Capital Grants unapplied	-65,353	4,562	-60,791	See note below
Earmarked Reserves	-116,076	-2,014	-118,090	See Note 8
Schools Reserve	-51,753	-3,437	-55,190	See below
Surplus on Trading Accounts	-121	-894	-1,015	Commercial Services and Oakwood House
Total	-275,154	-3,161	-278,315	

Capital grants unapplied of £60,791k as at 31 March 2011 include schools capital reserves of £7,254k. This has reduced from the £14,108k held by schools as at 31 March 2010. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2011 funds held in school revenue reserves stood at £55,190k. These reserves are detailed in the table below.

	Balance at 1 April 2010 £'000	Movement £'000	Balance at 31 Mar 2011 £'000
School delegated revenue budget reserves - committed	-8,768	1,122	-7,646
School delegated revenue budget reserves - uncommitted	-28,396	1,533	-26,863
Unallocated Schools budget	-14,029	-6,314	-20,343
Community Focused Extended School Reserves	-560	222	-338
	-51,753	-3,437	-55,190

Note 22 - Unusable Reserves

Note 22. Unusable 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	Balance 1 April 2010 £'000	Net Movement in year £'000	Balance 31 March 2011 £'000	Purpose of Reserve
Revaluation Reserve	-281,538	-6,775	-288,313	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-653,739	6,810	-646,929	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	26,229	-8,792	17,437	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-4,475	-855	-5,330	Movement between the I & E and amount require by regulation to be credited to the General Fund
Deferred capital receipts	0	-3,600	-3,600	
Pensions Reserves				Balancing account to allow inclusion of Pensions
- KCC	1,129,229	-571,231	557,998	
- DSO	2,270	-151	2,119	Liability in Balance Sheet
Accumulated Absences Account	25,720	-5,172	20,548	This absorbs the differences on the General Fund from accruing for untaken annual leave
Post Employment Account	9,846	-831	9,015	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	253,542	-590,597	-337,055	

Note 22 - Unusable Reserves

Revaluation Reserve

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

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

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

	2010-11	2009-10
	£'000	£'000
Balance as at 1st April	-281,538	-241,323
Upward revaluation of assets	-50,668	-133,052
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	22,117	65,591
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-28,551	-67,461
Difference between fair value depreciation and historical cost depreciation	6,617	7,144
Accumulated gains on assets sold or scrapped	15,160	20,102
Amount written off to the Capital Adjustment Account	21,777	27,246
Balance at 31 March	-288,312	-281,538

Note 22 - Unusable Reserves

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	-653,739	-740,893
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of noncurrent assets	132,616	223,307
- Revaluation losses on Property, Plant and Equipment	-169	-9,771
- Amortisation of intangible assets	1,557	1,499
- Revenue expenditure funded from capital under statute	145,083	117,887
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	73,658	41,311
	352,745	374,233
Adjusting amounts written out of the Revaluation Reserve	-6,617	-7,144
Net written out amount of the cost of non-current assets consumed in the year	-307,611	-373,804
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	-14,503	-13,757

Note 22 - Unusable Reserves

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	26,229	27,715
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-950	-950
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-950	-950
	-7,842	-536
Balance at 31 March	17,437	26,229

Note 22 - Unusable Reserves

Pensions Reserve

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

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	1,131,499	742,099
Actuarial gains or losses on pensions assets and liabilities	-362,177	380,355
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-120,603	99,079
Employer's pensions contributions and direct payments to pensioners payable in the year	-88,602	-90,034
Balance at 31 March	560,117	1,131,499

Collection Fund Adjustment Account

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

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	-4,475	-3,906
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-855	-569
Balance at 31 March	-5,330	-4,475

Note 22 - Unusable Reserves

Deferred Capital Receipts Reserve

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

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	0	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement Settlement or cancellation of accrual made at the	-3,600	0
Transfer to the Capital Receipts Reserve upon receipt of cash	0	0
Balance at 31 March	-3,600	0

Accumulated Absences Account

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

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	25,720	21,730
Settlement or cancellation of accrual made at the end of the preceding year	-25,720	-21,730
Amounts accrued at the end of the current year	20,548	25,720
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-5,172	3,990
Balance at 31 March	20,548	25,720

Note 22 - Unusable Reserves & Note 23 - Cash Flow

Post Employment Account

The Post Employment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for early retirement and redundancy payments that are agreed in year but are due in future years. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2010-11	2009-10
	£'000	£'000
Balance at 1 April	9,846	9,726
Settlement or cancellation of accrual made at the end of the preceding year	-3,594	-3,845
Amounts accrued at the end of the current year	2,763	3,965
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements	-831	120
Balance at 31 March	9,015	9,846

Note 23. Cash Flow - Non Cash Adjustments

	2010-11	2009-10
	£'000	£'000
Net Charges made for IAS19	120,603	-99,079
Contribution to/from Pension Reserve	88,602	90,034
Loss/gain on sale of fixed assets	-70,058	-36,248
Amortisation of fixed assets	-1,557	-1,499
Depreciation & impairment of fixed assets	-132,616	-223,307
Increase/decrease debtors	-5,608	4,906
Increase/decrease creditors	-7,946	29,182
Increase/decrease stock	463	294
Increase/decrease accrued interest	-574	-7,057
Increase/decrease provisions	3,478	-6,622
Capital grants & contributions	247,401	234,155
Transfer to General Fund	890	0
Write down of deferred charges	-145,083	-117,887
Change in Financial Instruments	-111	540
Transfer to Collection Fund Adjustment Account	855	569
Transfer to Accumulating Absences Account	6,003	
	104,742	-132,019

Note 24. CashFlow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2010-11	2009-10
	£'000	£'000
Interest received	-7,345	13,746
Interest paid	78,921	70,990
Dividends received	-125	-125
Employee Costs	1,144,701	1,171,873
Income from Council Tax	-571,765	-555,103
Non-ringfenced Government Grants	-364,057	-270,381
Other Government Grants	-382,725	-450,164
Standard Fund Grants	-789,139	-791,409
Area Based Grants	-88,520	-65,045

Note 25. CashFlow Statement - Investing Activities

	2010-11	2009-10
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	331,127	328,846
Purchase of short-term and long-term investments	2,774,055	4,167,167
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-22,651	-17,586
Proceeds from short-term and long-term investments	-2,740,381	-4,389,363
Other receipts from investing activities	-196,642	-265,980
Net cash flows	145,508	-176,916

Note 26. CashFlow Statement - Financing Activities

	2010-11	2009-10
	£'000	£'000
Cash receipts of short- and long-term borrowing	-100,000	-60,470
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	24,421	9,718
Repayments of short- and long-term borrowing	46,031	60,475
Other payments for financing activities	6,850	8,250
Net cash flows from financing activities	-22,698	17,973

Note 27 - Amounts Reported for Resource Allocation Decisions

Note 27. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

	Year ended 31 March 2011					Total
	Children, Families & Education	Adult Social Services	Environment, Highways & Waste	Communities	Chief Executives Dept	
	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-242,456	-127,112	-19,718	-43,067	-87,581	-519,934
Government Grants	-999,197	-8,609	-4,873	-13,131	-7,326	-1,033,136
Total Income	-1,241,653	-135,721	-24,591	-56,198	-94,907	-1,553,070
Employee expenses	889,170	100,417	25,700	56,172	58,957	1,130,416
Other operating expenses	493,587	363,280	149,324	76,950	189,567	1,272,708
Support Service recharges	48,798	9,178	688	12,110	8,357	79,131
Total operating expenses	1,431,555	472,875	175,712	145,232	256,881	2,482,255
Net Cost of Services	189,902	337,154	151,121	89,034	161,974	929,185

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	929,185
Add services not included in main analysis	
Add amounts not reported to management	-211,352
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-136,818
Net Cost of Services in Comprehensive Income & Expenditure Statement	581,015

Note 27 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2011				
	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-519,934		4,472	16,436	95,135
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-1,033,136		-247,401	113	
Total Income	-1,553,070	0	-242,929	16,549	95,135
Employee expenses	1,130,416		-240,614		
Other service expenses	1,272,708		272,191	-153,367	-95,135
Support Service recharges	79,131				
Depreciation, amortisation and impairment					
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	2,482,255	0	31,577	-153,367	-95,135
Surplus or deficit on the provision of services	929,185	0	-211,352	-136,818	0
Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total		
	£000's	£000's	£000's		
Fees, charges & other service income	-403,891		-403,891		
Surplus or deficit on associates and joint ventures			0		
Interest and Investment Income		14,836	14,836		
Income from council tax		-571,765	-571,765		
Government grants and contributions	-1,280,424	-363,944	-1,644,368		
Total Income	-1,684,315	-920,873	-2,605,188		
Employee expenses	889,802		889,802		
Other service expenses	1,296,397		1,296,397		
Support Service recharges	79,131		79,131		
Depreciation, amortisation and impairment			0		
Interest payments		75,048	75,048		
Precepts & Levies		624	624		
Gain or Loss on Disposal of Fixed Assets		70,058	70,058		
Total operating expenses	2,265,330	145,730	2,411,060		
Surplus or deficit on the provision of services	581,015	-775,143	-194,128		

Note 27 - Amounts Reported for Resource Allocation Decisions

	Year ended 31 March 2010					Total
	Children, Families & Education	Adult Social Services	Environment, Highways & Waste	Communities	Chief Executives Dept	
	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-196,805	-104,048	-15,412	-55,640	105,153	-266,752
Government Grants	-1,013,949	-6,728	-1,200	-32,571	-209,870	-1,264,318
Total Income	-1,210,754	-110,776	-16,612	-88,211	-104,717	-1,531,070
Employee expenses	913,575	101,885	25,466	58,621	59,580	1,159,127
Other operating expenses	446,421	334,293	141,776	75,242	179,420	1,177,152
Support Service recharges	59,459	9,902	596	12,130	9,608	91,695
Total operating expenses	1,419,455	446,080	167,838	145,993	248,608	2,427,974
Net Cost of Services	208,701	335,304	151,226	57,782	143,891	896,904

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	896,904
Add services not included in main analysis	
Add amounts not reported to management	68,570
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-118,852
Net Cost of Services in Comprehensive Income & Expenditure Statement	846,622

Note 27 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2010				
	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-500,109		4,595	16,021	107,681
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-1,030,961		-237,882	-1,578	0
Total Income	-1,531,070	0	-233,287	14,443	107,681
Employee expenses	1,159,127		-46,126		
Other service expenses	1,177,152		347,983	-133,295	-107,681
Support Service recharges	91,695				
Depreciation, amortisation and impairment					
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	2,427,974	0	301,857	-133,295	-107,681
Surplus or deficit on the provision of services	896,904	0	68,570	-118,852	0

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	£000's	£000's
Fees, charges & other service income	-371,812		-371,812
Surplus or deficit on associates and joint ventures	0		0
Interest and Investment Income	0	39,193	39,193
Income from council tax	0	-555,103	-555,103
Government grants and contributions	-1,270,421	-335,426	-1,605,847
Total Income	-1,642,233	-851,336	-2,493,569
Employee expenses	1,113,001		1,113,001
Other service expenses	1,284,159		1,284,159
Support Service recharges	91,695		91,695
Depreciation, amortisation and impairment	0		0
Interest payments	0	59,337	59,337
Precepts & Levies	0	609	609
Gain or Loss on Disposal of Fixed Assets	0	36,248	36,248
Total operating expenses	2,488,855	96,194	2,585,049
Surplus or deficit on the provision of services	846,622	-755,142	91,480

Note 28 - Trading Operations

Note 28. Trading Operations

The results of the various trading operations for 2010-11 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-) 2010-11	Surplus/ Deficit(-) 2009-10
	£'000	£'000	£'000	£'000
Kent County Supplies and Furniture	43,916	40,829	3,087	2,761
Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly				
Facilities & Technical Services	5,897	5,059	838	792
Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT				
Brokerage Services	244,079	240,434	3,645	2,108
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				
County Print	2,530	2,405	125	-17
Graphic design and general printing				
Transport Services	20,783	19,380	1,403	2,014
Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport				
Landscape Services	8,207	7,902	305	828
Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment				
Oakwood House				
Conference centre	1,731	1,916	-185	130
Total surplus	327,143	317,925	9,218	8,616

Note 29 - Pooled Budgets

Note 29. Pooled Budgets

Under Section 75 of the NHS Act 2006, the Council 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	2010-11	2009-10	RNCC	2010-11	2009-10
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
East & West Kent PCT	2,715	2,755	Eastern & Coastal Kent PCT	4,003	4,041
National Treatment Agency	6,155	6,616	West Kent PCT	4,374	4,347
KCC	1,672	1,669			
Total Funding	10,542	11,040	Total Funding	8,377	8,388
Expenditure	10,469	11,040	Expenditure	8,377	8,388
Net	73	0	Net	0	0
KCC share of surplus	11				

Westbrook/West View PFI	2010-11	2009-10	ICES	2010-11	2009-10
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
Eastern & Coastal Kent PCT	3,256	3,281	Eastern & Coastal Kent PCT	689	646
Kent Adult Social Services	3,607	3,561	West Kent PCT	309	246
PFI Credits	1,519	1,403	Medway PCT	35	
			Medway Council		37
			Kent Adult Social Services	947	568
Total Funding	8,382	8,245	Total Funding	1,980	1,497
Expenditure	8,382	8,245	Expenditure	1,617	1,156
Net	0	0	Net	363	341
			KCC share of surplus	127	

Gravesham Place PFI	2010-11	2009-10	LD Integrated Staffing	2010-11	2009-10
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
West Kent PCT	2,638	2,540	Eastern & Coastal Kent PCT	2,418	2,048
Kent Adult Social Services	4,662	4,616	Kent & Medway NHS & Social Care Partnership Trust	1,768	1,768
			Kent Adult Social Services	4,117	3,892
Total Funding	7,300	7,156	Total Funding	8,303	7,708
Expenditure	7,300	7,156	Expenditure	8,317	7,585
Net	0	0	Net	-14	123
			KCC share of deficit	-86	

Note 30 - Members Allowances

Note 30. Members Allowances

The Council paid the following amounts to members of the council during the year.

	2010-11	2009-10
	£'000	£'000
Salaries	0	0
Allowances	1,728	1,687
Expenses	128	152
Total	1,856	1,839

Note 31 - Officers Remuneration

Note 31. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2010 to 31 March 2011

Regulations require the Council to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Group Managing Director and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2010-11, was £50,000 or more.

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. This includes all payments, regardless of whether or not they were due in the year e.g. advance payment of salary 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 2011	Schools 31 March 2011	Non-Schools 31 March 2010	Schools 31 March 2010
50,000 - 54,999	179	300	180	369
55,000 - 59,999	123	225	128	226
60,000 - 64,999	83	137	99	141
65,000 - 69,999	48	74	41	62
70,000 - 74,999	26	42	23	31
75,000 - 79,999	12	25	7	25
80,000 - 84,999	12	13	11	27
85,000 - 89,999	7	15	11	23
90,000 - 94,999	3	20	5	15
95,000 - 99,999	7	9	6	2
100,000 - 104,999	4	3	4	8
105,000 - 109,999	3	4	11	5
110,000 - 114,999	2	1	0	2
115,000 - 119,999	0	3	1	1
120,000 - 124,999	1	1	2	1
125,000 - 129,999	1	2	0	0
130,000 - 134,999	0	0	0	1
135,000 - 139,999	2	0	2	1
140,000 - 144,999	1	0	1	0
145,000 - 149,999	0	0	1	0
150,000 - 154,999	2	0	0	0
155,000 - 159,999	1	0	0	0

Note 31 - Officers Remuneration

Remuneration (£)	Total number of employees cont			
	Non-Schools 31 March 2011	Schools 31 March 2011	Non-Schools 31 March 2010	Schools 31 March 2010
160,000 - 164,999	3	0	1	0
165,000 - 169,999	0	0	3	0
170,000 - 174,999	2	0	0	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	2	0
185,000 - 189,999	2	0	1	0
190,000 - 194,999	0	0	0	0
195,000 - 199,999	0	0	0	0
200,000 - 204,999	0	0	0	0
205,000 - 209,999	1	0	0	0
210,000 - 214,999	1	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	0	0	1	0
245,000 - 249,999	0	0	0	0
290,000 - 294,999	1	0	0	0
325,000 - 329,999	1	0	0	0
430,000 - 434,999	1	0	0	0
Total	529	874	541	940

The senior officers disclosed in the following notes are also included within the relevant banding above, with the exception of Mr Roberts and Mr Pettigrew as the fee paid for their services for the 2010-11 year was less than £50,000

Also excluded are the posts Interim Director of Property and Director of Commercial Services as these posts also had a total remuneration of less than £50,000

The number of employees shown against the above remuneration band will not tie up with the information on the following pages. This is because the table above refers to remuneration which includes items a-c as per the note on the previous page, whereas the following table relates purely to salary entitlement in the year, and only those staff whose annual salary is £150k or over should be included. The following tables are set-out in the format prescribed by CIPFA LAAP Bulletin 85, issued by The Chartered Institute of Public Finance and Accountancy. No bonuses were paid to Senior Officers in 2010-11. The figures included in Allowances generally relate to either market premium or additional payments for temporary additional responsibilities e.g. covering a more senior post.

Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2010-11

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Chief Executive Peter Gilroy	1	25,362	0	0	0	407,851	433,213	5,859	439,071
Group Managing Director - Katherine Kerswell	2	160,883	0	0	0	0	160,883	37,164	198,047
Managing Director of Adult Social Services - Oliver Mills		162,431	0	0	118,472	0	280,903	36,746	317,649
Managing Director of Communities - Amanda Honey		159,075	0	0	0	0	159,075	36,746	195,821
Executive Director Strategy, Economic Development & ICT David Cockburn		163,570	0	0	0	0	163,570	37,785	201,355

Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2010-11...cont

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Managing Director Children, Families & Education Rosalind Turner	-	180,000	0	0	96,657	0	276,657	41,580	318,237
Executive Director, Environment, Highways & Waste Mike Austerberry	-	150,000	0	0	0	0	150,000	34,650	184,650
Interim Managing Director of Children, Families & Education Malcolm Newsam	3	78,750	0	0	0	0	78,750	0	78,750
Interim Managing Director of Children, Families & Education Andy Roberts	4	11,700	0	0	0	0	11,700	0	11,700

Notes Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2010-11...cont

Mr Gilroy left KCC during May 2010. The annualised salary for this post was £214,423. In order to secure Mr Gilroy's extended service, in November 2006 the County Council's Personnel Committee, including Labour, Lib-Dem and Conservative Members, unanimously agreed to a variation in Mr Gilroy's contract brought about by changes in pension legislation. The payment of £200,000 (£407,851 including income tax and National Insurance) meant that Mr Gilroy was not disadvantaged by extending his contract as a result of changes to national pension legislation. The Payment of £200,000 did not enhance his overall remuneration package, a fact that has been acknowledged by the Audit Commission.

1

Ms Kerswell joined KCC in June 2010 replacing Mr Gilroy

2

The fee paid for the services of Mr Newsam was for 12 weeks 3 days interim 'employment' between January 2011 - March 2011. The figure shown is the amount paid to the recruiting agency and not to the individual.

3

The fee paid for the services of Mr Roberts was for 3 weeks interim 'employment' in March 2011. The figure shown is the amount paid to the recruiting agency and not to the individual.

4

Senior Officers Pay, where annual equivalent salary is between £50k and £150k per year - reporting to the Group Managing Director - 2010-11

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Director of Finance		136,350	0	0	0	0	136,350	31,497	167,847
Acting Director of Finance	1	96,492	0	3,005	0	211	99,707	22,984	122,691
Director of Law & Governance		128,270	0	0	0	0	128,270	29,630	157,900
Director Personnel and Development		98,000	0	0	0	0	98,000	22,638	120,638
Interim Director Property (1)	2	40,896	0	0	0	0	40,896	0	40,896

Senior Officers Pay, where annual equivalent salary is between £50k and £150k per year - reporting to the Group Managing Director - 2010-11....cont

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Interim Director Property ⁽²⁾	3	94,560	0	3,140	0	375	98,075	22,655	120,730
Director Commercial Services ⁽¹⁾	4	34,733	0	0	0	0	34,733	8,023	42,757
Interim Director Commercial Services ⁽²⁾	5	98,033	0	0	0	0	98,033	22,646	120,679
Director of Strategic Development & Public Access		85,700	0	0	18,080	0	103,780	19,797	123,577
Head of Communications & Media Centre		71,253	0	14,598	0	750	86,600	20,005	106,605

Senior Officers Pay, where annual equivalent salary is between £50k and £150k per year - reporting to the Group Managing Director - 2010-11.....cont

Notes

- 1 The post of Director of Finance was covered on a temporary basis by the Head of Financial Management from November 2010. The salary shown reflects the postholders total remuneration covering both posts held.
- 2 This post was covered by an interim between April 2010 - July 2010. The salary figure is actually the amount paid to the recruiting agency and not to the individual.
- 3 This post was covered on an interim basis by a member of KCC staff from October 2010. The salary shown reflects the postholders total remuneration covering both posts held.
- 4 The person in post left the organisation in July 2010
- 5 This post was covered on an interim basis by a member of KCC staff from August 2010. The salary shown reflects the postholders total remuneration covering both posts held.

Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2009-10

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
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 Pay, where annual equivalent salary is £150,000 or more per year - 2009-10

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Head of Business Performance & Communications (KHS) - Marcus Hobbs	1	183,870	0	0	0	0	0	0	183,870

Notes

1 The figure included for Mr Hobbs was for an 11 months interim appointment in 2009-10

Senior Officers Pay, where annual equivalent salary is between £50,000 and £150,000 per year - reporting to the Chief Executive - 2009-10

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
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	0	0	0	0	0	0	62,903
Director of Strategic Development & Public Access		88,329	3,396	0	0	0	91,725	20,581	112,306

Senior Officers Pay, where annual equivalent salary is between £50,000 and £150,000 per year - reporting to the Chief Executive - 2009-10... cont

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
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

Note 32 - Audit Costs and Note 33 - Dedicated Schools Grant

Note 32. Audit Costs

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

	2010-11	2009-10
	£'000	£'000
Fees payable for external audit services carried out by the appointed auditor	342	392
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	14	17
Fees payable in respect of other services provided by the appointed auditor	2	2
	362	415

Note 33. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an Council-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 2010-11 are as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2010-11			789,139
Brought forward from 2009-10			17,151
Carry Forward to 2011-12 agreed in advance			<u>0</u>
Agreed budgeted distribution in 2010-11	136,542	669,748	806,290
Less actual central expenditure	106,873		106,873
Actual ISB deployed to schools		677,420	677,420
Local Council contribution for 2010-11	0	0	<u>0</u>
Carry Forward to 2011-12	29,669	-7,672	21,997 *

Notes

*

The total carry forward to 2011-12 of £21,997k represents a carry forward of £4,381k on the centrally retained DSG budget and £17,616k on the schools' unallocated budget. The schools unallocated reserve now stands at over £20m, and its use is determined by the Schools' Funding Forum. This balance has accumulated over a number of years and its "growth" has been reported regularly to the Forum. In July 2010, the Forum discussed this and decided, in light of number of uncertainties that it would retain the fund.

Note 34 - Grant Income

Note 34. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010-11:

	2010-11 £'000	2009-10 £'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-571,765	-555,103
Revenue Support Grant	-275,715	-267,224
Area Based Grant	-88,520	-65,045
Performance Reward Grant	291	-3,157
Total	-935,709	-890,529
Credited to Services		
Dedicated Schools Grant	-789,139	-791,409
Learning and Skills Council/Young Persons Learning Agency	-116,990	-107,418
Other DFES Grants	-183,495	-164,184
Department of Health Grants	-8,609	-5,794
Asylum	-15,274	-18,651
Other	-65,147	-175,284
Total	-1,178,654	-1,262,740
Capital Grants and Contributions		
Department for Education	-97,433	
Department for Children, Schools and Families		-180,359
Department for Transport	-52,890	-23,859
Department for Communities and Local Government	-27,078	-6,182
Homes and Communities Agency	-11,243	-1,500
Performance Reward Grant (PRG)	178	-1,578
Other Grants	-4,030	-3,104
Arts Council	-6,075	-1,494
South East England Development Agency	-1,492	-8,050
Other Contributions	-6,046	-9,144
Total	-1,384,763	-1,498,010

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2010-11 £'000	2009-10 £'000
Capital Grants Receipts in Advance		
Department for Education	-23,890	-60,065
Other Grants	-140	-140
Other Contributions	-17,190	-14,148
Total	-41,220	-74,353

Note 35. Related Party Transactions

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

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 34 Grant Income.

Members

Members of the Council have direct control over the council's financial and operating policies.

Members are required to declare any related party transactions on an annual basis. There were no material transactions between Kent County Council and its Members, other than payment of Members' Allowances, in 2010-11. The total of members' allowances paid in 2010-11 is shown in Note 30 on page 85.

Officers

Details of senior officers' remuneration are shown in Note 31 on pages 86 to 97.

All key management personnel are required to declare any pecuniary interests on an annual basis. For 2010-11, four senior officers have declared interests in the following companies:

2010-11 Spend by KCC

Solace Management Board	£481
Learning Pool	£2,000
Its my money	£0
Artesian Consulting	£0
Phil Parnell Geotechnics LLP	£0
Imigital Ltd	£0
Blueberry Papers Ltd	£0

Other Public Bodies (subject to common control by central government)

The Council has pooled budget arrangements for the provision of a range of services including drug and alcohol related services, registered nursing care contribution in care homes and integrated care centres providing nursing, respite and recuperative care to Older People. Further details of all pooled budget arrangements, transactions and balances outstanding are provided in Note 29 on page 84.

The Council's Director of Public Health is a joint appointment with East Kent & Coastal and West Kent PCTs. During 2010-11 KCC paid one third of the cost of this post.

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 Consolidated Income and Expenditure Statement, Note 39 on pages 111-115 of these Accounts.

As administrator of the Kent Pension Fund, KCC has direct control of the Fund. Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £2.53m, interest paid on cash deposits of £0.09m and cash invested by KCC on behalf of the KCC Pension Fund of £1.58m.

Payments to other local authorities and health bodies, excluding precepts, totalled £24.3m.

Receipts from other local authorities and health bodies totalled £84.4m.

Note 35 - Related Party Transactions

Assisted Organisations:

The Council has made payments as follows to voluntary organisations for the provision of various services, including day care for the elderly, physically disabled and those with learning difficulties and mental health needs.

Type of payment	No of voluntary organisations	£'000's
Contract	90	14,061
Grants	15	103
Other payments	39	22,572

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 43.

Payments made to Kent Top Temps (KTT) Ltd amounted to £24.7m. £0.2m of the loan provided to KTT was repaid in 2010-11 with a balance of £0.540m remaining, on which KCC received £0.041m of interest.

Payments made to Kent County Facilities (KCF) Ltd amounted to £1.0m. There is no loan from KCC outstanding.

A loan was made to Kent County Supplies Ltd of £0.150m during 2010-11 on which KCC received £0.005k of interest.

A loan of £102k was made to East Kent Opportunities LLP, and this, with existing loans and recharges of internal services provided, leaves a balance of £235k in 2010-11.

Kent County Council also has an interest in the following companies:

Active companies with less than 50% control

Payments made in 10-11

Association of Tourist Attractions in Kent	£1,215
Groundwork Kent and Medway	£242,526
Aylesham and district Community Workshop Trust	£4,459
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	£24,316
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	£580,542
Locate in Kent Ltd (as amended on 5/5/2000)	£969,840
Trading Stds South East Ltd	£58,412
Business Support Kent Community Interest	£49,312
East Kent Spatial Development Company	-

Active companies with greater than 50% control

Produced in Kent (PINK) Ltd	£150,495
Kent Cultural Trading Limited	£62,160

Dormant companies

Kent Training Centres Ltd	-
Kentish Fayre Ltd	-
Invicta Innovations Ltd	-
Kent County Supplies Ltd	-
Kent Access Ltd	-

Note 36 - Capital Expenditure and Financing

Note 36. Capital Expenditure and Financing

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

	2010-11	2009-10
	£000's	£000's
Opening Capital financing requirement	1,240,963	1,171,961
Capital investment		
Property, Plant and Equipment	240,072	232,131
Intangible assets	645	492
Revenue expenditure funded from capital under statute	145,083	117,887
	1,626,763	1,522,471
Sources of finance		
Capital receipts	-15,430	-13,995
Government grants and other contributions	-251,962	-204,704
Direct revenue contributions	-16,874	-12,237
(MRP/loans fund principal)	-55,979	-50,572
Closing Capital Financing Requirement	1,286,518	1,240,963
Movement	45,555	69,002
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)		17,907
Increase in underlying need to borrow (unsupported by Government financial assistance)	36,902	44,650
Assets acquired under finance leases		
Assets acquired under PFI/PPP contracts	8,653	6,445
Increase/(decrease) in Capital Financing Requirement	45,555	69,002

Note 37 - Leases

Note 37. Leases

Council as Lessee

Finance Leases

The Council has acquired five County Offices and two Day Care Centres under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Other Land and Buildings	1,420	1,798
	<hr/>	<hr/>
	1,420	1,798

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	574	548
• Non-current	1,340	1,915
Finance costs payable in future years	1,255	1,408
Contingent rents payable in future years	2,334	2,539
	<hr/>	<hr/>
Minimum lease payments	5,503	6,410

Note 37 - Leases

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 Mar 2011 £'000	31 Mar 2010 £'000	31 Mar 2011 £'000	31 Mar 2010 £'000
Not later than one year	919	907	127	154
Later than one year and not later than five years	1,463	2,226	309	372
Later than five years	3,121	3,277	819	882
	5,503	6,410	1,255	1,408

In 2010-11 £206k contingent rents were payable by the Council (£206k in 2009-10).

The Council has also acquired two Waste Disposal sites under Service Concession Contracts.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Other Land and Buildings	5,832	5,976
	5,832	5,976

The Council is committed to making minimum payments under these contracts comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	338	321
• Non-current	3,830	4,168
Finance costs payable in future years	2,506	2,744
Minimum lease payments	6,674	7,233

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 Mar 2011 £'000	31 Mar 2010 £'000	31 Mar 2011 £'000	31 Mar 2010 £'000
Not later than one year	559	559	222	238
Later than one year and not later than five years	1,644	1,940	711	774
Later than five years	4,471	4,734	1,573	1,732
	6,674	7,233	2,506	2,744

Note 37 - Leases

Operating Leases

The Council has acquired property, motor vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Not later than one year	17,216	19,364
Later than one year and not later than five years	31,000	28,031
Later than five years	4,306	2,702
	<hr/> 52,522	<hr/> 50,097

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Minimum lease payments	19,674	19,675
Contingent rents	601	882
Sublease payments receivable	-2	-5
	<hr/> 20,273	<hr/> 20,552

Note 37 - Leases

The Council has five contracts which have been assessed under IFRIC 4 to contain embedded leases. The future minimum payments due under non-cancellable embedded leases in future years are shown in the table below. As it was impracticable to separate lease payments from other payments due under the contract, these amounts include payments for non-lease elements.

	31 Mar 2011 £'000	31 Mar 2010 £'000
Not later than one year	2,108	1,046
Later than one year and not later than five years	5,264	3,338
Later than five years	0	0
	<hr/>	<hr/>
	7,372	4,384

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these embedded leases was approximately £1,744k (£1,207k in 2009-10).

Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of Early Years Children's Centres, Nursery Schools and other educational establishments such as Pupil Referral Unit's (PRU's).
- For the provision of Supported Accommodation and Registered Care Centres
- For the use of office space by local businesses at Kings Hill
- Land for use as Waste Disposal sites

The minimum lease payments receivable under non-cancellable leases in future years are:

	31 Mar 2011 £'000	31 Mar 2010 £'000
Not later than one year	533	717
Later than one year and not later than five years	1,236	1,348
Later than five years	2,192	2,166
	<hr/>	<hr/>
	3,961	4,231

In 2010-11 £73k contingent rents were receivable by the Council (2009-10 £45k).

Note 38 - PFI and Similar Contracts

Note 38. PFI and Similar Contracts

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	3 BSF Schools £'000	TOTAL £'000
As at 31 March 2010	100,113	20,706	9,991	64,432	0	195,242
Additions	735	192	72	194	69,763	70,956
Revaluations	1,042	556	31			1,629
Transfer from/to WIP						0
Impairment	-8,806		-47	-15,417		-24,270
Depreciation	-2,307	-697	-228	-1,061		-4,293
As at 31 March 2011	90,777	20,757	9,819	48,148	69,763	239,264

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	3 BSF Schools	TOTAL £'000
As at 31 March 2010	79,231	9,362	14,822	60,096	0	163,511
Fair value of assets coming into use in-year	0	0	0	0	69,755	69,755
Liability repaid	-1,580	-234	-391	-909	-4,670	-7,784
As at 31 March 2011	77,651	9,128	14,431	59,187	65,085	225,482

The original recognition of these fixed assets is 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.

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,542	7,063	2,731	290	11,626
Within 2-5 years	6,104	27,053	11,623	2,945	47,725
Within 6-10 years	9,426	30,817	16,240	5,883	62,367
Within 11-15 years	12,197	26,374	18,374	9,431	66,376
Within 16-20 years	17,986	20,762	20,789	11,060	70,596
Within 21-25 years	30,396	14,261	23,521	7,193	75,371
Within 26-30 years	0	0	0	0	0

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.

Note 38 - PFI and Similar Contracts

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	157	1,443	535	308	2,444
Within 2-5 years	876	5,770	2,259	1,329	10,235
Within 6-10 years	1,740	16,767	5,582	2,081	26,170
Within 11-15 years	4,239	6,318	3,530	1,308	15,396
Within 16-20 years	2,116	1,638	1,142	57	4,954

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
					£'000
Within 1 year	294	1,592	1,334	245	3,466
Within 2-5 years	1,183	6,634	5,733	1,340	14,889
Within 6-10 years	1,526	8,675	8,152	2,819	21,172
Within 11-15 years	2,335	9,665	9,417	3,042	24,458
Within 16-20 years	4,379	11,557	10,896	1,468	28,300
Within 21-25 years	4,715	9,002	4,828	548	19,093

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
					£'000
Within 1 year	932	4,204	0	235	5,371
Within 2-5 years	4,236	16,115	0	1,133	21,484
Within 6-10 years	5,936	18,405	0	2,514	26,855
Within 11-15 years	7,791	16,089	0	2,974	26,855
Within 16-20 years	11,989	12,736	0	2,130	26,855
Within 21-25 years	16,037	8,040	0	2,777	26,855
Within 26-30 years	12,265	1,676	0	382	14,323

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

Note 38 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,086	6,283	1,884	12	9,264
Within 2-5 years	5,175	24,342	8,020	394	37,932
Within 6-10 years	7,938	27,914	11,206	2,494	49,553
Within 11-15 years	10,366	23,454	12,679	5,720	52,219
Within 16-20 years	13,779	17,228	14,345	9,882	55,235
Within 21-25 years	26,740	14,196	13,901	3,811	58,648
Within 26-30 years	0	0	0	0	0

RPIx is used as the basis for indexation in the BSF Wave 3 PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year - short term	4,011	20,585	6,485	1,090	32,171
Within 2-5 years	17,574	79,914	27,635	7,142	132,265
Within 6-10 years	26,567	102,579	41,180	15,792	186,117
Within 11-15 years	36,928	81,900	44,000	22,476	185,303
Within 16-20 years	50,248	63,922	47,172	24,598	185,940
Within 21-25 years	77,889	45,499	42,249	14,329	179,967
Within 26-30 years	12,265	1,676	0	382	14,323
Total	225,481	396,074	208,722	85,808	916,085

Swan Valley and Craylands, 6 Group Schools, and 3 BSF 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). The development of these schools straddled both the 2006-07 and 2007-08 financial years. Three of these schools opened part of their new buildings during the 2006-07 financial year (Hugh Christie, Holmesdale and The North). The other three schools opened their new buildings during 2007-08 (Ellington School for Girls, The Malling and Aylesford). The unitary charge commenced in November 2006, PFI credits commenced in June 2007 and were backdated to November 2006. 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 £373.9 million over the 28 year contract period.

On 24 October 2008, the Council contracted with Kent PFI Company1 Ltd to provide 3 new secondary schools in Gravesend (St John's, Thamesview and Northfleet Technology College) under a Private Finance Initiative (PFI). All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010, PFI credits commenced in March 2011 and were backdated to July 2010. 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 £250.8 million over the 25 year contract period.

Note 38 - PFI and Similar Contracts

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, £80.75m for the 6 schools and £98.94m for the 3 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 years (Swan Valley and Craylands), 28 years (6 schools) and 25 years (3 schools). This grant amounts to just under £23m (Swan Valley and Craylands), just over £177m (6 schools) and just over £193m (3 schools).

Westbrook and West View

In 2010-11 the Council made payments of £3.6m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payment of £3.7m for 2011-12 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 2011-12 the Council is committed to making payments estimated at £2.4m 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 (£2.3m was paid in 2010-11). The contract will run until April 2036.

Better Homes Active Lives PFI

In October 2007 the Council 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 contract for the provision of services will last until 2038-39. In 2010-11 the Council made payments of £5.4m to the contractor, and is committed to paying the same amount next year, although this will depend on the performance of Kent Community Partnership delivering the services under the contract.

Note 39. 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 through the Movement in Reserves Statement.

Under the requirements of IAS19, 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	
	2010-11	2009-10
	£000's	£000's
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	-71,439	-41,823
• Past service costs and curtailments	223,451	-2,085
Financing and Investment Income and Expenditure		
• Interest cost	-124,247	-117,259
• Expected return on assets in the scheme	92,838	62,088
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	120,603	-99,079
• Actuarial gains and losses	362,177	-380,355
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	482,780	-479,434
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	-120,603	99,079
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-88,602	-90,034

Note 39 - Pensions Costs

Teachers

In 2010-11 Kent County Council paid £58.2m (£60.2m in 2009-10), 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 2010-11 these amounted to £4.5m (£4.7m in 2009-10), representing 1.1% (1.1% in 2009-10) 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 2010-11 Kent County Council paid an employer's contribution of £88.6m (£90.0m in 2009-10) into the Pension Fund, representing 25% (24% in 2009-10) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2010-11 was based on the review carried out as at 31 March 2010. 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 2010-11 (£0k in 2009-10). The capital value of payments agreed in earlier years is £112m (£122m in 2009-10).

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2010-11	2009-10
	£000's	£000's
1 April	1,344,338	966,300
Expected rate of return	92,838	62,088
Actuarial gains and (losses)	-7,574	278,760
Employer contributions	93,064	94,689
Contributions by scheme participants	23,621	24,022
Benefits paid inc unfunded benefits	-86,493	-79,658
Receipt / payment of bulk transfer values	-9,484	-1,863
31 March	1,450,310	1,344,338

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 £93,099k (2009-10: £340,849k)

Note 39 - Pensions Costs

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities: Local Government Pension Scheme	
	2010-11	2009-10
	£000's	£000's
1 April	2,473,567	1,706,200
Current service cost	71,439	41,823
Interest cost	124,247	117,259
Contributions by scheme participants	23,621	24,022
Actuarial (gains) and losses	-365,138	663,699
Benefits paid	-86,493	-79,658
Liabilities extinguished on settlements	-37,478	-2,053
Past service costs	-195,457	2,275
31 March	2,008,308	2,473,567

Scheme History

	2006-07 as restated	2007-08 as restated	2008-09	2009-10	2010-11
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
• Local Government Pension Scheme	-1,779,500	-1,716,700	-1,706,200	-2,473,567	-2,008,308
Fair value of assets in the Local Government Pension Scheme	1,136,700	1,147,400	966,300	1,344,338	1,450,310
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-642,800	-569,300	-739,900	-1,129,229	-557,998

Net Pension assets as at

	31 Mar 2011	31 Mar 2010	31 Mar 2009
	£000's	£000's	£000's
Present value of funded obligation	1,950,959	2,407,024	1,641,600
Fair value of scheme assets (bid value)	1,450,310	1,344,338	966,300
Net Liability	500,649	1,062,686	675,300
Present value of unfunded obligation	57,349	66,543	64,600
Net Liability in Balance Sheet	557,998	1,129,229	739,900

Note 39 - Pensions Costs

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £557.9m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a positive movement of £571.3m

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. International Accounting standard IAS19 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 increased from 1.5% to 1.9% 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 2010 levels then the pensions deficit would have been £365,138,000 greater at £923,136,000. 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 6.9%.

IAS19 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 2011 which will show a much lower level of deficit than shown by IAS19 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 2012 is £77,384k.

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	
	2010-11	2009-10
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.40%	7.50%
Gilts	4.40%	4.50%
Bonds	5.50%	5.50%
Property	5.40%	5.50%
Cash	3.00%	3.00%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	19.8 years	21.5 years
Women	23.9 years	24.4 years
Longevity at 65 for future pensioners:		
Men	21.9 years	22.6 years
Women	25.8 years	25.5 years
Rate of inflation	3.5%	3.9%
Rate of increase in Consumer Price Index	2.7%	N/A
Rate of increase in salaries	4.0%	4.4%
Rate of increase in pensions	2.7%	3.9%
Rate for discounting scheme liabilities	5.5%	5.5%
Take-up option to convert annual pension into retirement lump sum	50%	50%

Note 39 - Pensions Costs

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

	March 2011	March 2010
	%	%
Equity Investments	75%	74%
Gilts	1%	1%
Bonds	13%	14%
Property	9%	7%
Cash	2%	4%
	100%	100%

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2010-11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2007-08	2008-09	2009-10	2010-11
	as restated	as restated		
	%	%	%	%
Differences between the expected and actual return on assets	-9.7	-32.2	20.7	-0.5
Experience gains and losses on liabilities	4.3	-0.1	-0.4	-5.3

DSO Pensions

The figure in the Balance Sheet reflects the unfunded liability as calculated by the actuary in March 2011 on a minimum risk basis. This basis represents a prudent set of assumptions and is closest to an IAS 19 figure.

Analysis of Amount Recognised in Statement of Total Recognised Income and Expense

	2010-11	2009-10	2008-09
	£000's	£000's	£000's
Actuarial Gains/Losses	359,603	-631,384	-159,000
Increase / Decrease in irrecoverable surplus from membership fall and other factors	2,574	251,029	4,748
Actuarial gain / (loss) recognised	362,177	-380,355	-154,252

Note 40. Contingent Liabilities

Employment

There are nine claims relating to discrimination and breach of contract in employment. Of these four are limited to unfair dismissal and three are against schools. In addition to the nine claims there are a potential number which have not yet officially pleaded. 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 £200k and an additional amount of approximately £200k for those not officially pleaded. However, on a number of these claims the prospects of success are assessed to be good. It is extremely rare for employment tribunals to award all of the damages that are claimed.

Education

There are two cases of which legal costs are expected to exceed £10k each.

Childcare

All care proceedings are subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 317 live cases where proceedings have actually been issued. There will also be a further 20 - 40 cases where the issue of proceedings is imminent. 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 ten such cases of which legal costs for seven of these are expected to exceed £250k in total. Of the three remaining cases one is in relation to the failed Icelandic banks for which legal costs are currently unknown due to an external firm of solicitors acting on behalf of a number of authorities including Kent. The second is in relation to a land sale to which the financial exposure to the Council is likely to be in excess of £500k if the claimant is successful and the third is a Multi-party contamination dispute for which the financial risk is approximately £300k. It is though possible that Council Insurance will cover this cost.

Asylum & Judicial review

There are three judicial review cases of age assessment for which 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 £20-50K each. There are four further cases, three of which if successful the costs would exceed £10k each. The fourth case has been settled by consent but the bill of costs received amount to approximately £70k, which the Council are actively challenging.

Note 41. Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates.

Overall Procedures for Managing Risk

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2009).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

Credit Risk

Loans and Receivables

The Council manages credit risk by ensuring that investments are placed with the Debt Management Office, Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. Limits are placed on the amount of money that can be invested with a single counterparty (DMO £450m, UK banks £40m, building societies £20m). The Council also sets a total group investment limit for institutions that are part of the same banking group. The maximum duration for a deposit is one year.

It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2010-11, approved by Full Council on 18 February 2010.

The criteria for the selection of counterparties are:

- A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
- Credit rating and other relevant financial information e.g. credit default swaps, share price.
- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.
- Exposure to other parts of the same banking group.
- Reputational issues.

Throughout 2010-11 the minimum criteria for new investments has been a long term rating of A+/A1/A+ (Fitch/Moody's/S&P) and a short term rating of F1/P-1/A-1 (Fitch/Moody's/S&P).

Note 41 - Nature and Extent of Risks Arising from Financial Instruments

Counterparty	Credit Rating Criteria met when investment placed?	Criteria rating met on 31 March 2011?	Balance invested as at 31 March 2011				Total
			£000's	£000's	£000's	£000's	
	Yes/No	Yes/No	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	
Call Accounts	Yes	Yes	65,600				65,600
UK Banks	Yes	Yes	6,700	20,000	15,000	10,000	51,700
Overseas Banks	Yes	No			10,000		10,000
Total Banks			72,300	20,000	25,000	10,000	127,300
UK Building Societies	Yes	Yes/No	5,000	10,000			15,000
DMO	Yes	Yes	47,750				47,750
Total			125,050	30,000	25,000	10,000	190,050

With the exception of 2 long term deposits placed in 2008 and 2009 all deposits outstanding as at 31 March 2011 met the Council's credit rating criteria on 31 March 2011.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £35.7m.

Trade Receivables

The Council does not generally allow credit for its trade debtors, as such £1.809m of the £2.528m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2011	31 Mar 2010
	£000's	£000's
One to three months	750	1,034
Three to six months	740	270
Six months to one year	189	397
More than one year	130	79
	1,809	1,780

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 2011 was £53.2m.

Note 41 - Nature and Extent of Risks Arising from Financial Instruments

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available when it is needed. If unexpected movements happen, the Council has ready access to borrowings from the Money Markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council's strategy is to ensure that no more than 15% of loans are due to mature within any rolling three-year period through a period of careful planning of new loans taken out and making early repayments.

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

The maturity analysis of financial liabilities is as follows:

	31 Mar 2011	31 Mar 2010
	£000's	£000's
Less than one year	57,024	45,031
Between one and two years	77,021	55,024
Between two and six years	91,209	128,229
Between six and fifteen years	205,006	187,005
More than fifteen years	666,073	627,075
	<u>1,096,333</u>	<u>1,042,364</u>

All trade and other payables of £51.4m 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 risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 30% on external debt that can be subject to variable interest rates. At 31 March 2011, 97.26% of the debt portfolio was held in fixed rate instruments, and 2.74% in variable rate instruments.

Investments are also subject to movements in interest rates. The Council's policy of holding variable rate and short term fixed rate investments increases the exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

Note 41 - Nature and Extent of Risks Arising from Financial Instruments

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<u>£000's</u>
Increase in interest payable on variable rate borrowings	237
Increase in interest receivable on variable rate investments	(660)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	<u>(423)</u>
Decrease in fair value of fixed rate investment assets	248
Impact on Other Comprehensive Income and Expenditure	<u>248</u>
Decrease in fair value of fixed rate borrowings / liabilities*	<u>68,456</u>

*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

Price Risk: The Council does not invest in equity shares and therefore is not subject to any price risk (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

Foreign Exchange Risk: The Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

Note 42 - Investments in Icelandic Banks

42. 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 Council 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.

Under regulations, the Council 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. £7.6m has been transferred to the General Fund in 2010-11. This comprises £12.6m of impairment less £5m of interest.

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 totalling £236.2k have been raised for the Fire Authority and the Pensions Fund.

Heritable

Heritable bank is a UK registered bank under English Law. The company was placed in administration on 7 October 2008. The Council has received dividends up to 31 March 2011 of 50.10% and as at 31 March 2011, the expected return on our investment is 84.98%. In calculating the impairment of the Council it has made the following assumptions re timing of the recoveries:

April 2011	6.25%	April 2012	5.00%
July 2011	5.00%	July 2012	5.00%
October 2011	5.00%	October 2012	3.65%
January 2012	5.00%		

Note 42 - Investments in Icelandic Banks and Note 43 - Subsidiary Undertakings

Landsbanki

We have calculated our recovery and impairment based on the Council having priority status. This would see a return of 94.85% of the investment over the following period:

December 2011	22.17%	December 2015	8.87%
December 2012	8.87%	December 2016	8.87%
December 2013	8.87%	December 2017	8.87%
December 2014	8.87%	December 2018	19.46%

Glitnir Bank hf

If local Council 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 December 2011.

December 2011	100.00%
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43. 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 2010-11 of £30.4m with a net profit of £0.62m before tax, £0.42m after tax (estimated). In 2009-10 its net assets were £0.93m and in 2010-11 they are £1.2m. £0.2m of the loan provided in earlier years has been repaid and stood at £0.54m at year end, set against the net indebtedness of the Council to KTT of £4.1m.

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 2010-11 Kent County Facilities had a turnover of £3.1m, a net profit of £0.2m and its net assets were £0.364m. The loan previously provided by Commercial Services was fully repaid in March 2010, and the indebtedness of the Council to KCF is £0.194m.

Kent County Supplies Ltd. (KCS) is a subsidiary of Kent County Trading Ltd., wholly owned by Kent County Council. It commenced trading on the 7 April 2010. KCS focuses on the supply of goods and services to the care industry, including both public sector bodies and the private sector. KCS aims to provide a comprehensive range to satisfy all of the needs of a care/nursing home, from everyday essentials to specialist equipment. KCS had a turnover in 2010-11 of £0.050m with a net loss of £0.158m before tax. At the end of 2010-11 its net current liabilities were £0.008m. A loan of £0.150m has been provided by Kent County Council during the year.

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 2010-11, 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 £0.35m.

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 2010-11. This situation is reviewed on an annual basis.

Note 44 - Other Notes

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

Note 44 - Other Notes

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 Council. 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 132-146.

The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2010-11.

Prior Period Adjustment

The Statement of Accounts for 2010-11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009-10.

The following tables show a restated Income and Expenditure Account and Balance Sheet for the financial years 2008-09 and 2009-10 with explanatory notes below.

2008-09 Restated Income and Expenditure Account	Net Expenditure	Note 1	Note 2	Note 3	Restated under IFRS
		IAS 19 changes	Changes to Fixed Assets	Grants & Conts	
Service	£'000	£'000	£'000	£'000	£'000
Regulatory Services & Emergency Planning	7,031	170			7,201
Court Services	2,703				2,703
Arts & Libraries	29,960	798	3,882	435	35,075
Waste Management	57,723	32	-415		57,340
Environmental, Planning & Other Services	27,414	311	-55	16	27,686
Children's and Education Services	181,659	23,947	34,806	34,128	274,540
Highways, Roads and Transport Services	105,341	1,363		624	107,328
Adult Social Care	328,567	1,391	16	275	330,249
Corporate and Democratic Core	10,814	3,444	653	39	14,950
Non Distributed Costs	32,040				32,040
Net Cost of Services	783,252	31,456	38,887	35,517	889,112
Gain on the disposal of fixed assets	-6,091		501,538		495,447
Precepts and Levies	591				591
Net Surplus on trading accounts	-6,454				-6,454
Interest payable and similar charges	66,638		679		67,317
Contribution by Medway to Loan Debt-Principal & Interest	-5,008				-5,008
Interest and Investment Income	-14,799		-273		-15,072
Impairment on Icelandic Investments	10,646				10,646
Interest Receivable on Icelandic Investments	-2,565				-2,565
Pensions interest cost and expected return on pensions assets	36,900				36,900
Net Operating Expenditure	863,110	31,456	540,831	35,517	1,470,914
This was financed by:					
General Government Grants	-268,424				-268,424
Area Based Grant	-61,619				-61,619
Non-Domestic Rates Redistribution	0				0
Demand on Collection Fund	-538,502				-538,502
Net General Fund Surplus(-)/ Deficit	-5,435	31,456	536,745	35,517	602,369

Prior Period Adjustment

2009-10 Restated Income and Expenditure Account	Net Expenditure	IAS 19 changes	Changes to Fixed Assets	Grants & Conts	Restated Under IFRS
	£'000	£'000	£'000	£'000	£'000
Service					
Regulatory Services & Emergency Planning	7,230	147			7,377
Court Services	2,456				2,456
Arts & Libraries	23,202	108	116	2,962	26,388
Waste Management	60,160	13	-415		59,758
Environmental, Planning & Other Services	25,791	-2	9	-2,760	23,038
Children's and Education Services	157,672	3,751	31,789	32,013	225,225
Highways, Roads and Transport Services	110,695	132		-13,047	97,780
Adult Social Care	356,903	-264	90	352	357,081
Corporate and Democratic Core	28,904	224	-965	1,970	30,133
Non Distributed Costs	17,386				17,386
Net Cost of Services	790,399	4,109	30,624	21,490	846,622
Gain on the disposal of fixed assets	34,580		1,668		36,248
Precepts and Levies	609				609
Net Surplus on trading accounts	-8,616				-8,616
Interest payable and similar charges	63,293		639		63,932
Contribution by Medway to Loan Debt-Principal & Interest	-4,595				-4,595
Interest and Investment Income	-6,612		-276		-6,888
Impairment on Icelandic Investments	2,013				2,013
Interest Receivable on Icelandic Investments	-2,487				-2,487
Pensions interest cost and expected return on pensions assets	55,171				55,171
Net Operating Expenditure	923,755	4,109	32,655	21,490	982,009
This was financed by:					
General Government Grants	-270,381				-270,381
Area Based Grant	-65,045				-65,045
Non-Domestic Rates Redistribution	0				0
Demand on Collection Fund	-555,103				-555,103
Net General Fund Surplus(-)/ Deficit	33,226	4,109	32,655	21,490	91,480

Prior Period Adjustment

2008-09 Restated Balance Sheet

Note 4

	31 March 2009					Restated
	£'000	IAS 19 changes £'000	Changes to Fixed Assets £'000	Grants & Conts £'000	Cash & cash equivalents £'000	£'000
Fixed assets						
Intangible fixed assets	3,551					3,551
Tangible fixed assets						
Operational assets						
Land and buildings	1,456,417		-386,388			1,070,029
Vehicles, plant & equipment	28,811		-2,021			26,790
Infrastructure	606,431					606,431
Community assets	8,505					8,505
PFI Assets	139,228		6,120			145,348
Non-operational assets						
Investment property	6,624		27,158			33,782
Assets under construction	327,734		-32,129			295,605
Surplus and non-op property	99,869		-44,998			54,871
Total tangible assets	2,673,619					2,673,619
Total fixed assets	2,677,170	0	-432,258	0		2,244,912
Long-term investments	96,267					96,267
Long-term debtors	54,712					54,712
PFI debtor						0
Total long-term assets	2,828,149	0	-432,258	0		2,395,891
Current assets						
Assets held for Sale			18,386			18,386
Stocks and work in progress	5,937					5,937
Debtors	193,644					193,644
Investments	262,949				-4,591	258,358
Cash and cash equivalents						0
Total current assets	462,530					476,325
Current liabilities						
Temporary borrowing	-60,641					-60,641
Short term PFI Lease Liability						0
Short term provisions		-33,517				-33,517
Creditors	-298,747					-298,747
Cash and cash equivalents	-103,339				4,591	-98,748
	-462,727					-491,653
Total assets less current liabilities (Net assets employed)	2,827,952	-33,517	-413,872	0	0	2,380,563

Prior Period Adjustment

Restated 2008-09 Balance Sheet cont..

Long-term liabilities					
Long-term borrowing	-998,427				-998,427
Deferred liabilities	-255				-255
PFI Lease Liability	-107,702		-7,785		-115,487
Deferred credit	-51,249				-51,249
Creditors due after 1 year					0
Capital grants receipts in adv				-35,578	-35,578
Provisions	-14,489	2,061			-12,428
Gov grant deferred a/c	-196,454			196,454	0
Liability related to defined benefit pensions schemes	-739,900				-739,900
	-2,199				-2,199
	-2,110,675				-2,110,675
Total assets less liabilities	717,277	-31,456	-421,657	160,876	0
					425,040
Revaluation reserve	-131,912		-109,411		-241,323
Capital adjustment account	-1,075,507		531,068	-196,454	-740,893
Fin instruments adj a/c	27,715				27,715
Collection Fund Adj Account	-3,906				-3,906
Accumulated absences a/c		21,730			21,730
Earmarked capital reserve	-70,144			70,144	0
Usable capital receipt reserve	-14,379				-14,379
Capital grants unapplied				-34,566	-34,566
Post employment Account		9,726			9,726
Pensions reserve - KCC	739,900				739,900
Pensions reserve - DSO	2,199				2,199
Earmarked reserves	-102,002				-102,002
General fund balance	-25,835				-25,835
Schools reserves	-63,183				-63,183
Surplus on trading accounts	-223				-223
Total net worth	-717,277	31,456	421,657	-160,876	0
					-425,040

Prior Period Adjustment

2009-10 Restated Balance Sheet

2009-10 Restated Balance Sheet	31 March 2010					
	£'000	IAS 19 Changes £'000	Changes to Fixed Assets £'000	Grants & Conts £'000	Cash & cash equivalents £'000	Restated £'000
Fixed assets						
Intangible fixed assets	2,544					2,544
Tangible fixed assets						
Operational assets						
Land and buildings	1,442,502		-371,258			1,071,244
Vehicles, plant & equipment	32,091		-3,561			28,530
Infrastructure	631,431					631,431
Community assets	9,141					9,141
PFI Assets	195,242		5,976			201,218
Non-operational assets						0
Investment property	5,848		15,446			21,294
Assets under construction	412,693		-80,589			332,104
Surplus and non-op property	52,463		-19,677			32,786
Total tangible assets	2,781,411					2,781,411
Total fixed assets	2,783,955	0	-453,663	0	0	2,330,292
Long-term investments	35,671					35,671
Long-term debtors	59,154					59,154
PFI debtor						
Total long-term assets	2,878,780	0	-453,663	0	0	2,425,117
Current assets						
Assets held for Sale			9,595			9,595
Stocks and work in progress	6,231					6,231
Debtors	210,803					210,803
Investments	224,043				-135,017	89,026
Cash and cash equivalents					100,734	100,734
Total current assets	441,077					416,389
Current liabilities						
Temporary borrowing	-45,240					-45,240
Short term PFI Lease Liability	-3,983					-3,983
Short term provisions		-37,235				-37,235
Creditors	-284,534					-284,534
Cash and cash equivalents	-34,283				34,283	0
	-367,171					-370,992
Total assets less current liabilities (Net assets employed)	2,952,686	-37,235	-444,068	0	0	2,470,514

Prior Period Adjustment

Restated 2009-10 Balance Sheet cont..

Long-term liabilities						
Long-term borrowing	-1,012,116					-1,012,116
Deferred liabilities	-4					-4
PFI Lease Liability	-160,397		-6,089			-166,486
Deferred credit	-49,198					-49,198
Creditors due after 1 year	-823					-823
Capital grants receipts in adv				-74,353		-74,353
Provisions	-16,093	1,670				-14,423
Gov grant deferred a/c	-213,739			213,739		0
Liability related to defined benefit pensions schemes	-1,129,229					-1,129,229
	-2,270					-2,270
	-2,583,869					-2,448,902
Total assets less liabilities	368,817	-35,565	-450,157	139,386	0	21,612
Revaluation reserve	-183,753		-97,787			-281,540
Capital adjustment account	-988,810		548,813	-213,739		-653,736
Financial instruments adj a/c	26,229					26,229
Collection Fund Adj Account	-4,475					-4,475
Accumulated absences a/c		25,719				25,719
Earmarked capital reserve	-139,706			139,706		0
Usable capital receipt reserve	-16,016					-16,016
Capital grants unapplied				-65,353		-65,353
Post employment Account		9846				9,846
Pensions reserve - KCC	1,129,229					1,129,229
Pensions reserve - DSO	2,270					2,270
Earmarked reserves	-115,884					-115,884
General fund balance	-25,835					-25,835
Schools reserves	-51,753					-51,753
Surplus on trading accounts	-313					-313
Total net worth	-368,817	35,565	451,026	-139,386	0	-21,612

Notes to the prior period adjustments

1. IAS 19 changes - short term accumulating compensated absences and provision for known future early retirement payments

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the new Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used. The impact of this on the 2009-10 accounts is £3.9m to the Comprehensive Income and Expenditure Statement and £25.7m to the Balance Sheet.

Prior Period Adjustment

We are also required to make provision for costs of early retirements and any other post employment costs for ex-employees/employees who have confirmed leaving dates. The same regulations apply to these costs as above. The impact of this on the 2009-10 accounts is £120k to the Comprehensive Income and Expenditure Statement and £9.8m to the Balance Sheet.

2. Changes in Fixed Assets

There have been a number of changes around fixed assets, these are detailed as follows:

Write out of Foundation Schools and write in of Voluntary Controlled Schools

Under the requirements of IAS 16 (Property, Plant and Equipment) and the Code we have written out Foundation schools and revalued Voluntary Controlled schools as at 1 April 2009 and brought them onto our books. This has increased the expenditure on the Children's and Education Services line by £32.4m and a £1.6m loss on disposal of fixed assets line on the Comprehensive Income and Expenditure Statement. The impact on the Balance Sheet has been a reduction in the value of non current assets of £452m and a corresponding reduction in the Revaluation Reserve and Capital Adjustment Account.

Leased Property write out

Under the requirements of IAS 17 (Leases) and the Code we have written out the property that we had previously classified as leased property due to them being reclassified as operating leases. This has reduced the expenditure on the Comprehensive Income and Expenditure Statement in 2009-10 by £107k and on the Balance Sheet has reduced non current assets by £4.6m with a corresponding entry to the Capital Adjustment Account.

Leases

Under the requirements of IAS 17 we have reclassified some of our property leases as finance leases. This has reduced the expenditure on the Comprehensive Income and Expenditure Statement in 2009-10 by £530k and increased the expenditure on the interest payable line by £385k. The impact on the 2009-10 Balance Sheet has been an increase in non current assets of £1.3m with an increase in the lease liability of £2.5m offset by corresponding entries to the Revaluation Reserve and Capital Adjustment Account of £493k and £665k respectively.

Service Concessions

In reviewing our contracts under IAS 17/IFRIC 4 (embedded leases) we determined that two of our waste contracts met the criteria of Service Concessions under IFRIC 12. In 2009-10 this has reduced the expenditure on the Waste Management line of the Comprehensive Income and Expenditure Statement by £415k and increased the expenditure on the interest payable line by £254k. The impact on the 2009-10 Balance Sheet has been an increase in non current assets of £6m with an increase in the lease liability of £4.5m offset by a corresponding entry to the Capital Adjustment Account of £1.5m.

Recategorisation of Assets

Under the requirements of IAS 16 and the Code, we have reviewed our property asset base and reclassified some of our assets into assets held for sale and investment property. In 2009-10 this has reduced the expenditure on Net Cost of services within the Comprehensive Income and Expenditure Statement by £1m. The impact on the 2009-10 Balance Sheet has been a reduction in surplus property of £19.7m and an increase in Investment Property of £15.4m and Assets held for Sale of £10m with corresponding entries to the Revaluation Reserve and Capital Adjustment Account of £3.6m and £1.8m respectively.

3. Grants and contributions

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.

- Portions of government grants deferred were previously recognised as income in 2009-10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

In 2009-10 this change has increased the expenditure on Net Cost of services within the Comprehensive Income and Expenditure Statement by £21.5m. The impact on the 2009-10 Balance Sheet has been to write out £214m on the Government Grants Deferred line to the Capital Adjustment Account, and to split the Earmarked Capital Reserves line between £74m of Capital Receipts in Advance and £65m of Capital Grants Unapplied.

4. Cash and Cash Equivalents

Cash is represented by notes and coins held by the Council and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. This change in definition and representation on the balance sheet has resulted in £135m on the investments line less the cash overdrawn figure of £34m moving to cash and cash equivalents line, giving a total of £101m.

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, 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 up to a maximum of 20 years.

A triennial valuation of the Fund was carried out as at 31 March 2010 and this set Kent County Council's employer contribution rate at 21.0% of payroll for the three year period commencing 1 April 2011.

The market value of the Fund's assets at the valuation date was £2,780m and the liabilities were £3,623m. The assets therefore, represent 77% 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 6 month smoothed market value

Rate of return on investments 6.6% p.a.

Rate of general pay increases 5.0% p.a.

Rate of increases to pensions in payment
(in excess of guaranteed minimum pension):- 3.0% p.a.

The main result of this valuation was to show that the funding level had increased from 73% to 77%.

The actuarial valuation has been undertaken on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the costs of benefits accruing to existing members during:

- the year following valuation; or
- the remaining working lifetime, respectively allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets

Pension Fund Accounts

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 cash which is not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund is invested separately from KCC cash with financial institutions approved by the Council. The remaining cash is split between Investment Fund Managers, who hold it on deposit for interest until required.

Employing Bodies 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/pensions. 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. The accounts are prepared on a going concern basis.

2. Investments

Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2011. 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.

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 2010

The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2011.

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. CIPFA has revised the Code of Practice on Local Authority accounting in the United Kingdom: a Statement of Recommended Practice, the revision requires that 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	2010-11 £000's	2009-10 £000's
Contributions and Benefits			
Contributions Receivable:			
From employers	1	180,822	175,531
From employees	1	48,866	48,849
Transfers In	2	13,929	14,876
		243,617	239,256
Benefits Payable			
Pensions	3	-128,178	-123,803
Lump Sums	3	-38,846	-33,353
Payments to and on account of leavers			
Refunds of contributions		-24	-231
Transfers Out	4	-10,595	-18,678
Administrative & other expenses borne by the scheme	5	-2,862	-3,211
		-180,505	-179,276
Net additions from dealings with Members		63,112	59,980
Returns on Investments			
Investment Income	6	56,545	65,462
Change in Market Value of Investments	7	203,329	689,461
Overseas Irrecoverable Taxation		0	-311
Loss on Icelandic Investment	9	0	874
		259,874	755,486
Investment Management Expenses			
Investment Managers		-5,341	-5,116
Actuarial (Investment Consultancy)		-115	-107
Performance Measurement		-55	-50
Other expenses		-1,026	-417
		-6,537	-5,690
Net Return on Investments		253,355	749,796
Net increase/decrease(-) in Fund during the year		316,449	809,776
Opening Net Assets of the Scheme at 1 April		2,885,463	2,075,687
Closing Net Assets of the Scheme at 31 March		3,201,912	2,885,463

Pension Fund Accounts

Net Assets Statement as at 31 March

	Notes	2011		2010	
		£000's	£000's	£000's	£000's
Investments at Market Value	7				
Equities					
- UK		556,260		527,343	
- Overseas		506,392	1,062,652	659,241	1,186,584
Index-Linked Securities					
- Public			34,731		30,540
Pooled Investment Vehicles					
- Managed Funds		194,738		181,859	
- Unit Trusts		1,240,742		911,404	
- Insurance Contracts		245,010		194,148	
- Other		26,296		8,004	
			1,706,786		1,295,415
Property			280,061		232,511
Derivatives			0		151
Cash and Cash Equivalents			60,943		63,706
Other Investments			5,057		5,715
			<u>3,150,230</u>		<u>2,814,622</u>
Investment Liabilities	8		0		-3,703
Current Assets	8		60,240		80,926
Current Liabilities	8		-8,558		-6,382
Net Assets			<u>3,201,912</u>		<u>2,885,463</u>

During 2010-11 the Alliance Bernstein mandate was terminated and all derivatives were closed out. The fund no longer holds any derivatives.

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

		2010-11	2009-10
		£000's	£000's
From Employers	Normal	110,877	110,379
	Augmentation (Early Retirements recoverable costs)	9,173	4,219
	Deficit Funding	60,772	60,933
		180,822	175,531
Analysis of Employers' Contributions	Kent County Council	80,524	80,214
	Scheduled Bodies	89,668	85,125
	Admitted Bodies	10,629	10,192
		180,822	175,531
		2011	2010
		£000's	£000's
From Employees	Kent County Council	21,473	21,758
	Scheduled Bodies	24,362	24,215
	Admitted Bodies	2,729	2,839
	Lump Sum Contributions	302	37
		48,866	48,849
Note:	As at 31 March the comparative numbers of members are:	2011	2010
	Kent County Council	21,956	22,945
	Scheduled Bodies	19,540	19,628
	Admitted Bodies	1,912	1,936
		43,408	44,509
2. Transfers In		2011	2010
		£000's	£000's
Individual		13,929	14,876
Bulk			
		13,929	14,876

Notes to the Pension Fund Account

3. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2010-11	2009-10
	£000's	£000's	£000's	£000's	£000's
Pensions					
Retirement pensions	39,840	41,478	4,194	85,512	80,231
Widows' pensions	2,343	2,996	253	5,592	5,348
Children's allowances	75	135	8	218	219
Pensions increase	19,081	20,986	1,267	41,334	42,582
Less benefits recovered directly from employing authorities		-4,356	-122	-4,478	-4,577
	61,339	61,239	5,600	128,178	123,803
Lump Sums					
Retirement (Lump Sums)	15,049	18,243	2,130	35,422	30,369
Death gratuities	1,505	1,908	11	3,424	2,984
	16,554	20,151	2,141	38,846	33,353

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

	2010-11	2009-10
	£000's	£000's
Individual	10,595	18,678
Bulk	0	0
	10,595	18,678

5. Administrative and other Expenses borne by the Scheme

	2010-11	2009-10
	£000's	£000's
Internal Administration	2,423	2,511
Actuarial Fees	205	199
Audit Fee	50	50
Legal and Other Professional Fees	108	221
Other miscellaneous expenses	76	230
	2,862	3,211

Notes to the Pension Fund Account

6. Summary of Income from Investments

	2010-11		2009-10	
	£000's	%	£000's	%
<u>Fixed Interest</u>				
- UK Public			1,990	3.04
- UK Quoted			3,449	5.27
- Overseas			757	1.16
<u>Index-Linked</u>	253	0.45	315	0.48
- UK				
<u>Equities</u>				
- UK	15,549	27.49	15,522	23.71
- Overseas	12,594	22.27	12,193	18.63
<u>Pooled Investment Vehicles</u>				
<u>Managed Funds</u>				
- UK	0	0.00	180	0.27
- Overseas	4,598	8.13	3,764	5.75
<u>Unit Trusts</u>				
- UK Public/ Fixed Interest	7,213	12.76	10,664	16.29
- Overseas Public/Fixed Interest				
- UK			2,782	4.25
- Overseas				
<u>Insurance Contracts</u>				
- UK				
<u>Other</u>				
- UK	97	0.17	45	0.07
- Overseas	382	0.68		
<u>Property</u>				
- Freehold	10,379	18.36	10,935	16.70
- UK Pooled Vehicles	4,347	7.69	1,052	1.61
- Overseas Pooled Vehicles	285	0.50	23	0.04
Total Income From Investments	55,697	98.50	63,671	97.27
<u>Cash and Cash equivalents</u>				
- Currency Deposit Accounts	29	0.05	2	0.00
- Sterling Cash Balances	488	0.86	1,310	2.00
Sub-Underwriting Commission/other	79	0.14	447	0.68
Stock Lending	252	0.45	32	0.05
Total	56,545	100.00	65,462	100.00

Notes to the Pension Fund Account

7. Analysis of Change in Market Value of Investments

	Market Value as at 31 March 10 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 11 £000's
<u>Equities</u>					
- UK quoted	527,343	79,454	-101,377	50,840	556,260
- Overseas quoted	659,241	206,810	-382,442	22,783	506,392
<u>Index Linked</u>					
- UK Public	30,540	8,100	-4,594	685	34,731
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	2,033	0	0	1,215	3,248
- Overseas	179,826	5,286	-5,286	11,664	191,490
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	307,039	11,544		6,544	325,127
- Overseas Public/Fixed Interest	67,320	0	0	3,967	71,287
- UK	343,795	-2	-699	31,673	374,767
- Overseas	193,250	437,360	-205,446	44,397	469,561
<u>Insurance Contracts</u>					
- UK	194,148	30,559	0	20,303	245,010
<u>Other</u>					
- UK	8,004	162	0	2,003	10,169
- Overseas	0	16,387	0	-260	16,127
<u>Property</u>					
- Freehold	168,177	15,709	0	7,068	190,954
- UK Pooled Vehicles	46,802	22,814	0	2,259	71,875
- Overseas Pooled Vehicles	17,532	85	0	-385	17,232
<u>Derivatives</u>					
- UK equity future contracts	-11	0	11	0	0
- Overseas equity future contracts	162	789	-951	0	0
	<u>2,745,201</u>	<u>835,057</u>	<u>-700,784</u>	<u>204,756</u>	<u>3,084,230</u>
Cash and Cash equivalents	63,706			-1,427	60,943
<u>Other Investments</u>					
- Debtors - Outstanding Sales	2,213				656
- Creditors - Outstanding Purchases	-3,682				0
- Profit/Loss on Forward Currency	-21				0
- Investment Income Accruals	<u>3,502</u>				<u>4,401</u>
Total	<u>2,810,919</u>			<u>203,329</u>	<u>3,150,230</u>

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 £884,068 (2009-10 £1,247,197). 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 and previous year comparisons.

	2011		2010	
	£000's	%	£000's	%
Alliance Bernstein	0	0.0	253,065	9.0
Baillie Gifford	574,355	18.3	512,705	18.3
DTZ	280,379	8.9	233,090	8.3
GMO	191,489	6.1	179,826	6.4
Goldman Sachs	244,713	7.8	226,217	8.1
HarbourVest	1,199	0.0	0	0.0
Henderson	8,130	0.3	6,432	0.2
Impax	26,877	0.8	0	0.0
Invesco	355,861	11.3	326,931	11.6
JP Morgan	23,984	0.8	23,119	0.8
Partners Group	14,928	0.5	0	0.0
Schroders	883,517	28.1	794,675	28.3
State Street Global Advisors	537,700	17.0	251,276	8.9
YFM	2,039	0.1	1,572	0.1
	3,145,171	100.0	2,808,908	100.0

The investment manager totals exclude investment debtors and creditors.

8. Current Assets and Liabilities

	2011		2010	
	£000's	£000's	£000's	£000's
Investment Liabilities				
Outstanding Purchases		0		-3,682
Loss on forward currency		0		-21
		0		-3,703
Current Assets				
Contributions due from				
- Scheduled Bodies	30,200		23,424	
- Admitted Bodies	1,464	31,664	850	24,274
Other current assets		863		1,327
Cash and Cash Equivalents		27,713		55,325
		60,240		80,926
Current Liabilities				
Unpaid Benefits		-4,387		-4,369
Other current liabilities		-4,172		-2,013
		-8,559		-6,382

9. Loss on Icelandic Investment

At 31 March 2011 the Pension Fund is carrying a provision of £229,861 in respect of cash investments in the Icelandic banks which collapsed in 2008, 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: £753,300 (£371,311 in 2009-10). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2010-11 £000's	2009-10 £000's	2010-11 £000's	2009-10 £000's	2010-11 £000's	2009-10 £000's
Value at 1 April	3,906	3,265	2,082	1,586	1,222	1,195
Income						
Contributions Received	1,198	760	183	160	10	11
Transfer Values Received	65	40	0	3	0	0
Interest & bonuses	46	30	0	0	58	139
Total	1,309	830	183	163	68	150
Expenditure						
Retirement Benefits Paid	-762	-255	-357	-105	-143	-119
Transfer Values Paid	-16	-33	0	-8	-11	-3
Refund of Contributions	-37	-16	0	0	0	0
Total	-815	-304	-357	-113	-154	-122
Change in Market Value	-10	115	150	446	0	-1
Value at 31 March	4,390	3,906	2,058	2,082	1,136	1,222

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 cash held by KCC owing to the Pension Fund

In respect of interest received on cash deposits

	2010-11 £000's	2009-10 £000's
	2,531	2,647
	1,580	55,325
	89	1,259

There were no related party transactions with members or senior officers.

12. Investment Commitments

As at 31 March 2011 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Total Commitment	Invested	Outstanding
YFM Private Equity	£4m	£3.2m	£0.8m
Aurora European Property Fund	£30.1m (35m euros)	£30.84m (34.83m euros)	£150k (170k euros)
Partners Group	£75m	£1.6m	£73.4m
HarbourVest	£75m	£14.7m	£60.3m

13. Stock Lending

In April 2010, the Pension Fund resumed the stock lending programme with the fund's custodian JP Morgan.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

Loan Type	Market Value	Collateral Value	Collateral type
	£000's	£000's	
Equities	21,198	22,500	Securities
Sovereigns - Euro	4,566	4,782	Securities
Sovereigns - Sterling	3,982	4,081	Securities
	29,746	31,363	

Notes to the Pension Fund Account

Scheduled Bodies

Local Authority and District Councils

Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge & Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council

Schools

Allington Primary School	John Wesley School
All Souls County Primary School	Judd School Tonbridge
Angley School	King Ethelbert School
Archbishops CE School	Malling School
Astor College of Arts	Maplesden Noakes School
Astor of Hever School	Mascalls School
Aycliffe CEP	Northfleet Technical College
Aylesford School	Northfleet School for Girls
Barton Court Grammar School	Oakwood Park Grammar School
Barton Junior School	Our Lady of Hartley RC Primary School
Bennett Memorial School	Parkway Primary School
Birchington CEP School	Pent Valley Secondary School
Borden Grammar School	Queen Elizabeth's Grammar School
Borough Green Primary School	Riverview Infants School
Bredgar School	Riverview Junior School
Brockhill Park School	Robert Napier School
Brookfield Junior School	Roseacre Junior School
Charles Dickens High School	Sandling CP School
Chatham Grammar School for Girls	Shatter Locks Infants School
Chatham Grammar School for Boys	Simon Langton Grammar School for Boys
Chaucer Technology School	Skinner's School
Crockenhill Primary School	Snodland County Primary School
Cranbrook School	St Anselm's RC Comprehensive School
Dane Court Grammar School	St Bartholomew County Primary School
Dartford Grammar School for Girls	St Botolphs County Primary School
Ditton Infant School	St Edmund of Canterbury Comprehensive
Ditton CE Junior School	St Francis County Primary School
Dover Grammar School for Boys	St George's School, Broadstairs
Dover Grammar school for Girls	St George's School, Gravesend
Downsview Infants School	St Gregory's Catholic Comprehensive
East Borough Primary School	St Johns CEP School
Five Acre Wood School	St John RC Comprehensive
Folkestone School for Girls	St Joseph RC Primary School
Gateway Community Primary School	St Mary's CEP School
Gravesend Grammar School for Boys	St Peter's School Aylesford
Gravesend Grammar School for Girls	St Simon Stock School
Greatstone County Primary School	Staplehurst School
Halfway House County Primary School	Stella Maris RC Primary School
Harcourt County Primary School	Sutton at Hone County Primary School
Hartsdown Technology College	Thamesview School

Notes to the Pension Fund Account

Herne Bay Junior School
Hextable School
High Firs Primary School
Highsted Grammar School
Hillview School for Girls
Holy Family RC Primary
Holy Trinity CP School, Dartford
Holy Trinity CP School, Gravesend
Homewood School, Tenterden
Horton Kirby County Primary School
Howard School
Hundred of Hoo School
Hugh Christie School

The Norton Knatchbull
Thomas Aveling School
Tunbridge Wells Girls Grammar School
Valence Special School
West Minster CP School Sheppey
White Cliffs Primary
Whitehill Primary School
Willesborough County Primary Junior School
Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Grammar School for Girls
Wilmington Hall
Wrotham School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
K College

Mid Kent College
North West Kent College
Thanet College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Chesterfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
Downswood Parish Council
Eastry Parish Council
Edenbridge Town Council
EK Arms Length Management Organisation
EK Services (Thanet)
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 and Broomfield Parish Council
Horton Kirby & South Darenth Parish
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Fire and Rescue Authority
Kent Police Authority

Kent Probation
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
Otford Parish Council
Otham Parish Council
Pembury Parish Council
Ramsgate Town Council
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
Sturry Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Tenterden Town Council
Thanet Joint Computer Committee
Upper Medway Internal Drainage Board
Westerham Parish Council
West Kingsdown Parish Council
Woodnesborough Parish Council

Notes to the Pension Fund Account

Academies

Amherst School Academy	Knole Academy
Bishop of Rochester Academy	Leigh Technology Academy
Brompton Academy	Longfield Academy
Canterbury Academy	Marlowe Academy
Castle Community College Academy	Marsh Academy
Chatham House Grammar School Academy	Meopham Community Academy
Clarendon House Grammar School Academy	New Line Learning Academy
Cornwallis Academy	Rainham Mark Grammar School Academy
Dartford Grammar School For Boys Academy	Rochester Grammar School for Girls Academy
Dover Christchurch Academy	Sandwich High School Academy
Duke of York Military Academy	Sir Roger Manwood School Academy
Folkestone Academy	Skinners Academy
Fort Pitt Grammar School Academy Trust	Spires Academy
Fulston Manor School Academy	Strood Academy
Hayesbrook High School for Boys Academy	St Stephens Junior School Academy
Herne Bay High School Academy	Tonbridge Grammar School for Girls Academy
Highstead Grammar School Academy	Weald of Kent Grammar School Academy
Highworth Grammar School Academy	Westlands Primary School Academy
Isle of Sheppey Academy	Westlands School Academy
John Wallis Academy	Wilmington Academy
Kemnal Academy Trust: Orchards Academy	
Kemnal Academy Trust: Rainham School for Girls	

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.

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 – John Simmonds
Roger Gough, Cabinet Member for Corporate Support
Services & Performance Management
Acting Corporate Director of Finance and Procurement –
Andy Wood
Director of Law and Governance – Geoff Wild

To: Governance and Audit Committee – 30 June 2011

Subject: Company Protocol

Classification: Unrestricted

Summary: This report asks Members to note for assurance the
Company Protocol.

FOR ASSURANCE

Introduction

1. Given the existence and likely future increase in the number and variety of company interests that are held by the Council, there is a need to introduce a Protocol, in the form of a framework of rules, governing how KCC-owned companies are to operate.
2. KCC currently has 20 companies as shown in **Appendix A**, although 5 of these are dormant at present. Whilst there is no suggestion that these have been established incorrectly, it is thought appropriate that such entities are brought together in governance terms to ensure best practice across the council.
3. This report went to CMT on the 11 January, Cabinet on the 2 February and Cabinet Scrutiny on the 9 February.

Recommendation:

4. Members are asked to note for assurance this protocol.

Andy Wood
Acting Director of Finance
Ext: 4622

Geoff Wild
Director of Law and Governance
Ext: 4302

Cath Head
Chief Accountant
Ext: 1135

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Protocol relating to companies in which KCC has an interest

1. In relation to companies in which the Council has an interest, it is imperative that they are set up, managed and run according to rules of good governance so that risks are mitigated. This protocol aims to establish processes and provide additional controls to ensure such rules are in place.
2. Anyone within the Council intending to set up a company should refer to the [‘Guidance on Local Authority Companies’](#) document on KNET. A robust business case must be provided which gives a cost benefit analysis, considers the accounting and tax implications for the Council and identifies any risks to the Council. The business case must go through the Governance and Audit Trading sub group who will examine this and make recommendations. In light of the recommendations the relevant Cabinet Member shall approve the company’s business case. Where the company is intending to exercise the power to trade pursuant to section 95 of the Local Government Act 2003, the business case shall contain enough detail to satisfy the requirements of this Act and be similar to that required by the Council for major capital projects.
3. This Protocol relates to the following companies:
 - (a) in the case of companies with issued share capital, those companies in which the Council’s interest is more than 1% of the issued share capital, where those shares are held other than for solely investment purposes
 - (b) in the case of any company without shares, where the Council is a member
 - (c) any company of whatever sort in which the Council nominates one or more directors or itself is (or has the right to be) a company director
4. In the case of a company formed or controlled by the Council (or where the Council has, or can reasonably have, input into the wording of the Memorandum and Articles), the following provisions must appear in the company’s Articles:
 - (a) The registered office shall be specified as: Sessions House, County Hall, Maidstone, Kent ME14 1XQ (care of the Corporate Director of Finance and Procurement).
 - (b) The Corporate Director (or Managing Director) within whose remit the company’s business lies, shall be responsible for nominating a secretary for the company from among his/her staff. A register of all company secretaries will be maintained.
 - (c) Any Member or officer of the Council who is appointed as a director or secretary of that company shall not be appointed in their own private capacity but shall be appointed as a nominee of the Council, which shall have the power to remove and replace such director or secretary as it may see fit.
 - (d) It shall be the responsibility of the Council’s representative on the board to make whatever arrangements may be necessary to ensure the

company makes a full annual report of its activities to the Cabinet within three months after the end of its financial year.

- (e) No Member or officer of the Council who is appointed as a director or secretary of that company (or who represents the Council at any meeting of the company or of the board) shall receive any income from the company unless the Council's Corporate Director of Finance and Procurement so agrees in writing in advance. If any income is received by a Member or officer, it must be documented in the relevant Register of Interests and published on the Council's website.
5. In respect of any company to which this Protocol applies the following rules shall also apply (even if not included in the company's Articles):
- (a) Any director of the company who is nominated by the Council (and any person authorised to represent the Council at a meeting of the company or of the board) shall be appointed by the Cabinet or relevant Cabinet Member in accordance with the decision making procedures set out in the Council's Constitution.
 - (b) Any person authorised to represent the Council at a meeting of the company (where the Council is a member of the company) or of the board (where the Council is a director of the company) shall follow such directions as to the operation of the company as may be determined by the Cabinet or relevant Cabinet Member from time to time in accordance with the decision making procedures set out in the Council's Constitution.
 - (c) Directors nominated by the Council shall (so far as permitted by law and their duties to the company as directors) follow such directions as to the operation of the company as may be determined by the Cabinet or relevant Cabinet Member from time to time in accordance with the decision making procedures set out in the Council's Constitution.
 - (d) Members or officers representing the Council on any board shall only take decisions which are in accordance with the company's articles and any Council policies that are to apply to the company.
 - (e) Where Members or officers of the Council incur expenses as a result of their involvement in the company, this shall be claimed by them from the company as the Council's Corporate Director of Finance and Procurement may direct.
6. In any situation where a Member or officer of the Council (or any member of their close family) is (in their private capacity) a member, director or secretary of a company of which the Council is also a member or director, or in respect of which the Council has the right to nominate one or more directors, then such Member or officer shall notify the Corporate Director of Finance and Procurement of this in writing as soon as they become aware of the same. These should be documented in the relevant Register of Interests or Statement of Related Party Transactions, The purpose of this is to prevent the company becoming a local authority company without the Council becoming aware of it.
7. The Council shall only become a member or director of a company following a decision of the Cabinet or relevant Cabinet Member taken in accordance with the decision making procedures set out in the Council's Constitution. When

seeking such a decision any report to the Cabinet or relevant Cabinet Member shall state:

- (a) the Council's rights of membership and to nominate directors (or to itself become a corporate director)
 - (b) the purpose of the company and of the Council's involvement
 - (c) the identity of the initial nominated directors and secretary and any person who is intended to be authorised to represent the Council at a meeting of the company (where the Council is a member of the company) or of the board (where the Council is a corporate director of the company)
 - (d) what Council policies (if any) are to apply to the company. It is assumed that if none is specified then no Council policies will apply and the company directors will be free to set their own policies different from those of the Council
 - (e) any other limits the Councils' Corporate Director of Finance and Procurement or Monitoring Officer recommend be placed on the activities of the company.
9. Once the decision process is completed, the company shall be formed and the Council Members and officers involved with the company shall ensure (so far as it is within their remit) that the relevant policies are applied by the company.
10. This Protocol shall also apply to companies already in existence and as regards such companies:
- (a) a decision dealing with all the relevant matters set out in this Protocol is to be taken under the decision making procedures set out in the Council's Constitution by Cabinet or the relevant Cabinet Member as soon as reasonably practicable and
 - (b) the Articles to such companies shall (where appropriate and reasonably practicable) be amended as soon as possible
11. Both as regards companies already in existence and companies yet to be formed, all Members and officers of the Council should, from the date of adoption of this Protocol, act (so far as is reasonably practicable) as if the Articles had already been amended as required by this Protocol, whether or not this has in fact happened.
12. Members and officers of the Council who are running KCC companies must seek appropriate advice from time to time to ensure that:
- (a) they and the company are operating within the law, specifically where they intend to change or expand the business activities of the company
 - (b) they are aware of the extent of their potential personal liabilities, conflicts of interest and any indemnities or insurance cover provided by KCC that may apply to them.

13. KCC Legal Services and KCC Finance between them have produced 'Guidance on Local Authority Companies' that covers these issues in detail and will update and expand this as necessary from time to time.
14. In order that Members and officers of the Council can be fully aware at all times of the extent of KCC's interests in local authority companies and their exposure to potential legal, financial and reputational risks, the Corporate Director of Finance and Procurement shall maintain an accurate, complete and up-to-date record of all companies in which KCC has an interest, clearly identifying those that are trading. Members and officers of the Council are required to supply timely information to the Corporate Director of Finance and Procurement so as to ensure that these records can be fully and properly maintained.
15. Pursuant to Part II of the Local Authorities (Companies) Order 1995, where a company is regulated by KCC (i.e. KCC either controls or has serious influence over it) then the company must provide any Member of the council who requests it such information as that Member reasonably requires for the proper discharge of their duties (but not so as to require breach of any law or of any obligation to a third party).
16. Members and officers representing the Council on the board of any company will at all times comply as appropriate with the County Council's Code of Member Conduct and the Officers Code of Conduct as set out in the Constitution from time to time.
17. Under Appendix 2 Part 2 of the Council's Constitution, the Selection and Member Services Committee is responsible (inter alia) for "making appointments and nominations on behalf of the Council to serve on outside bodies (except those needing to be made by the Leader in connection with a delegation by him of his functions, the list of those appointments to be agreed between the Leader and the Committee from time to time)". Where a decision to appoint rests with the Leader, then the formal decision of the Cabinet or relevant Cabinet Member under paragraph 6 of this Protocol shall act as such appointment. Where the decision rests with the Selection and Member Services Committee, then such appointment shall not take effect unless and until the Committee has resolved to make such appointment.
18. Company directors' duties are codified in Companies Act 2006. There are seven specific duties:
 - (a) to act within powers
 - (b) to promote the success of the company
 - (c) to exercise independent judgement
 - (d) to exercise reasonable skill and care
 - (e) to avoid conflicts
 - (f) to declare any interest in a proposed transaction
19. As a matter of general principle, the overriding duty of any director in considering an item before the company is to vote in accordance with the interests of that company. In the case of a director who is also an elected Member, or an officer of KCC, this might give rise to a conflict with the interests of KCC.
20. Directors and company officers are responsible for keeping accounts and making relevant returns to the Registrar of Companies.

21. Elected Members and council officers are under a specific obligation (under the Local Authorities (Companies) Order 1995) to report back to the council through the Trading sub group on their involvement in outside companies to which they have been nominated by KCC. Any changes to companies' structure should also be reported to this group.
22. Various breaches of obligation can lead to a director having personal liability or being disqualified from acting as a director. In particular, failure to declare an interest is a criminal offence.
23. KCC's insurance arrangements do not provide an indemnity for Members and officers involved with outside bodies when they act:
 - (a) solely on behalf of an outside body
 - (b) outside their delegated powers, i.e. in a decision-making capacity rather than as advisors or observers
 - (c) outside the authority's statutory powers
24. Companies should purchase directors' and officers' liability insurance to protect their directors and officers against claims of negligence, breach of duty, trust, default, etc. Directors should liaise with the company to ensure that such a policy of insurance is maintained at all times, and covers the director as much as it can.
25. KCC may exceptionally give a wider indemnity to specific members/officers where the council specifically requires that person to become a director for KCC business reasons. KCC would insist that such a wider indemnity only dealt with anything not covered by the company's insurance.
26. More detail on indemnities and insurance can be found in the advice note "Members & Officers Indemnity" prepared by the Finance Unit to which reference should be made.
27. There can be a tendency to assume that a new venture requires a new legal entity, and that therefore a new project should be commenced in a new company. This is not necessarily the case. There are a limited number of situations where a limited company might be appropriate. These are:
 - (a) (a) Where there is trading to be carried out under the provisions of section 95 of the Local Government Act 2003. Section 95 provides a specific power to trade but the Act says that such trading must be carried out through a limited company. It must be noted that not all trading by KCC is necessarily under the provisions of Section 95. There are other cases where trading can be carried on under other powers (and where therefore a limited company may not be needed). Examples of these other powers are:
 - i. Where what is being done is the provision of goods and/or services to another public body under the provisions of the Local Authorities (Goods and Services) Act 1970, whether a particular organisation is a public body for the purposes of that Act is specified in regulations.
 - ii. Where what is being done is incidental to the main function that is being carried out. An example of this might be a library occasionally selling books as part of a promotion of reading. This power will be fairly tightly interpreted. If the main purpose of the

activity is to raise money that will not be considered incidental to the original function.

iii. Where what is being done is use of surplus capacity. An example might be a council landscape service having raised too many plants and selling off the surplus to the public. If the activity requires the taking on of additional staff or the procurement of new services or equipment then it will almost certainly not come within this category.

(b) Where for some other specific reason it is advised that a limited company be formed. Typically these reasons will include the wish to take the activity out of the mainstream of KCC activity – either so as to encourage external funding or involvement, or to permit employment of staff outside KCC's usual terms and conditions for directly employed staff, e.g. Kent Top Temps.

28. Whatever power is being used, and whether a company is being formed or not, care must be taken not to exceed the scope of activity permitted by such powers.

29. More detail on companies generally can be found in the advice note "Local Authority Companies" prepared by the Corporate Director of Finance and Procurement and the Director of Governance and Law to which reference should be made.

Author's name and title:

Date:

03230721	Locate in Kent Ltd (as amended on 5/5/2000)	* Active - trading on commercial basis	35 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4AQ	Private, Ltd by Guarantee, no share capital	29/07/96	£0 - lited liability up to £1 per member towards asset of co in event of winding down. Three equal sharehold ers - the Chairman, the Kent Developers Group and Kent County Council. Liability £1 per member	Locate in Kent was formed in 1997, as a subsidiary company of the Kent Training and Enterprise Council. It became independent of the Kent Training and Enterprise Council on 1 April 2000 at which time its membership structure changed to three equal shareholders - the Chairman, the Kent Developers Group and Kent County Council.
05259365	Trading Stds South East Ltd	Active	Mid Surrey Area Office, Bay Tree Avenue, Kingston Rd, Leatherhead, Surrey, KT22 7SY	Private, Ltd by Guarantee, no share capital	*14/10/2004	0 - all members contribute to assets of the Co. 19 SE Authorities	
03000723	Business Support Kent Community Interest	Active	85 High Street Chatham, Kent, ME4 4EE	Private Ltd Co. Community Interest Company	12/12/94		
04410176	East Kent Spatial Development Company	Active	Kent Innovation Centre, Broadstairs	Company Limited by guarantee			

Active > 50% control

05242899	Kent County Trading (KCT) Ltd	Active - holding co	Commercial Services, Gibson Drive, Kings Hill, West malling ME19 4QG	Private Ltd Co	*27/09/2004	£2 - wholly owned by KCC	
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05242900	Kent Top Temps Ltd - [Kent Temps Ltd to 14/12/04]	* Active - trading on commercial basis - started 4th April 2005 Subsidiary co. of KCC owned Co.	Commercial Services, Gibson Drive, Kings Hill. West mailing ME19 4QG	Private Ltd Co	*27/09/2004	£1000 divided into 1000 shares of £1 each; **Issued 2 shares - wholly owned by KCT?? Share trfd fr Duport.	Co set up by Duport Associates Ltd, whose cos **Duport Secretary Ltd and Duport Director Ltd were the first director, secretary and also the shareholders (1 share each); resignation fr dir and sec sighted BUT NOT SHARE TRANSFERS
22							
05505567	Produced in Kent (PINK) Ltd	KCC and Hadlow College have equal voting powers	Bourne Grange Stables, Tonbridge rd, Hadlow, Kent TN11 OAU	Not for profit Private Company Limited by guarantee	*12/07/2005		Provides for any liabilities to be agreed in the same ratios as the funding is provided i.e. 150:50 = 3:1
14							
07320291	Kent Cultural Trading Limited	Active	Lib and Archives Springfield		20/07/10		
05858178	Kent County Facilities Ltd	Active	Commercial services		26/06/06		

Dormant companies

02341975	Kent Training Centres Ltd	Active - dormant (co registered to protect	KCC Regeneration & Projects Division, Invicta House, Kent, ME14 1XX	Private, Ltd by Guarantee, no share capital	01/02/89	£0	
2							
02055139	Kentish Fayre Ltd	Active - dormant (co registered to protect name)	Strategic Planning Directorate, Economy & Environment Division, Invicta House, Kent, ME14 1XX	Private, Ltd by Guarantee, no share capital	05/09/94	Authorised SC £100 Ord shs - Issued - 2 @ £1 shs to Econ	sp Novella has Memorandum and Articles
15							
4447738	Invicta Innovations Ltd	Dormant	c/o Regeneration and Economy KCC, Invicta House, ME14 1XX	Private Ltd Co	27/05/02	3 @ £1 held by R Neame	SP has Co on file:
20							
05858177	Kent County Supplies Ltd	Active Dormant	Commercial services		26/06/06		
	Kent Access Ltd	Active Dormant (co-registered to protect name)		Company Limited by guarantee	2 @ £1		

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By: Mike Hill, Cabinet Member for Communities, Customer Services and Improvement
Jill Rawlins, Interim Director Communications, Consultation and Community Engagement

To: Governance and Audit Committee – 30 June 2011

Subject: REVIEW OF COMPLAINTS

Classification : Restricted

Summary: To improve how we deal with all our complaints from the Public and from the Local Government Ombudsman by providing the public with a single address, telephone number and e-mail address contact by reorganising within one team how we log and track complaints.

FOR INFORMATION

1 Introduction and background

KCC has a desire to learn from what our customers tell us and use it to improve:

- The services we provide
- The policies we develop
- How we behave as an organisation.

1.2 We are committed to operating 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.

1.3 KCC currently advertise 5 different KCC addresses and more than 5 telephone numbers for the public to use to make a complaint depending on what service is being used. Kent.gov.uk has pages of information on all the different contacts to make a complaint. Our own KCC staff are often unsure of who deals with complaints within other services as it is not always obvious from the complaint. As one organisation we now need to make our complaints administration more effective and efficient to make it easier for the public to make a complaint and comment on our services.

1.4 The purpose of a complaints system is to put right what has gone wrong and to learn from it. There is a cost to putting things right. Every stage in our complaints process costs money to put things right. For example the cost of handling a complaint at Chief Executive or Local Government Ombudsman

(LGO) stage will cost somewhere between £300 and £1000¹ in staff time per complaint and we received 114 LGO complaints in the financial year 20011/12. One complaint can be logged many times as it travels within KCC on its way to be answered. This process is time consuming, costly and delays the response.

1.5 The cost of complaint handling within KCC has not been apparent and the time is right to look at a single KCC, more customer focused, cost effective way to provide this service. Steps need be taken to make the KCC complaints process more responsive to customer needs by providing easier access for the public and a unified KCC approach that will still meet the specific requirements (including statutory guidance) of specialist service areas, best practice standards and any foreseeable future requirements that may be made nationally.

2. Background

2.1 In April 2009, KCC phased in a new two step corporate complaint procedure to replace and improve on the former 3 stage procedure in operation since 1991/1992.

- STAGE 1 Problem solving/Local Resolution
- STAGE 2 Formal/Investigative Stage

KCC wide standard times for acknowledging and recording complaints were introduced along with new performance measures. These improvements were deemed a success as there was no increase in complaints to the LGO when the 3rd stage was removed.

2.2 At the same time new Local Authority Social Care and NHS complaints regulations were introduced. A one stage single complaints process across health and social care was implemented. The key aim of the new arrangements was to create a consistent approach to complaints handling across both health and social care.

2.3 One of the main changes new Local Authority Social Care and NHS complaints is the expectation that the local authority will respond to the complaint on a proportionate basis depending on the nature of the complaint. This is completely different to the previous procedure, where a complainant could request a formal investigation and even proceed through to a Review Panel if they requested one. Before any course of action is taken, a discussion with and subsequent agreement, is obtained from the complainant and this forms part of the 'complaints plan.'

2.4 The statutory complaint procedures for children still follow a 3 stage process, with a review panel at stage 3.

2.5 The revision of the corporate complaints procedure and the introduction of KCC wide standards was the first part of a developing strategy to transform how we handle complaints.

¹ <http://www.complaintsrgreat.com/drupal/content/costs-complaint-handling-public-sector-organisation>

3. Why Change?

3.1 Too many contact telephone numbers and contact addresses

Kent County Council is an organisation made up of many different services. The way KCC is structured can make it confusing for the Public to make a complaint. The kent.gov web pages list all the different addresses and telephone numbers to make a complaint. As one organisation we should have a single contact point. Feedback from the public on our existing process is that it is not simple to find the right person to make a complaint.

3.2 Duplication of work

The same complaint can be logged within the Managing Directors Office, the Directors Office, the Corporate Access to Information Coordinator Team and the Adult and Children's Social Services Team. This adds no value for the customer and can delay a response. Complaint letters are sometimes mislaid or delayed within this system and the current system is very staff intensive.

3.3 KCC Policy & Procedures

As an organisation we are not following our own policy and procedures. We are not consistent in how we settle complaints, the remedies applied and although we are good at making service improvements after a complaint, we are not good at replicating what we have learnt from one service to another across the whole authority.

There are examples this year where we have not paid out agreed compensation following an LGO investigation resulting in another complaint, where we have pre-empted the LGO decision contrary to guidelines and delays in responding to the LGO on complaints that have already been investigated once.

The new team would enable a robust review by someone who has the independence and authority to ask questions, get at the facts and recommend changes in response to complaints. Effective leadership would ensure that the complaints system and learning from it has a high profile across the council and there would be follow-up to ensure any decisions are properly and promptly implemented.

3.4 Staff

Staff need to know where to refer complaints that are not within their scope. It is too much to expect all staff, to know the limits and extent of responsibility of each department across KCC. The recent restructure has made it difficult for staff to know which Directorate is dealing with complaints. A central team will be better placed to gather the necessary information and assist more customers in gaining satisfaction and will also reduce the number of contacts needed for "lost" customers to have their complaint resolved, to clarify whether the issue is a complaint, what outcome the person is seeking and whether that outcome is achievable.

3.5 Ombudsman Complaints

We are seeing an increase in Local Settlements after the complaint has been sent to the Ombudsman. KCC should have been able to settle these complaints without the Ombudsman being involved. As stated above it can cost

between £300 -£1000 to reinvestigate a complaint (and this does not include the cost to the public of the Ombudsman Service).

3.6 Management Confidence

To give management the confidence that complaints are answered within a reasonable time, in an efficient manner, following KCC procedures and resolving if possible the problem and making service improvements.

3.7 Savings

Staff Time can be saved by having one team. The Customer Care teams are currently involved with public involvement and consultation. This work will now be carried out within the new Customer & Communities, Communication, Consultation and Community Engagement Team.

4. Proposed Changes to Complaints Management

4.1 Corporate Management Team has approved in principle of having a centralised complaints team. A working group is looking at how to make the KCC complaints handling approach more responsive to customer needs. This will include:

- One contact telephone number, address and email
- Information for the public held in one place
- One KCC team:
 - With specialist staff to deal with statutory complaints
 - Meet best practice standards and any foreseeable future requirements that may be made nationally
 - To provide training for staff on complaints handling at various levels
 - Provide all the information and guidance etc. associated with complaints
 - Log and track complaints received by the Leader and Directors
 - Log and track complaints from the Local Government Ombudsman
 - In-depth knowledge of services and be able to facilitate access and ensure complaints are given the right level of priority.
 - The effective handling of alerts for Safeguarding Vulnerable Adults (SVA)
 - Advocacy and independent Adult arrangements
 - Work with the Contact Centre to log complaints.

Conclusion

We are committed to listening to what residents have to say but need to do this in the most cost effective way. A centralised team to deal with complaints will be more responsive to customer needs by providing easier access and will be more efficient and cost less.

Recommendations

Members of the committee are asked to note the report:

Janice Hill
Performance & Improvement Manager

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By: Cabinet Member for Finance
Director of Finance

To: Governance & Audit Committee – June 2011

Subject: DEBT MANAGEMENT

Classification: Unrestricted

Summary: To report on the Council's debt position

FOR INFORMATION

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with assurance re the Council's outstanding debt position.
2. This report concentrates mainly on debt over 6 months old.

MANAGEMENT SUMMARY

3. The overall outstanding debt as at 31 May 2011 as shown on Oracle Accounts Receivable is £45,020,549.

This represents Social Care debt from SWIFT of £13,883,392 (12,602 debtors) (21,120 invoices) and sundry debt (which includes some social care Health debt) of £31,137,157 (4,817 invoices).

4. The detail around the Social Care element of debt can be found in sections 13-19, with earlier sections referring to AR sundry debt only. The Social Care debt reflects the four weekly client billing process run on the 1st June 2011, rather than the month end position.
5. Please note that throughout this report Business Strategy and Support (BSS) will include the old Chief Executive debt; Education Learning & Skills (ELS) will include the old CFE debt; Enterprise & Environment (E&E) will include the old EHW debt; Customers & Communities (C&C) will include old Communities debt; and Families & Social Care (FSC) will include the old KASS 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 31 May 2011.

Directorate	Outstanding Debt (excluding debts not yet due)	Over 6 Months
BSS	2,224,427	122,057
ELS	4,819,963	337,184
E&E	3,535,518	537,544
C&C	758,332	70,949
FSC (Sundry)	11,755,084	1,988,393
Total	23,093,324	3,066,127

The above figures do not include those debts which are not yet due, which total £8,043,833.

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%

As at 31 May 2011 55% of the total sundry outstanding debt is under 60 days old and 17% is over 6 months old.

The main reason that we have not achieved the target for the under 60 days old debt is that a member of staff left suddenly and there was a time gap before a replacement was in post. Since the implementation of R12 in Oracle we have experienced major problems with slow running of the system and this has adversely impacted on the collection of debt as a whole. A recent patch installation has considerably improved performance.

DEBT LEVELS OVER SIX MONTHS OF AGE

8. Below is an analysis of the categories of debt over 6 months old.

Directorate	Status of Debt	Amount Over 6 Months Old
BSS	Instalments	1,298
	Referred to legal services	3,021
	Referred for write off	4,811
	Referred to directorate for action	1,687
	Ongoing action	103,212
	Secured on property	8,028
	Sub total	122,057

BSS

- Of the £103k of ongoing action the largest single invoice is for £28,572 which was raised in September 2010 to Kier Build to pay for the provision of a LAN/WAN Network in St Georges Technology College and Northfleet Technology College. This invoice is in dispute as the company state that they have paid BT Openreach direct. An investigation is on-going.
- There are 3 invoices, raised between August and October 2010, to the Kent Police Authority totalling £23.3k where they have recently asked copies to be provided before payment.
- The rest of the £103k is made up of 65 invoices, with an average invoice value of £780.

ELS	Instalments	14,918
	Referred to legal services	18,495
	Referred for write off	2,861
	Referred to directorate for action	149,537
	Ongoing action	112,278
	Internal school charges	39,095
	Sub total	337,184

ELS

- Of the £149k referred to Directorate for action £112k relates to 2 invoices raised to Maidstone & Tunbridge Wells NHS Trust for charges for Kent Portage scheme for the period September 08 – March 2010. Health Authority debt is notoriously difficult to recover, especially once it is over one year old.
- Of the £112k which is ongoing action there is an invoice for £22.4k to the old West Kent College for road improvements and a pelican crossing. This is to be cancelled and re-raised in their new name of K College.
- There is also one invoice to the value of £14.5k raised October 2010 to the London Borough of Sutton to recoup placement costs for the year 09/10 for a child at Foreland School. The contact at

Sutton took maternity leave but we are in contact with her replacement.

- The balance of £75k is made up of 79 invoices with an average invoice value of £949.

E&E	Instalments	3,353
	Referred for write-off	1,769
	Ongoing action	367,216
	Referred to directorate for action	86,899
	Insurance	27,807
	Referred to legal services	50,500
	Sub total	537,544

E&E

- Of the £367k of debt that is ongoing, there is one invoice raised in October 2010 to Balfour Beatty Mott Macdonald to the value of £101k. This is in respect of work carried out on tactical diversion routes. There has been difficulty in recovering this debt as the original invoice was incorrectly addressed and the company had re-branded. This has now been resolved and a copy invoice was issued earlier this month.
- There is also another large invoice of £98k raised in September 2010 to Ward Homes for work done at Fulston Manor. Ward Homes are disputing the responsibility of payment and negotiations are on-going.
- There are 2 invoices totalling £66k outstanding from Barratt Homes and we have been assured that these will be paid this month.

Property Developers can be 'slow' payers and we have noticed increasing difficulty in obtaining payment from some, reflecting the market for new homes.

FSC (Sundry debt)	Instalments	27,515
	Referred to legal services	1,457,804
	Referred for write-off	1,228
	Ongoing action	54,345
	Health debt	357,608
	Referred to directorate for action	98,759
	Small Claims Court	1,134
	Sub total	1,988,393

FSC

- The £1.6 million referred to legal services is largely made up on one invoice raised in August 2010 to Lambeth Primary Care Trust for £1.4 million in respect of continuing health care funding for a service user from April 04 to June 10.
- Of the £99k referred to the Directorate there is one invoice to the value of £24k raised in March 2010 to The Learning Skills Council. The Council no longer exists and has been replaced by the Young

People Learning Association. Therefore this debt may be difficult to collect

- There is also an invoice to the value of £17k to the estate of a deceased service user for overpayment of Direct Payments. This invoice is in dispute with the executor but we believe that there are enough funds and that this matter will be settled.
- There are a further 25 invoices with a total value of £58k with an average invoice value of £2.3k.

C&C	Instalments	4,676
	Referred for write-off	2,547
	Referred to directorate for action	3,745
	Ongoing action	54,781
	Referred to legal services	5,200
	Sub total	70,949

C&C

- Of the £55k with ongoing action there are no very large value invoices outstanding. The largest being £4.3k raised in March 2010 to Weightron-Bilanciai Ltd in respect of equipment hire which is in dispute, and is being investigated.
- The balance of £51.7k is made up of 59 invoices, with an average invoice value of £880.

General comments

- Health Authorities have long term debts with FSC. This income is difficult to collect and involves protracted discussions. This has recently been compounded by yet another restructuring of the Health Service.
- Exchequer Services continues to make 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.
- 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 2011	30 April 2010	30 April 2009	30 April 2008	30 April 2007
7.8%	6%	11%	12%	20%

We have noted the percentage of debt over 6 months old has increased slightly over the past year so we are concentrating our efforts to ensure debt does not reach that level of 'maturity'.

10. The numbers and values of invoices raised for the last 4 years are:

	10-11	09-10	08-09	07-08
Number of invoices raised	29,336	30,369	34,097	34,270
Value of invoices raised	£176,597,554	£165,961,032	£183,804,045	£183,656,212

WRITE OFFS

11. The table below shows the sum written off per Directorate for the period April 2010 – March 2011. Please note that the old directorate titles apply as they are figures prior to the restructure.

Directorate	Amount written off yr 10-11
Adult Services (Sundry only)	£18,151
Chief Executives	£43,625
Children Families & Education	£19,040
Communities	£21,340
Environment & Regeneration	£27,032
Total	£129,188

SOCIAL CARE DEBT

12. 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.

- (4) In 2010-11 the total amount of income charged to clients through the client billing system was as follows:

Residential	£ 46,885k
Domiciliary	£ 10,731k
Total	£ 57,616k

13. Analysis of Client Related Debt

- (1) As at the 1st June the 2011-12 overall client related social care debt stood at £18,317k, the debt can be broken down as follows:

Residential	£15,897k
Domiciliary	£2,382k
Health Contributions	£38k
Total	£18,317k

- (2) Of the £18,317k only £13,781k is actually due for payment, invoices had only just been dispatched for the remaining £4,536k.

- (3) The £13,781k can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£5,661k
• Unsecured – terminated/deceased clients	<u>£957k</u>
• Total Unsecured	<u>£6,618k</u>
• Secured with legal charges	£7,136k
• Health contributions	£27k
Overall total of due debt	<u>£13,781k</u>

14. Aged Analysis of Unsecured Debt

The following table shows an analysis of unsecured debt that is due for payment:

	Under 6 months	Over 6 months	Over One Year	Total
Unsecured – ongoing client debt	£2,843k	£1,153k	£1,665k	£5,661k
Unsecured - Deceased/terminated client debt	£119k	£245k	£593k	£957k
Total unsecured client debt	£2,962k	£1,398k	£2,258k	£6,618k

- Unsecured – Ongoing client debt over 6 months equates to 471 debtors
- Unsecured – Deceased/Terminated Client Debt equates to 320 debts for those with debts just over 6 months.
- Unsecured – Ongoing client debt both over/under 6 months only equates to 891 debtors.
- Unsecured - Deceased/ Terminated Client Debt equates to 56 debtors for those with debts both under/over 6 months.

15. Numbers of unsecured debtors

The table below analyses the number of debtors with an unsecured debt, both due and not yet due.

	Numbers
Unsecured – ongoing debtors with debts	11,794
Unsecured deceased/terminated debtors with debts	527
Total Unsecured Debtors	12, 321

16. Bad Debt Provision – Client Related

- (1) The total bad debt provision that exists for client related debt at the end of 2010-11 was £3,981k. 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 £1,960k. This covers all debts, secured, unsecured and Health. This provision is recalculated 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 £2,021k of specific provisions. This relates 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.

17. Write Offs

In 2010-11 £351k of client related debt was written off.

18. 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 cannot take 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.

19. Benchmarking

We will provide benchmarking data based on 31 March 2011 balance sheets to the next Committee meeting once it is available. It is anticipated that this will be November 2011.

RECOMMENDATION

20. Members are asked to note this report.

Chris Luke
Procurement Manager
Ext: 6637

By: John Simmonds, Cabinet Member – Finance
 Andy Wood, Acting Corporate Director of Finance & Procurement

To: Governance and Audit Committee – 30th June 2011

Subject: ANNUAL AUDIT FEE 2011/12

Classification: Unrestricted

Summary: This paper presents the Audit Commissions proposed audit fees for the Council for 2011/12

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 2011/12 financial year. The notification includes the level of fee to be charged.

Annual Audit and Inspection Fee 2011/12

2. The letter attached sets out the audit plan and fee for the 2011/2012 financial year. The work proposed covers three areas:
 - the audit of financial statements;
 - a value for money (vfm) conclusion; and
 - whole of government accounts.
3. The fee proposed of £346,500 is set at the “scale”, or the average fee that the Audit Commission has set centrally for a County Council of Kent’s size. Unlike previous years there is no variability to the fee that takes into account local risk factors. The proposed fee represents a reduction of £38,500 (10%) from that set in 2010/11.
4. The fee letter also sets out the risks identified by the Audit Commission in relation to its work and its proposed response to these. These risks and the proposed work have been discussed with the Managing Director and the Acting Corporate Director of Finance & Procurement, and reviewed by Corporate Management Team. This risk assessment will be revisited in early 2012, with any changes reported to the Committee by the District Auditor.

Recommendations

5. Members are asked to approve the fee proposed.

David Tonks
Head of Audit and Risk
Ext: 4614

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27 April 2011

Katherine Kerswell
Group Managing Director
Kent County Council
County Hall
Maidstone
Kent ME14 1XQ
Dear Katherine

Direct line 07748 760 569
Email d-wells@audit-
commission.gov.uk

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Kent County Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- audit of financial statements;
- value for money (vfm) conclusion; and
- whole of government accounts.

As I have not yet completed my audit for 2010/11, the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses. However, as part of my VFM conclusion risk assessment for 2010/11 I have identified specific risks relevant to 2011/12. I will update my risk assessment throughout 2011/12 but at this stage propose to review the following risks:

Risk area	Audit response
<p>Senior management restructure</p> <p>The Council's Change to Keep Succeeding proposals were approved by the Council on 16 December and will be implemented for the 2011/12 financial year.</p> <p>Significant changes to the management team may impact on the leadership team's collective knowledge, experience and skills and may have an impact on business continuity and capacity. Strong transitional arrangements are particularly important at a time when the Council has a particularly challenging agenda and as a result the</p>	<p>I will consider the impact of the restructuring on the Council's control environment and the proper functioning of the statutory roles of the Section 151 officer and Monitoring Officer through ongoing planning work and liaison with key managers.</p>

Risk area	Audit response
<p>Council has established project management arrangements, including risk management arrangements to mitigate against the risk identified.</p> <p>Although the proposals gave due consideration to the statutory roles of the Section 151 and Monitoring Officers, until the new structure beds down it will be unclear whether the structure will enable the proper functioning of these positions.</p>	
<p>Financial challenges</p> <p>The Council has identified savings requirement of £95 million in 2011/12 and £65 million the following year. Although the Council has an excellent history of delivering against its efficiency targets, this was of a different scale to the savings now required. The Council has identified that in 2011/12 this will require efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million.</p>	<p>I will review the progress the Council has made against its savings target. I will review the project management arrangements to monitor the savings plan and manage risks at a corporate level and consider the progress against milestones for a sample of individual schemes.</p>
<p>Changing public services agenda</p> <p>The government plans a number of significant changes to public services to which the Council will need to respond whilst maintaining and improving current service delivery.</p> <p>The Council's Medium Term Plan, Bold Steps for Kent, identifies some of the most significant of these changes on the Council's corporate financial and performance management arrangements including:</p> <ul style="list-style-type: none"> • the increased role in health and relationships with General Practitioners; • increased use of personal budgets; • mutualisation of service provision; • the establishment of the Kent and Greater Essex Local Enterprise Partnership; • the piloting of community budgets; and • the operation of the big society fund. 	<p>We will monitor any significant changes to the Council's operating environment and any impact on the Council's financial plans.</p>

Risk area	Audit response
<p>Value for money probe</p> <p>In the challenging financial environment described above, the Council must ensure that it achieves value for money in all areas of service provision.</p> <p>The Acting Director of Finance has discussed with the Corporate Management Team potential areas where the Council might benefit from a more in-depth consideration of value for money. In considering these, we have identified two potential areas of significant expenditure which would be relevant to our VFM conclusion relating to obtaining value for money in expenditure on:</p> <ul style="list-style-type: none"> • preventative children’s services and the impact of the cost on placements; or • reactive and proactive highways maintenance. <p>The Council is undertaking work in both these areas, as a result of the OFSTED inspection and re-letting of the Highway maintenance contract respectively.</p>	<p>We will undertake further work to identify the specific risks in relation to these areas, or any new emerging areas, and consider the possible scope of any work. We will select one area as a detailed probe and consider the Council’s arrangements to obtain value for money in the selected service.</p>

Audit fee

The Commission has consulted on its work programme and scales of fees for 2011/12. In 2011/12 the Commission set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Kent County Council is £346,500. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£346,500	£385,000¹
Certification of claims and returns	£20,685	£25,400

In addition, the Commission has agreed, subject to affordability, to make additional rebates in 2011/12. The Commission will notify audited bodies of the amount due to them in the summer.

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Finance. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Governance and Audit Committee.

In line with my discussions with the Governance and Audit Committee and Internal Audit, the fee assumes that I will be able to place reliance on the work of Internal Audit and that this will be available in a timely manner for review. Subject to any changes the Council may make to existing systems or implementation of any new systems, I anticipate that I will place reliance on the work of Internal Audit for the following systems in 2011/12:

- accounts payable;
- accounts receivable;
- payroll;
- cash and bank;
- foster care; and
- general ledger.

I will issue a detailed project plan setting out the scope of my review before work begins and report key findings to the Governance and Audit Committee.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

¹ Audit fee included in my letter of 17 May 2010 sets out the total audit fee of £385,000. This was reduced by the Audit Commission rebate of £24,494 to subsidise the costs of the transition to International Financial Reporting Standards and rebate of £14,592 to reflect the revised vfm conclusion requirements.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Darren Wells Engagement Lead	d-wells@audit-commission.gov.uk 0844 798 2304	I am responsible for the overall delivery of the audit including the quality of outputs, liaison with the Group Managing Director and Chair of the Governance and Audit Committee and issuing the auditor's report.
Emily Hill Senior Engagement Manager VFM/ Legality	e-hill@audit-commission.gov.uk 0844 798 2861	Emily manages and coordinates the audit work in relation to the vfm conclusion and any legality work. Key point of contact for the Acting Director of Finance.
Elizabeth Olive Engagement Manager	e-olive@audit-commission.gov.uk 0844 798 1377	Liz manages and coordinates the audit work in relation to the opinion on the financial statements. Key point of contact for the Acting Director of Finance.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 2632	Jeremy will lead the on-site team in delivering the audit of the financial statements.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Darren Wells
District Auditor

cc Andy Wood, Acting Director of Finance

cc Cllr Long, Chair of the Governance and Audit Committee

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Governance and Audit Committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Progress report on VFM conclusion risks	To be confirmed
Annual governance report	July 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	July 2012
Final accounts memorandum (to the Director of Finance)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

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By: John Simmonds, Cabinet Member for Finance
Andy Wood, Acting Corporate Director of Finance and Procurement

To: Governance and Audit Committee – 30 June 2011

Subject: KENT SUPERANNUATION FUND - AUDIT PLAN 2011/12

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 2011/2012 financial year. The fee proposed of £49,170 is a reduction from that charged for 2010/2011 (£50,000) and is set at the “scale” or average for similar types of audit determined by the Audit Commission’s work programme and scales of fees.
3. The risk assessment used to support the proposed fee will be revisited in early 2012, with any changes reported to the Committee.

Recommendations

4. Members are asked to approve the fee proposed

David Tonks
Head of Audit and Risk
Ext: 4614

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28 April 2011

Katherine Kerswell
Group Managing Director
Kent County Council
County Hall
Maidstone
Kent ME14 1XQ
Dear Katherine

Direct line 07748 760569
Email d-wells@audit-
commission.gov.uk

Annual audit fee 2011/12 – Superannuation Fund

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Kent County Council in respect of the Kent Superannuation Fund. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice relating to the audit of the financial statements.

As I have not yet completed my audit for 2010/11, the audit planning process for 2011/12, including my risk assessment, will continue as the year progresses.

Audit fee

The Commission has consulted on and published its work programme and scales of fees for 2011/12. The scale fee for Kent Superannuation Fund is £49,170 and I have set the fee at this level as detailed below.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£49,170	£50,000

In setting the fee I have assumed that the audit risk in the Superannuation Fund's financial statements does not differ significantly from that expected in 2010/11.

I will issue a separate audit plan in December 2011. This will detail the risks identified in relation to the financial statements audit and the audit procedures I plan to undertake. If I need to make any significant amendments to the audit fee, I will first discuss this with the Acting Director of Finance and then discuss this with members.

I will issue reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 6187 www.audit-commission.gov.uk

Audit team

Your audit team must meet high specifications and must:


- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Darren Wells Engagement Lead	d-wells@audit-commission.gov.uk 0844 798 2304	I am responsible for the overall delivery of the audit including the quality of outputs, liaison with the Group Managing Director and Chair of the Governance and Audit Committee and issuing the auditor's report.
Emily Hill Senior Audit Manager (Pensions lead)	e-hill@audit-commission.gov.uk 0844 798 2861	Emily manages and coordinates the work in relation to the Superannuation Fund. Key point of contact for the Acting Director of Finance.
Elizabeth Olive Engagement Manager	e-olive@audit-commission.gov.uk	Liz manages and coordinates the audit work in relation to the opinion on the financial statements. Key point of contact for the Acting Director of Finance.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely



Darren Wells
District Auditor

cc Andy Wood, Acting Director of Finance

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them for discussion with members.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	July 2012

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By: John Simmonds, Cabinet Member for Finance and Business Support
Andy Wood, Acting Director of Finance & Procurement

To: Governance & Audit Committee
30th June 2011

Subject: **Update on progress of savings programme**

Summary: This report sets out the process we have been through to ensure the delivery of the 2011/12 budget savings.

FOR ASSURANCE

1. Introduction

- 1.1 The scale of the savings included in the 2011/12 budget (£95m) is some three or four times larger than the savings requirement we have been used to in recent budget rounds, and is an unprecedented amount of savings for this Authority. We are doing this with minimal disruption to front line services.
- 1.2 Delivering the savings that the Authority will be required to make over the next few years will be extremely tough. We have therefore set up a rigorous process to monitor the delivery of the £95m savings, and we will follow this process again in future years, if necessary.
- 1.3 Although the delivery of the £95m of savings will be a major factor in delivering the 2011/12 budget on target, our overall net budget for 2011/12 is £909m and it is crucial that we ensure that the whole budget is delivered on target.
- 1.4 The 2011/12 budget is not all about savings. There is a substantial reorganisation under way, which will change the way we run our business. Our new structure will enable us to effectively deliver front line services in the most efficient way, and ensure we can adapt and prosper in what is sure to be a difficult financial climate. We have a clear vision for the future shape of the Authority, as evidenced in Bold Steps for Kent, and in future years of budget setting we will seek to ensure that we can deliver our vision for Kent.

2. Background

- 2.1 When the budget was approved by County Council, as is usual at this point in the process, some detail about how these savings would be

made was missing. This was partly due to the impact of the County Council restructure, and partly due to a change in responsibilities for some services at Director level.

- 2.2 The process began with each saving line in the MTFP being allocated to responsible managers. As the MTFP is presented in the old structure, we had to ensure that savings were correctly split and allocated to the correct responsible managers where a saving in the old structure split across two Directorates in the new structure. In addition to this, where people had left the organisation it was important that their successor, or a suitable alternative officer, was made aware of the savings that had been agreed.
- 2.3 In March responsible managers were asked to 'RAG rate' each of their savings according to the following guidelines:
 - Red – detailed plans not yet finalised and/or delivery not totally within our control
 - Amber – anything that is between 'Green' and 'Red'
 - Green – delivery of savings has already started
- 2.4 Subsequently 'Blue' has been added to this rating for savings that are already delivered and 'in the bag'. The 'BRAG rating' of savings has been an iterative process, and responsible managers provided several updates.
- 2.5 For savings in excess of £200k over the two years in the MTFP the responsible managers completed a Project Initiation Document (PID).
- 2.6 We set the threshold at £200k to ensure that we covered as much of the £95m of savings as possible, but with the emphasis being on the larger savings which would have the biggest impact if they were not delivered. There are around 250 savings lines in total, and around 100 PIDs have been created. The PIDs cover £92m of the £95m.
- 2.7 The PIDs identify how it is intended that the saving will be achieved and the key milestones which need to be met in order to deliver the saving as planned. This will enable us to monitor progress throughout the year to ensure that we are on target to deliver the planned savings and where plans have slipped what remedial action needs to be taken to ensure we stay within budget. It will also enable the necessary support for many of these savings, from HR and Communications in particular, to plan their workload accordingly.
- 2.8 The first PIDs were returned in March. A PID surgery was held by Corporate Finance on 6th April to discuss some of the savings with the responsible manager and the Directorate's Finance Business Partner (formerly the Head of Finance in each Directorate). Savings that were discussed at this surgery were those where there was some uncertainty over the deliverability of the saving from reading the contents of the PID. The PID surgery gave assurance over the deliverability of many of the

savings discussed and revised PIDs have been submitted for the most of the savings discussed at the surgery.

- 2.9 There were some savings discussed at the PID surgery which remained 'red rated'. There is currently a total of £4.8m of 'red rated' savings across the Authority. The Corporate Management Team has agreed to continue to pursue £2.6m through the original means, and have asked the responsible Directorates to work up alternative savings for the remaining £2.2m.

3. Progress towards delivering the £95m

- 3.1 Directorates are writing reports for their Policy Overview and Scrutiny Committees (POSCs) on the progress towards the delivery of the savings covered by each individual POSC.

- 3.2 The overall progress to date is encouraging. The current totals for the 'BRAG rating' is:

Blue	£32.4m
Green	£29.1m
Amber	£28.4m
Red	£4.8m

- 3.3 To date the focus of attention has been on the £95m savings in the 2011/12 budget. It is important that we now shift the focus to monitoring the overall 2011/12 budget of £909m and ensure we deliver this on target. Therefore, from now on monitoring the delivery of savings will be picked up as part of the routine budget monitoring process and reports.

4. Recommendations

- 4.1 The Governance and Audit Committee is asked to note the progress against the delivery of the savings.

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