GOVERNANCE AND AUDIT COMMITTEE

Thursday, 26th July, 2012

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

Kent County Council

AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 26th July, 2012, at 10.00 am		Ask for:	**Andrew Tait**
Darent Room, Sessions House, County Hall, Maidstone		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, Mr R A Marsh, Mr R J Parry, Mr J Tansley, Mr R Tolputt and 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
2. Membership

   To note the appointment of Mr J Tansley to the Committee in place of Mrs A Hohler
3. Substitutes
4. Declarations of Interest in items on the agenda for this meeting
5. Minutes (Pages 1 - 14)

   Committee: 18 April 2012
   Trading Activities Sub-Group: 4 July 2012
6. Dates of meetings in 2013

   Thursday, 11 April 2013
   Wednesday, 24 July 2013

Tuesday, 24 September 2013
Wednesday, 18 December 2013

7. Committee Work and Member Development Programme (Pages 15 - 20)

8. External Audit Governance and Audit Committee Update June 2012 (Pages 21 - 36)

9. External Audit - Annual Governance Report 2011/12 (Pages 37 - 98)

10. Draft Statement of Accounts 2011/12 (Pages 99 - 260)

11. Treasury Management Annual Review (Pages 261 - 272)

12. Update on Change to Keep Succeeding (Pages 273 - 278)

13. Debt Management (Pages 279 - 288)

14. Annual RIPA Report on Surveillance and other activities carried out by KCC between January 2011 and March 2012 (Pages 289 - 316)

15. Internal Audit Annual and Progress Report (Pages 317 - 354)

16. Anti-Fraud and Corruption Progress Report (Pages 355 - 370)

17. Anti Fraud and Corruption Strategy (Pages 371 - 384)

18. Protocol relating to companies in which KCC has an interest (Pages 385 - 402)

19. Other items which the Chairman decides are urgent

20. Motion to exclude the public

    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 involves the likely disclosure of exempt information as defined in paragraphs 2, 5 and 7 of Schedule 12A of the Act

21. Update on Kent Cultural Trading (oral report)

Peter Sass
Head of Democratic Services
(01622) 694002

Wednesday, 18 July 2012

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

<u>Governance and Audit Committee</u>

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, 18 April 2012.

PRESENT: Mr M V Snelling (Vice-Chairman, in the Chair), Mr N J D Chard (Substitute for Mr C T Wells), Mr A R Chell, Mr B R Cope, Mr K A Ferrin, MBE, Mr M J Harrison (Substitute for Ms A Hohler), Mr C Hibberd, Mr R F Manning (Substitute for Mr R L H Long, TD), Mr R A Marsh, Mr M J Northey (Substitute for Mr D A Hirst), Mr R J Parry, Mr T Prater and Mr R Tolputt

ALSO PRESENT: Mr A H T Bowles, Ms S J Carey, Mr P B Carter, Mr R W Gough, Mr J D Simmonds.

OFFICERS: Mr A Wood (Corporate Director of Finance and Procurement), Ms A Mings (Treasury & Investments Manager), Ms N Major (Interim Head of Internal Audit), Mr G Wild (Director of Governance and Law), Mr R Hallett (Head of Finance and Resources - EHW), Mr M Hardie (Interim Senior Risk Manager), Mrs A Beer (Corporate Director of Human Resources), Mr D Whittle (Head of Policy and Strategic Relationships) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells and Ms E Olive from the Audit Commission.

UNRESTRICTED ITEMS

1. Minutes - 29 November 2011
(Item 4)

RESOLVED that the Minutes of the meeting held on 29 November 2011 are correctly recorded and that they be signed by the Chairman.

2. Committee Work Programme
(Item 5)

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

(2) RESOLVED that the forward work programme be agreed for the period up to April 2013.

3. Member Development Programme
(Item 6)

(1) The Interim Head of Internal Audit provided an update on the introduction of the training programme.

(2) The Committee agreed to receive a report on the proposed Member Development Programme for the Committee following the local government elections in 2013. This would be considered at the first meeting of the Committee in 2013.

(3) RESOLVED that approval be given to:-

(a) the continuation of a training programme during 2012-13;

(b) the inclusion of risk management training just before the September 2012 Committee meeting and training on the role of a governance and audit committee before the first meeting after the local government elections in 2013;

(c) training sessions through the Financial Management Development programme on areas relevant to the Governance and Audit Committee; and

(d) a further report to the first meeting of the Committee in 2013 on the proposed Member Development Programme for the Committee following the local government elections in May 2013.

4. Corporate Risk Register
(Item 7)

(1) The Cabinet Member for Business Strategy, Performance and Health Reform and the Acting Head of Business Intelligence, Performance and Risk reported the development and management of the County Council's Corporate Risk Register. This was the mechanism for ensuring that Risk Management and Internal Control Systems were in place that were adequate for purpose and that they were effectively and effectively operated.

(2) The Committee noted the work being undertaken to accelerate the release of data through the use of technology and asked the Acting Head of Business Intelligence, Performance and Risk to send the updated version of the Corporate Risk Register to all Members of the Committee as soon as it was finalised.

(3) The Committee asked for the corporate risk to the authority through the impact of the deletion of the Group Managing Director post to be incorporated into the Register.

(4) RESOLVED that:-

(a) the assurance provided in relation to the development and maintenance of the Corporate Risk Register appended to the report be noted; and

(b) the Acting Head of Business Intelligence, Performance and Risk be requested to give consideration to incorporating the risk to the County Council through the impact of the deletion of the Group Managing Director post into the Register.

5. Treasury Management Quarterly Report
(Item 8)

(1) the Cabinet Member for Finance and Business Support and the Treasury and Investments Manager gave an update on treasury management issues.

(2) Mr K A Ferrin moved, seconded by Mr R Tolputt that the Cabinet Member for Finance and Business Support and the Corporate Director of Finance and Procurement be requested to review whether Santander UK should be on the approved list for deposits.

Carried 8 votes to 1

(3) RESOLVED that:-

(a) the report be noted for assurance; and

(b) the Cabinet Member for Finance and Business Support and the Corporate Director of Finance and Procurement be requested to review whether Santander UK should be on the approved list for deposits.

6. Update on Savings Programme
(Item 9)

(1) The Corporate Director of Finance and Procurement reported the current position in respect of the Savings Programme. He updated the forecast underspend figure for 2011-12 (set out in paragraph 1.1 of the report) to £14.3m.

(2) RESOLVED that the report be noted for assurance.

7. Update on Change to Keep Succeeding
(Item 10)

(1) The Cabinet Member for Business Strategy, Performance and Health reform and the Corporate Director Human Resources gave an update on the “Change to Keep Succeeding” programme of organisational change. The report covered progress on populating the senior level of the new operating framework, the changes to staffing across the Authority since April 2011 and other key organisational development activity.

(2) The Corporate Director Human Resources informed the Committee of the appointment of Mr Ian McPherson to the post of Director of Commercial Services. She agreed to provide Members of the Committee with the details of Mr McPherson’s professional career.

(3) In discussion, Members of the Committee asked for greater stress to be placed on encouraging staff to attach photographs to their KNET details and to identify a colleague as an alternative person to contact when they were not available.

(4) RESOLVED that the report be noted for assurance.

8. Statements of Required Management Practice (SORPs)
(Item 11)

(1) The Cabinet Member for Business Strategy, Performance and Health Reform and the Head of Policy and Strategic Relationships, Business Strategy outlined progress to date on the development of SORPs. This suggested a shift in approach from the lengthy SORP documents that set standards to light-touch and practical guidance to support managers.

(2) The Committee agreed to receive annual updates on progress.

(3) RESOLVED that agreement be given to:-

(a) the proposed shift in approach to developing management guidance for staff;

(b) the proposed light-touch approval process for signing off the content of the new management guidance; and

(c) continuing oversight through an annual report on the development and roll out of management guidance to staff.

9. Review of the Code of Corporate Governance
(Item 12)

(1) The Director of Law and Governance reported a revised Code of Corporate Governance as well as other actions arising out of the 2010/11 Corporate Governance Audit.

(2) RESOLVED that:-

(a) the draft revised Code of Corporate Governance (set out in Appendix 1 of the report) for submission to the County Council for consideration and final approval; and

(b) the position in relation to the additional actions recommended following the 2010/11 Corporate Governance Audit be noted.

10. Internal Audit Progress Report
(Item 13)

(1) The Head of Internal Audit summarised the outcomes of Internal Audit activity since the previous Committee meeting in November 2011.

(2) RESOLVED to note:-

(a) the amendments to and progress against the 2011/12 Audit Plan; and

(b) the assurance provided in relation to the County Council's control environment as a result of the outcome of Internal Audit work completed to date.

11. Internal Audit Strategy and Annual Audit Plan 2012/13
(Item 14)

(1) The Interim Head of Internal Audit detailed the Internal Audit Strategy and Annual Audit Plan for 2012-13.

(2) RESOLVED that the proposed Internal Audit Strategy and Annual Plan 2012/13 be agreed as appended to the report.

12. Audit Commission Certification of Claims and Returns Annual Report
(Item 15)

(1) Ms E Olive from the Audit Commission summarised its work on the certification of funding received by the County Council from government grant-paying departments.

(2) RESOLVED that the report be noted for assurance.

13. Audit Commission Report on Objection to 2010/11 Accounts
(Item 16)

(1) Mr D Wells from the Audit Commission reported his conclusions on the formal objection to the 2010-11 Accounts. He said that he had not upheld the objection and that there was no evidence of fraud or misuse of public funds. He set out the report's two recommendations which were that the County Cars policy should be reviewed to consider and clarify "private use" and journeys from "home to County Hall" taking advice received from HMRC; and to consider including the cost of the County cars within the total costs of member allowances published on the Council website and within its annual statement of accounts.

(2) Mr P B Carter was present for this item pursuant to Committee Procedure 2.24 and spoke. He made a declaration of Personal Interest in that the formal objection had included reference to the fact that he had on rare occasions, following the completion of Council business whilst using the County Car service, used the County Car for minor diversions in connection with his private business. He reported the Administration's work to date and its intended future approach towards implementing the recommendations contained in the Audit Commission report.

(3) Mr K A Ferrin moved, seconded by Mr R A Marsh that the findings in the Audit Commission's report be noted.

Carried 12 votes to 1

(4) RESOLVED that the findings in the Audit Commission's report be noted.

14. Audit Commission Audit Opinion Plans 2011/12 (Kent County Council and Kent Superannuation Fund)
(Item 17)

(1) Ms E Olive from the Audit Commission set out the proposed work of the Audit Commission which would enable them to give an audit opinion on the County Council's 2011/12 financial statements, including the Kent Superannuation Fund.

(2) RESOLVED that approval be given to the Audit Commission's Audit Plans for Kent County Council and the Superannuation Fund for 2011/12.

15. Revised accounting policies
(Item 18)

(1) The Corporate Director of Finance and Procurement reported the amendments that were needed in respect of accounting for heritage Assets and the Carbon Reduction Commitment Energy Efficiency Scheme.

(2) RESOLVED that approval be given to the additions and amendments to the accounting policies as set out ion the report.

16. Anti-Fraud and Corruption Progress Report
(Item 19)

(1) The Interim Head of Internal Audit provided a summary of the progress of anti-fraud and corruption activity as well as the outcome of irregularity investigations concluded since the previous Governance and Audit Committee meeting in November 2011. She updated the Committee on the conviction of Mr Ross Knowles for Fraud and on the new Government Strategy Document "Fighting Fraud Locally" which would underscore Internal Audit's work.

(2) RESOLVED to note:-

(a) the progress of anti-fraud and corruption activity; and

(b) the assurance provided in relation to anti-fraud culture and fraud prevention/investigation activity.

17. Audit Commission progress report on appointment of External Auditor
(Item 20)

(1) Mr D Wells from the Audit Commission gave an update on the outsourcing of audit services by the Audit Commission. Seventy per cent of the audits of principal bodies currently delivered by the Audit Commission's in house audit practice had been put out to tender and the contract for the London (South), Surrey and Kent area had been awarded for a period of five years to Grant Thornton LLP.

(2) RESOLVED that the Audit Commission's award of the audit contract for the London (South), Surrey and Kent region for 2012/13 and subsequent years to Grant Thornton LLP be noted.

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GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB GROUP

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub Group held in the Swale 2, Sessions House, County Hall, Maidstone on Wednesday, 4 July 2012.

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

ALSO PRESENT: Mr R F Manning and Mr J D Simmonds

IN ATTENDANCE: Mr A Wood (Corporate Director of Finance and Procurement), Mr G Record (Finance and Procurement Officer), Ms N Major (Interim Head of Internal Audit), Mr N Jordan (EduKent Manager), Mr P McSweeney (EduKent Officer) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

1. Minutes - 17 May 2010

(Item 3)

RESOLVED that the Minutes of the meeting held on 17 May 2010 are correctly recorded and that they be signed by the Chairman.

2. Protocol relating to Companies in which KCC has an interest

(Item 4)

(1) The Finance and Procurement Officer reported that he had been asked to review the existing *Protocol relating to companies in which KCC has an interest* and the more detailed accompanying *Guidance on Local Authority Companies*. The review had established that the Protocol was fit for purpose subject to some minor amendments which were contained in the body of the written report.

(2) RESOLVED that:-

(a) the report be noted for assurance;

(b) the proposed amendments to the Protocol be recommended to Governance and Audit Committee; and

(c) the Protocol and Guidance be reviewed bi-annually, unless fundamental changes (for example, legislative changes) necessitate a review during the intervening period.

3. EduKent

(Item 5)

(1) The EduKent Manager provided an update on EduKent's current position and made recommendations on how best to ensure its successful and sustainable

development and growth. These included the establishment of an Edukent Board, headed by the Corporate Director for Education, Learning and Skills.

(2) The Sub-Group endorsed the suggestion made by the Corporate Director of Finance and Procurement that a Shadow Board should be established in order to draw up proposed governance arrangements and a business plan which the Sub-Group could consider in detail at a later stage.

(3) RESOLVED that:-

(a) the report and its recommendations be noted; and

(b) that a further report be submitted at the earliest opportunity setting out the proposed governance arrangements and a business plan for the Sub-Group's consideration.

4. KCC Limited Companies - 2011/12 Draft Results (subject to audit)
(Item 6)

(1) The Corporate Director of Finance and Procurement reported on the draft material transactions, information and results in relation to the companies that KCC had an interest in. These results were to be included in KCC's Statement of Accounts 2011/12.

(2) In response to questions from the Sub-Group Members, the Corporate Director of Finance and procurement confirmed that a report by an independent consultant on the County Council's commercial businesses would be considered by the Sub-Group at a meeting to be arranged to take place in September 2012.

(3) The Sub-Group asked for a report on East Kent Opportunities LLP to be presented to its next meeting together with a list of all the LLPs and any Joint Arrangements that are Not an Entity (JANEs*)* that the County Council was involved in.

(4) The Sub-Group asked for a report on dormant Kent Companies.

(5) RESOLVED that:-

(a) the content of the report be noted for assurance;

(b) the accurate, complete and up-to-date record of all companies in which KCC has an interest be noted together with the draft (subject to Audit) material transactions, information and results in relation to these companies - for inclusion in KCC's Statement of Accounts 2011-12; and

(c) a report on East Kent Opportunities LLP and on Kent's dormant companies be presented to the next meeting of the Sub-Group together with a list of all LLPs and JANEs that the County Council is involved in.

5. Trading Activities/Units 2011/12 draft Results (subject to audit)
(Item 7)

(1) The Corporate Director of Finance and Procurement reported the £392.66m trading activity turnover generated across the County Council. He asked the Sub-Group to note that information on the actual cost involved in producing the turnover figures could not be isolated from core activities without undertaking a prohibitive amount of research.

(2) The Sub-Group asked for future reports on this subject to provide some analysis of financial trends; i.e. year-on-year comparative figures.

(3) RESOLVED that:-

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

(b) the Trading Activity Results for 2011-12 be noted together with the intention to develop a more refined analysis of the costing, pricing and trends of KCC's trading activities for future reports.

EXEMPT ITEMS

(Open access to Minutes)

The Sub-Group resolved under Section 100A of the Local Government Act 1972 to exclude the public from the meeting for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraphs 2, 5 and 7 of Part 1 of Schedule 12A of the Act.

6. Update on Kent Cultural Trading (oral report)
(Item 9)

(1) The Interim Head of Internal Audit reported the ongoing investigation into the activities of Kent Cultural Trading Ltd. She explained that the Sub-Group Members needed to be aware that this work was taking place and that a full report on this matter would be presented to the Sub-Group and its parent Committee at the earliest opportunity.

(2) RESOLVED that the report be noted.

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By:	Chairman of Governance and Audit Committee Neeta Major, Interim Head of Internal Audit
To:	Governance and Audit Committee – 26 July 2012
Subject:	**COMMITTEE WORK & MEMBER DEVELOPMENT PROGRAMME**
Classification:	Unrestricted

Summary: This report provides an updated forward committee work and member development programme.

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.
2. In addition on 18 April 2012, the Committee agreed a training programme for 2012-13 and that a proposed 2013-2014 post election training programme would be presented to the April 2013 Committee for consideration.

Current work programme

2. Annex 1 shows the latest programme of work for the Committee, up to July 2013. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out.
3. The programme has been updated to reflect requests made from Committee members for additional reports on specific items of interest.

Member Development programme

4. As agreed on 18 April 2012, for 2012-13 risk management training will be provided at the September 2012 Committee meeting.
5. In addition it is proposed that during 2012-2013 training will be provided to the Governance & Audit Committee Trading Activities Sub Group in relation to the requirements of the Local Government Act 2003 Trading Order (including best practice requirements for a robust business case and business plan).

Recommendations

6. It is recommended that Members:
   - approve the forward work programme to July 2013 to meet the Committee's Terms of Reference;

- identify any additional items that members would wish to include.
- approve the additional proposed training for 2012-2013.

Neeta Major
Interim Head of Internal Audit
Ext: 4664

Annex 1

Category / Item	Owner	Jul-12	Sep-12	Dec-12	Apr-13	Jul-13
Secretariat						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	NM	✓	✓	✓	✓	✓
Member Development Programme	NM	✓	✓	✓	✓	✓
Risk Management and Internal Control						
Corporate Risk Register	RH			✓		✓
Review of the Risk Management Strategy, Policy and Programme	RH		✓			
Report on Insurance and Risk Activity	NV		✓			
Treasury Management quarterly report	NV		✓	✓	✓	
Treasury Management Annual Report	NV	✓				✓
Ombudsman Complaints	GW		✓			
Annual Complaints Report	DC		✓			
Update on Savings programme	AW		✓		✓	
Annual report on ‘surveillance’ activities carried out by KCC	MR	✓				✓
Corporate Governance						
Progress update on Change to Keep Succeeding	AB	✓	✓	✓	✓	✓
Update on development of Statements of Required Practice.	DW				✓	
Annual review of Terms of Reference	NM		✓			
Debt Recovery	AW	✓		✓		✓
Annual review the Council’s Code of Corporate Governance	GW				✓	
Review of Bribery Act Policy and any related amendments to Constitution	GW			✓		

Annex 1

Category / Item	Owner	Jul-12	Sep-12	Dec-12	Apr-13	Jul-13
Internal Audit						
Internal Audit Progress Report	NM		✓	✓	✓	
Internal Audit Annual Report	NM	✓				✓
Internal Audit Benchmarking Results	NM		✓			
Internal Audit Strategy and Annual Plan	NM				✓	
Review of Charter of Internal Audit	NM	✓				✓
External Audit						
External Audit Update	NM	✓	✓	✓	✓	✓
Proposal for tracking of External Audit and regulators recommendations	NM		✓			
External Audit Governance Report	NM	✓				✓
External Audit Annual Audit Letter	NM			✓		
External Audit Certification of Claims and Returns Report	NM				✓	
Effectiveness of Internal and External Audit Liaison	NM			✓		
External Audit Annual Plan & Fee	NM				✓	
External Audit Pension Fund Plan & Fee	NM				✓	
Financial Reporting						
Statement of Accounts & Annual Governance Statement	AW	✓				✓
Revised Accounting Policies	CH				✓	
Fraud						
Anti-fraud and anti-corruption compliance with CiPFA Red Book	NM	✓				✓
Review of the Anti-fraud and anti-corruption Strategy	NM	✓				✓
Anti-Fraud and Corruption Progress Report	NM	✓	✓	✓	✓	✓

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By:	John Simmonds, Cabinet Member for Finance & Business Support Andy Wood, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 26 July 2012
Subject:	**External Audit – Governance and Audit Committee Update June 2012**
Classification:	Unrestricted

Summary: This paper provides an update against the 2011/12 Audit Plan and recent updates and information from the Audit Commission

FOR INFORMATION

Introduction and background

1. In order that the Governance and Audit Committee is kept up to date with the work of the Audit Commission, progress reports are written by the External Auditor as appropriate.

2. The attached update report covers the following areas:
   - Progress against the 2011/12 Audit Plan;
   - Update on outsourcing work of the Audit Practice;
   - Update on the residual Audit Commission;
   - Other matters of interest.

Recommendation

3. Members are asked to note the report and progress against the plan.

Neeta Major
Interim Head of Internal Audit
Ext: 4664

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Audit Committee update

Kent County Council

June 2012

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction

1 The purpose of this paper is to provide the Governance and Audit Committee with:

- an update on the progress of the audit ; and.
- to highlight key emerging national issues and developments which may be of interest to members .

2 If you require any additional information regarding the issues included within this briefing, please contact me or Elizabeth Olive using the contact details at the end of this update.

3 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign up to be notified of any new content that is relevant to you.

Darren Wells

District Auditor

25 June 2012

Progress report

Financial statements

4 We are required to audit the financial statements and to give our opinion on:

- whether they give a true and fair view of the financial position of the Council and of its income and expenditure for the year in question; and
- whether they are prepared properly in accordance with relevant legislation and applicable accounting standards.

5 We are also required to:

- review whether the Annual Governance Statement is presented in accordance with relevant requirements; and
- audit the whole of government accounts consolidation pack based on the information provided in the financial statements.

6 We started the audit of the 2011/12 financial statements on 11 June 2012. Our detailed findings from the audit are reported in the in the Annual Governance Report.

7 Work on the whole of government accounts consolidation pack will be completed in September.

VFM conclusion

8 Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

9 The findings of the audit work completed are reported in the Annual Governance Report.

Other areas of work

Certification of claims and returns

10 In 2011/12 we anticipate being required to audit the following grant claims and returns:

- EDU06 – School centred initial teacher training
- PEN05 – Teachers' Pensions Return

- TRA11 – Local transport plan: major projects (2 claims).

The school centred initial teacher training claim and the teachers' pensions return will be audited during September and October. Both the local transport plan claims have been audited in June and certified without amendment or qualification.

Update on outsourcing the work of the Audit Practice

11 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies. The Interim Head of Internal Audit attended on behalf of the Council.

12 It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

13 In some instances, work on the 2011/12 audit will not be completed by the 31 October when existing Audit Practice staff are transferred to new employers. For example, if audit opinions are delayed or some grant claim work has a later audit deadline.

14 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously. I expect to have completed all aspects of the 2011-12 audit for Kent County by 31 October.

Update on the residual Audit Commission

15 The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

16 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

Other matters of interest

2012/13 audit fees

Fee scales for 2012/13 audits of local government and NHS bodies

17 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on 11 April 2012. These fees are fixed for a five-year period, irrespective of the rate of inflation. The scale fee for Kent County is £207,900. There is also an audit fee for the pension fund.

18 For further information on the scale fees published for 2012/13 please see the Audit Commission's website.

Fee scales for 2012/13 National Fraud Initiative

19 The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

20 The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

21 In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

2010/11 National Fraud Initiative

22 In May 2012 the Audit Commission published the results of the NFI for 2010/11.

23 The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

24 When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

25 The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

26 The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

27 The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

28 Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

Public Sector Internal Audit Standards

29 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

30 This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

31 The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

Payment by results

32 The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

33 PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

34 What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

35 National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

36 The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

37 The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

38 The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

The rights of local electors

39 The Audit Commission has published an updated version of *Council accounts: a guide to your rights.* The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

40 The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

41 Members of the Audit Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

NAO role in local VFM studies

42 The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

43 A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

44 The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

45 Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

CIPFA's brief guide to Local Government Finance reforms

46 As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

47 CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and elected

members may have surrounding the localisation of support for council tax and business rate retention.

48 The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

Contact details

49 If you would like further information on any items in this briefing, please contact either your District Auditor or Audit Manager.

50 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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www.audit-commission.gov.uk June 2012

By:	John Simmonds, Cabinet Member for Finance & Business Support Andy Woods, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 26 July 2012
Subject:	**External Audit - Annual Governance Report 2011/12**
Classification:	Unrestricted

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

FOR DECISION

Introduction and background

1. The Audit Commission, as External Auditor to the Council, is required to report to the Committee the findings from the audit of the 2011/12 financial statements. This includes the key messages arising from the audit of the Pension Fund accounts which form part of the Council's financial statements. The report also includes the results of the work undertaken to assess the Council's arrangements to secure value for money.

Process

2. The 2011/12 financial statements (except for the Annual Governance Statement) were provided to the Commission for audit on 11 June 2012. The audit of the financial statements started on the same date and despite the pressures on the audit team and officers to respond quickly to queries the work was substantially complete by 29 June 2012.

3. Members will have the opportunity to ask questions about the audit and report to help inform their decision before formally approving the 2011/12 financial statements.

Recommendations

4. Members of the Governance and Audit Committee are asked to:
   - take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
   - approve the letter of representation (appendix 4), on behalf of the Authority before the Audit Commission issue their opinion and conclusion; and
   - agree the response to the proposed action plan (appendix 6).

Neeta Major
Interim Head of Internal Audit
Ext: 4664

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Annual governance report

Kent County Council

Audit 2011/12

Contents

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements, including the Kent Pension Fund accounts, and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 17 July 2012 I expect to issue an unqualified audit opinion.

The financial statements submitted for audit on 11 June 2012 were of a good quality. The Council did well to produce the accounts within this short timescale although the Annual Governance Statement was not received until 26 June. During the audit I identified a small number of errors in the financial statements. Management has agreed to adjust the financial statements for all but one of the errors. As in previous years, officers were helpful and quick in responding to audit queries which has enabled the audit to be delivered in a timely way.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

However, as in 2010/11, the Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Such a matter is the findings from the Ofsted inspection of the Council's safeguarding children and young people services and services for looked after children.

Certificate

I am unable to issue the certificate for 2011/12 as elements of the audit are not yet complete. These are:

- WGA report not yet issued; and
- Pension Fund annual report.

I expect to complete the outstanding work and report my findings to management by end September 2012. I plan to issue my certificate by 5 October 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

As reported to you in my 2011/12 Audit Plan I am aware of the following relationships that might be perceived to constitute a threat to the auditors' independence and that I am required to report to you. I put in place the following safeguards to reduce any perceived threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
The mother of a Trainee Auditor engaged on the audit, is a retired Head Teacher and governor at a Kent County Council school. She is currently Acting Head Teacher within an LA maintained school.	I confirm that the Trainee Auditor has not undertaken or reviewed any work relating to education or payroll in this area.
The wife of a Principal Auditor engaged on the audit, use to work within the Council's estates team, monitoring rental income. She left the Council in October 2011. In addition, the Auditor's mother currently works at Oakwood House.	I confirm that the Principal Auditor has not undertaken or reviewed any work relating to rental income, Oakwood House or payroll of these areas.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £2,500. The Audit Commission reviewed the Gateway project as an Advice and Assistance review.

I ask the Governance and Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Council's financial statements, which include the Kent Pension Fund accounts, and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

My audit seeks to ensure that the accounts are materially correct and present fairly the financial transactions of the Council in 2011/12. I apply a concept of materiality to the audit which is defined at appendix 5. For the 2011/12 accounts I set materiality levels as follows: £31.7 million for the Council and £16.5 million for the Pension Fund. Under International Standards on Auditing I also set a threshold below which I judge any errors to be 'trivial' and do not ask for the accounts to be amended. For 2011/12 the triviality threshold is set at £317,000 for the main statements and £165,000 for the Pension Fund.

Where I identify errors above this triviality threshold, under auditing standards I must request management to amend the accounts. Where management chooses not to do so, and the Governance and Audit Committee agrees, I request a written representation from the Committee as to whether it believe the effects of the uncorrected misstatements are not material individually and in aggregate.

Uncorrected errors

My audit work identified one uncorrected error in relation to a provision for VAT (£0.383 million). Further information is reported in Appendix 2 of the report.

Corrected errors

I identified a number of errors in the financial statements, some of which were material, and impact on the primary statements and disclosure notes. In my opinion, the errors are not indicative of management bias nor indicate a particular weakness in your arrangements and do not require detailed consideration by the Committee. However, for completeness and information, I highlight the amendments in appendix 3 and tables 2 and 3. Officers identified two errors in the accounts presented for audit and brought this to my attention. I have shown this separately in appendix 3.

Significant and specific risks and my findings

In my 2011/12 Audit Plan presented to you in March 2012, I reported the significant and specific risks that I identified relevant to my audit of your financial statements. A significant risk is a risk that requires special audit consideration, on the grounds that it is highly likely that the risk will be realised, and will result in a material misstatement in the financial statements. A specific risk occurs where I identify an issue related to a particular item in the financial statements. In tables 2 and 3, I report to you my findings against each of these risks for the Council and Pension Fund accounts respectively.

Table 2: **Kent County Council - risks and findings**

Risk	Finding
SIGNIFICANT: Valuation of property, plant and equipment (PPE) The Council is required to value PPE at fair value (with some exceptions such as infrastructure assets and assets under construction which are valued at historical cost). There is a risk that the valuation reported in the financial statements will be materially misstated due to: ■ valuation of operational land and buildings is an estimate and even small changes in the estimation techniques employed by your Valuer can have a material impact on the value of PPE disclosed in the financial statements; ■ misclassification of assets leading to incorrect valuation basis; ■ failure to update valuations between formal revaluation dates; ■ valuation of leasehold properties reflects an interest in the property rather than in the lease;	I completed the following work to gain assurance over the PPE valuations in the 2011/12 financial statements: ■ evaluated the work of the valuer the Council relied upon to produce the financial statements; ■ used my own expert to assess the reasonableness of the valuation assumptions of your valuer; ■ undertook detailed testing of the valuations and depreciation calculations; ■ reviewed the Council's approach to identify any impairment to its assets; ■ I reviewed the capital accounting entries and identified classification disclosure errors within the Capital Adjustment Account (note 23).

Risk	Finding
■ misstatement of depreciation due to inappropriate asset lives; ■ failure to apply the code requirements or your own policy on componentisation; ■ inappropriate capitalisation of revenue expenditure; ■ failure to consider impairments; and ■ the accounting entries required to deal with property valuations in accordance with the Code are complex and flow through all the core statements and many of the disclosure notes in the financial statements.	I concluded that PPE is fairly stated within the statement of accounts, subject to the correction of the two matters below: ■ Note 23 contained incorrect disclosures for revaluation losses; use of capital receipts to finance capital expenditure; capital grant unapplied account; adjusting amounts written out of the revaluation reserve and movements in the market value of investment properties. All the errors were contained within the note and did not impact on the closing CAA balance. Officers have corrected the detailed disclosures of the note. ■ As part of their management review of the draft financial statements, officers identified a £4 million error in the revaluation reserve. The asset registers did not reconcile to Oracle due to an incorrect accounting entry being put through the revaluation reserve code on the General Ledger. This error has now been corrected.
SIGNIFICANT: Accounting for pension assets and liabilities The Council is required to account for post retirement benefits under International Accounting Standard (IAS) 19 and the entries in the financial statements relating to your share of the Kent Pension Fund assets and liabilities are among the largest in those statements. The entries are based on assumptions determined by the Council in consultation with the Fund's actuary and on the information provided to the actuary regarding staff numbers, contributions, retirements and early retirements and investment performance during 2011/12. There is a risk that inappropriate changes to the assumptions used by the actuary or errors in the information provided to him will result in your share of the assets and liabilities being materially misstated. The accounting entries in respect of pension assets and liabilities are complex and flow through the core statements and several disclosure notes.	I reviewed your management controls to account for pension assets and liabilities. I used my own expert actuary to evaluate the reasonableness of the assumptions used by your actuary and the resultant estimates included in the accounts. I undertook audit procedures to check that information provided to the actuary is complete and accurate. I did not identify any issues that I need to be report to you.

Risk	Finding
SIGNIFICANT: Management override of controls International Standards on Auditing (UK and Ireland) 240 presumes that a risk of management override of controls is present in all entities and requires auditors to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements; reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	I completed the following work to gain assurance over the risk arising from the management override of controls: ■ undertook testing of accounting and adjustment journals raised in year and as part of the closedown procedures to produce the financial statements; ■ reviewed accounting estimates for possible bias; and ■ gained an understanding of the business rationale of significant transactions that appear to be unusual. My testing did not highlight any instances of deliberate bias in presenting the results of financial transactions within the statement of accounts.
Heritage Assets The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. Heritage assets include tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. There is a risk that the Council may be unable to identify and account for all such assets.	I reviewed the controls the Council put in place to identify, value and account for heritage assets in accordance with FRS30 and the Code. I did not identify any issues from my work that need to be bought to your attention.
Accounting for schools Schools are managed through a variety of governance arrangements and differences in those arrangements have implications for the accounting treatment. You account for academies, foundation and voluntary aided schools in accordance with IAS16 which means these schools are not on your balance sheet. Many schools seek to become Academies and there is a risk that you do not give sufficient consideration to schools that change status during the year.	I completed the following work to gain assurance over accounting for schools: ■ reviewed the management controls you have in place to recognise changes in status and the effective date of such changes; ■ reviewed the Council's consideration of schools and the IAS 16 recognition criteria and consistency with your accounting policy; and

Page 48

<table>
<tr><th>Risk</th><th>Finding</th></tr>
<tr><td>This could result in Schools being included or omitted from your balance sheet incorrectly. Because the value of schools is significant and there have been many changes of status in the year, the effect on the balance sheet is material.</td><td>

- undertook tests of detail on the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.

During the year 20 schools with a value of £72 million achieved Academy status. All were correctly removed from the Council's Balance Sheet.

I identified seven schools financed by Public Finance Initiative (PFI) scheme that are foundation trust schools that continued to be accounted for on the Council's Balance Sheet. These schools have a value of £132.9 million. The Council decided to keep these schools on its Balance Sheet as it maintains the liability for the PFI. I also identified one foundation school with a value of £29 million that transferred to trust status in March 2012 that remained on the Balance Sheet at year end.

In accordance with accepted accounting practice these assets should not be recognised on the Balance Sheet as:

- the Council does not have any control over the education services provided at the schools or the employment of teachers (in accordance with IFRIC12); and
- the Council does not hold the title deed for this property and does not own the asset (IAS16). The Department for Education requires title deed to transfer to the Board of Governors when the foundation school is created.

After discussion, officers accepted audit's interpretation of the accounting standards and amended the Balance Sheet, and adjusted comparative information through a prior period adjustment. I have reviewed the accounting entries to remove the assets from the Balance Sheet and confirm that all entries have been correctly made.

Accounting for schools has been the subject of debate for local

</td></tr>
</table>

Risk	Finding
	government accountants for a number of years. CIPFA hoped to update and clarify its 2011/12 Accounting Code of Practice to clarify the accounting practice for schools, but this was delayed. CIPFA intends to clarify the position for 2012/13. The Council's accounting treatment for the different types of schools follows the current advice issued by CIPFA.
Existing PFI schemes: Material adjustments At the inception of a PFI scheme, the expected accounting entries for the duration of the contract are modelled. There are four common events that require the accounting model (and accounting entries derived from the model) to be updated. These adjustments may be material to the Council.	I evaluated the design and implementation of controls and I performed procedures to satisfy myself that your financial statements are materially stated in respect of your disclosure of PFI schemes. I identified that that Council does not have sufficient arrangements in place to correctly capitalise the lifecycle costs of its PFI schemes. The Council is currently capitalising all lifecycle costs as set out in the operator's financial model. However, the model only provides projected costs and is not a reflection of the actual costs or the timing of when the costs are incurred. Although this cannot lead to a material error in the 2011/12 financial year, if the Council continues to capitalise lifecycle costs on this basis it could lead to a cumulative material error in the future.
Provisions The Council had nearly £50 million of long and short term provisions at 31 March 2011. Provisions are by their nature estimates of future liabilities and are charged against the General Fund which means they have an immediate effect on the outturn in the year. There is a risk that if the estimates that underlie provisions are unreasonable, the general fund will be materially misstated. Provisions are accounted for in accordance with IAS37.	I reviewed the management controls you have in place for the creation of provisions at the year end both centrally and in the directorates. I undertook sample testing to satisfy myself that the provisions are: ■ reasonable estimates of future liabilities in accordance with the Code and IAS37; and ■ have been accounted for correctly as short and long term provisions. I identified the following issue from my testing. ■ A provision has been set up for £383,000 against a potential liability for French VAT in respect of income from a property owned by the

Risk	Finding
	Council in France. It is not clear whether the Council has to register to pay VAT and therefore whether a liability exists. In my view, the criteria to create a provision under accounting standards have not been met. Rather, the potential liability should be disclosed in the financial statements as a contingent liability. This is an unadjusted error in the 2011/12 financial statements and is included in appendix 2.
Capital grants used to fund Revenue Expenditure Funded form Capital Under Statute (REFCUS) We noted an error in the 2010/11 statements in respect of the treatment of capital grants used to fund REFCUS. Capital grants used to fund REFCUS had been aggregated with other capital grants in the taxation and non specific grants line in the Comprehensive Income and Expenditure Statement (CIES) rather than being treated as revenue grants and taken to the relevant service line. REFCUS expenditure amounted to £145 million in 2011/12 and much of it was grant funded. Therefore, the CIES service lines were materially mis-stated as was the taxation and non specific grant income line. The bottom line of the CIES, however, is unaffected by this. We have discussed with officers the 2011/12 statements and the arrangements in place this year to ensure that capital grants used to fund REFCUS are treated as revenue grants. The error in the comparatives will need to be amended and there is a risk to the opinion that officers will fail to apply the requirements of IAS 8 and the Code in correcting the prior year error.	I reviewed the management controls the Council put in place to avoid the recurrence of this error and undertook sampling testing of capital additions. The errors identified in the previous year have been corrected in the 2010/11 restatement of the capital grants. The grants have been treated as revenue and matched to the service expenditure in the net cost of services. I did not identify any other issues that I need to bring to your attention.
Foster care and adoption payments system Last year, I identified weaknesses in the operation of key controls within foster care and adoption payments systems. These systems are designed to control expenditure of some £40 million per year.	There is a lack of auditable controls in this system which the Council is aware of. The foster care system covers two main areas of expenditure totalling £26 million: foster care and adoption. I undertook detailed

Risk	Finding
My documentation and walkthrough of the foster care and adoption payments system this year has shown that there has been no improvement in auditable operating controls. This does not necessarily mean that there are no controls operating at all, but it does mean that there are no controls that I can vouch to provide audit assurance.	substantive testing to invoices and confirmed that the foster care and adoption payments are supported by original documentation and are correctly stated in the accounts.

Recommendation
R1 The Council should ensure that lifecycle costs are based on the actual costs incurred and the actual timing of those costs.

Table 3: **Kent Pension Fund - risks and findings**

Risk	Finding
SIGNIFICANT: Actuarial present value of retirement benefits The present value of retirement benefits is a material item in your financial statements. The complexities involved in the valuation means that there is a risk that the financial statements may be materially misstated.	I completed the following work to gain assurance over the risk. ■ Reviewed the management arrangements for instructing your actuary and the controls over the completeness and accuracy of information provided to the actuary. ■ Evaluated the work of your actuary, Barnett Waddingham. ■ Used my own actuarial expert to assess the reasonableness of the actuarial assumptions used by Barnett Waddingham. ■ Reviewed the accounting entries to ensure they agreed to the IAS 26 valuation report. I identified that due to changes in the actual value of the scheme following submission of the draft financial statements to the actuary the fair value of the scheme did not agree to the actuarial valuation report. The actuary has revised the IAS26 valuation based on the final figures

Risk	Finding
	and the financial statements now agree to the valuation by the expert.
SIGNIFICANT: Actuarial valuation of pension liability The actuarial valuation of the pension fund liability is a material accounting estimate in the financial statements. The actuary uses a number of assumptions to calculate this highly complex valuation. In addition, the valuation reports in 2010/11 were materially inconsistent for a small number of admitted bodies and revised valuations were provided by the actuary.	I confirmed the accuracy and completeness of the valuation of the pension liability to the actuary's report. I assessed the reasonableness of the actuary's work by using my own actuary expert.
Valuation of freehold property The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at 31 March 2011 at £191 million.	I carried out audit procedures to place reliance on the work of your valuer as an expert. I also verified the accounting entries in the financial statements to the valuation report. I did not identify any issues that need to be bought to your attention.
Investment commitments The pension fund has committed money to four private equity investments. These are equity securities in operating companies that are not publicly traded on a stock exchange.	I reviewed the valuation of the investments and sample tested entries in the financial statements against the year end investment commitment reports and an independent source. I identified the following from my testing. ■ The draft financial statements included estimated year end investment balances. Update valuations were received in early July for private equity and infrastructure and pooled property investments. As the differences were above my triviality level these have been amended in the financial statements: – Henderson £8,490,100 to £8,441,500; – Partners Group 2009 £22,587,121 to £24,120,282 and 2011 £4,086,695 to £3,890,288; – HarbourVest HIPEP VI £3,997,604 to £3,880,262 and IX

Page 53

Risk	Finding
	£1,494,132 to £1,454,120; and – Aurora £16,079,551 to £15,963,259. ■ Sample testing of exchange rates identified that an incorrect rate was used to convert the value of the 2009 investment held with Partners Group from Euros to £ sterling. This led to the year end valuation being overstated by £1.7 million. ■ The disclosure in note 22 for the contractual commitments with the private equity investment bodies has been improved to give a fuller description of the investments and commitments in the currency they were made and the converted amount as £ sterling. These issues have all been corrected in the revised statement of accounts presented to members.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has established adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the minimum requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework. I have offered to provide examples of best practice statements to improve the AGS in future years; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I did not identify any significant weaknesses in internal control. I did however, identify the following weakness.

Table 4: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
Accounts receivable system: The monthly reconciliation of aged debt to the GL (Oracle) was not completed in March 2012 as the officer responsible for the reconciliation left the Council. Officers in the accounts receivable team decided the reconciliation did not add anything to the controls operating in the system. However, from an audit perspective, the absence of this control created a lack of audit assurance.	The accounts could be incomplete which could lead to a material error.	Finance officers acted promptly when the matter was raised and liaised with the Oracle systems administrator. A retrospective reconciliation of the aged debt to the GL was undertaken. This showed that the untimely operation of the control did not give rise to any error in the 2011/12 financial statements. Central finance officers have established an improved reconciliation process for the 2012/13 financial year. This control will sit within the systems finance team instead of the receivables team and be completed on a monthly basis.

Recommendation
R2 Officers should reconcile the accounts receivable system to the GL on a monthly basis using the improved process.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I highlight the following themes for your attention: accounting disclosures compared with best practice; accounting policies and compliance with laws and regulations.

Table 5: **Kent County Council - Other matters**

Issue	Finding
Code of Practice on Local Authority Accounting 2011/12 disclosure requirements The Code sets out expected best practice for the disclosure of financial transactions in an authority's accounts.	I reviewed the draft financial statements against the requirements of the Code disclosure checklist. I identified a relatively large number of narrative issues where the Council's disclosure did not meet expected best practice. The Council has amended its accounts for these. Some of the more significant changes are set out in the four bullet points below.
■ Non-distributed costs – Comprehensive Income and Expenditure Statement	The disclosure in the Comprehensive Income and Expenditure Statement for non-distributed costs was the net position for 2011/12. This did not disclose the significant expenditure of £19.091 million and income of £16.043 million which I believe should be separately shown in line with the Code. This has been amended.
■ Financial instruments - note 16 (main statements) - Kent Pension Fund, Financial instruments - notes15 and 16	Main statements note 16: The financial instruments note presented for audit: ■ incorrectly excluded short term debtors of £149.228 million and long term debtors of £61.172 million; ■ incorrectly included short term creditors for payments in advance of £32.951 million and deferred income of £2.624 million; ■ included correctly collateral held by the Council valued at £71.1 million in respect of Social Services clients on whose behalf the authority is paying for residential care. However, the Council does not hold sufficient documentation to support this disclosure. I identified that the collateral is overstated by £14 million. At the balance sheet date, secured debt against this £57.1m was £7.7m; and ■ did not set out in narrative on the nature and extent of risks arising from financial instruments. Pension Fund notes 15 and 16: The notes: ■ incorrectly included freehold property totalling £222.575 million and all related

Issue	Finding
	accounting entries (note 15); ■ did not include cash invested by JP Morgan totalling £51.670 million within the credit risk disclosure table and included an incorrect reference to USD (note 16); ■ incorrectly reported the fair value through profit and loss of financial assets with different values for the carrying and fair values. These should be reported as the same figure at market value (note 16); and ■ prior year comparators for cash (£60.943 million) and overseas equity investments value on increase (£578.517 million) as at 31 March 2011 were misstated. The disclosures should be £73.659 million and £583.615 million respectively. All required amendments have been made to the financial statements.
■ Related party transactions – note 36	Related party transactions with the Kent Pension Fund were incorrectly disclosed: ■ income for pensions administration, investment monitoring and other services should be £2.612 million; and ■ cash held by the Council on behalf of the Pension Fund should be £3.313 million. This is cash that has been paid over to the Council but should be in the Pension Fund cash balance as at 31/3/12. Further information is included in Appendix 3 of the amendments required for the cash balance. The disclosure errors in the note have been amended.
■ Kent Pension Fund, current assets - note 18	The note should disclose the amounts owed by other public sector bodies and those external to general government. The note has been correctly amended to disclose the debt profile in this way.
Accounting policies **Accounting policies set out the agreed practice to be followed in the preparation of accounts. It is important that actual practice follows the stated policies and that policies are disclosed for all key matters.**	Kent Pension Fund note 2: I reviewed the summary accounting policies of the Pension Fund and identified the following issues: ■ narrative that had previously been included in the financial statements for the foreign currency transactions policy (note 2i) was incorrectly omitted in 2011/12 policy; and ■ the actual accounting treatment adopted in 2011/12 for cash and cash equivalents (note 2j) was not in line with the policy.

Page 57

Issue	Finding
- Kent Pension Fund, note 2	The accounting policies have been correctly revised.
- critical accounting judgement (main statements)	Critical accounting judgement: Many entries within the accounts are inherently uncertain due to estimation and interpretation of accounting standards. In these cases, where accounting judgement is applied, the reader of the accounts is informed of this by disclosure in the accounting policies. The Council identified provisions as an area of critical judgement in note 2 of the financial statements. It has an early retirement provision of £12 million. Having examined this provision, I think the amount could and should be treated as a creditor. The Council argues that the liability is not as clear cut at the balance sheet date and a provision is appropriate. A potential change between provisions and creditors would affect the balance sheet. Given the disclosure of accounting judgement and my understanding of the issue, I have not asked for a change to the accounts.
Compliance with laws and regulations: **Preparation of the accounts assumes that all material laws and regulations are followed.** **- Kent Pension Fund,** Contributions receivable - note 5 Regulation 42(2) of the Local Government Pension Scheme (Administration) Regulations 2008. This requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate.	I reviewed the timing of contributions receivable by the pension fund and sample tested the contributions receivable to verify the accuracy and classification of these in the financial statements. Some 4.7% of contributions received in 2011/12 from admitted and scheduled bodies of the scheme breached regulation 42(2). This includes seven larger scheduled bodies. Officers monitor this on a monthly basis through a key performance indicator and contact relevant bodies to ensure they are aware payment is late. The timeliness of receiving contributions within 19 days improved during 2011/12 financial year. I also noted a classification error in the disclosure of contributions receivable. Two schools that transferred to foundation school status (and therefore should be a scheduled body) are still shown as KCC schools. Due to the analysis of KCC schools contributions it is not possible to identify the amount relating to the two schools. However, I can confirm that this could not be material as the schools would not pay more than £100,000 a month so the maximum error in 2011/12 (and the prior year) would be £2.4 million. This is an uncertainty in the classification of contributions receivable and does not impact on the total contributions receivable in 2011/12.

Recommendations

R3 The pension fund bank reconciliation process should ensure that cash held on behalf of the fund by the Council should be transferred back to it on a regular basis, with the cash held as at 31 March being shown as cash in transit in the reconciliations and financial statements.

R4 Officers should ensure that the requirements of IAS32 (Financial Instruments: Presentation) are met when producing the financial instruments notes for the Council and Pension Fund.

R5 Officers should continue improvements made in the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days.

Whole of Government Accounts

In addition to my audit of your financial statements, I am also required to audit and report to the National Audit Office on your Whole of Government Accounts return. The Council has to provide the unaudited WGA return to the Department of Communities and Local Government by 27 July 2012. I plan to complete the procedures specified by the National Audit Office by 4 October 2012.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

1. Financial resilience: The organisation has proper arrangements in place to secure financial resilience.

Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

2. Securing economy efficiency and effectiveness: The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Risk	Audit response
Financial challenge The external financial environment remains a very challenging one with the savings targets continuing to increase in future years. The Council is on track to successfully deliver £95 million of savings in its 2011/12 budget but is facing increasingly difficult tasks in reducing areas of spending. Members and officers will need to consider new ways of working and delivering services to meet the financial challenge.	I will review key financial information to ensure the Council is well placed to meet the continuing financial challenges it is facing. This will include: ■ whether the assumptions set for the medium and long term financial planning are robust; ■ monitoring of its savings plans and whether these are sufficient to achieve £100 million saving required in 2012/13; ■ reviewing the work of the Budget Programme Board; and ■ reviewing equality impact assessment process used to support budget decisions.

Summary of findings

The Council faced a significant financial challenge in the delivery of its 2011/12 budget and has responded well to this challenge. It has demonstrated strong financial control in the delivery of its annual budget. Savings of £95 million were required coupled with ongoing strong budgetary control to deliver a balanced budget. The actual out-turn for the year was an under spend of £16.2 million. This was identified and forecast during the year and was due to the successful delivery of the majority of its planned savings programme and additional unbudgeted savings. Some of the latter reflect projects approved in the 2011/12 budget which ultimately did not proceed. For example: Big Society Fund planned spend of £4 million (rolled forward into 2012/13 budget) and £4.1 million savings from the rephasing of revenue funded capital works. The June 2012 Cabinet meeting approved contributions totalling £8 million to the rolling budget reserve to be spent on highways maintenance following the wet weather (£6 million) and investment in technology and communications (£2 million).

The Council strengthened its financial governance arrangements in 2011/12. It established a Budget Programme Board (BPB), a mixed group of members and officers set up in October 2011. The Cabinet Member for Finance chairs weekly meetings. The initial focus of the BPB was to monitor the budget and hold budget holders to account for their Project Initiation Documents (PIDs) – challenging savings initiatives in 2011/12 that were assessed ‘at risk’. This process was a contributory factor to the delivery of the majority of savings plans in the year. For the 2012/13 budget setting process the Council continued with the PID process. For all projects over £200,000 the responsible directorate/ manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. BPB received 100 per cent of PIDs to support the budget savings for 2012/13. Although it did identify that not all were received in a timely manner and some had to be returned to the responsible officer as they were not of a sufficient quality, in general there was evidence of improvement and an embedding of the process. The full list of savings for 2012/13 reconciles to the Medium Term Financial Plan which totals just over £95 million. A formal review of the 2012/13 PIDs will be carried out in September to ensure the proper Red - Amber – Green (RAG) rating has been assigned by the responsible officer halfway through the year. The focus for monitoring and review of the overall budget continues with the usual budget monitoring process. The delivery of savings during the year is reported to Cabinet in the comprehensive quarterly key activity and risk revenue and capital budget reports. This is supported by monthly exception reports identifying significant adverse and positive variances to the budget. Based on my review of the Cabinet minutes during the year this has proved a successful monitoring process for the savings plans and overall budget out-turn. The BPB has been given a small budget for 'invest to save' projects. During the 2011/12 year, two requests were made for funding. The Board has demonstrated that it is effective at challenging the requests as only one bid was successful. There is a clear rationale for the decisions made on both bids.

Arrangements for effective future financial planning are sound. The Council decided to develop three year service strategies for all directorates from 2012/13 to assist in the transformation of the Council's services against a backdrop of long-term financial decline. These strategies were to be shaped around: vision and innovation; risks and implications; and helping to shape the future. The role of the BPB was to review the service strategies and challenge the plans against set criteria to ensure they were robust. Heads of Service and Directors attended BPB between January and March 2012 to review the PID and service strategy. The forward plan identifies that officers are being recalled as required to monitor the progress of the strategies. CMT identified that a helicopter view was required of the numerous transformation activities the Council was involved in as they recognised the risk for duplication, missed opportunities and potential wasted effort. This is in progress.

Planning for 2013/14 budget has begun. A main reason for developing the BPB was to bring forward the budget setting process; the Council plans to publish the 2013/14 budget for consultation in summer 2012. Early consultation should allow buy in for the required £80 million savings and allow the public to express views for members to consider in their final decisions on the budget. The BPB meetings are minuted and there is a forward work programme. A review of the minutes confirms that actions arising from meetings are followed up at the next meeting and on the whole, action is being taken quickly by the responsible officer or member. BPB reports its work to Corporate Management Team (CMT) at officer level via the Corporate Director of Finance and Procurement and reports are presented to Cabinet and informally to Corporate Board by the Cabinet Member. The reporting mechanisms of the Board should be reviewed to ensure that all relevant officers and members are aware of its work.

A number of fiscal rules have been set by finance to plan the 2013/14 revenue budget. These were reported to and approved by the Full Council as sensible rules to underpin the Council's constrained financial position. Monitoring of the rules will be undertaken by the BPB. The Council intends to develop similar fiscal rules to apply to its capital programme.

The 2013/14 budget process has built in scenario planning and stress testing over the summer months. The timing of the process should ensure that there is sufficient learning from the consultation and to respond to any central government funding decisions. The medium to long term assumptions appear reasonable for the future financial position. The Council remains prudent in its spending plans and recognises that savings will be more difficult to achieve in the future without cutting services.

The Council has an equality impact assessment strategy and requires all forward plans, strategies and decisions to include an assessment. I have reviewed a number of key assessments to support budget making decisions, including the budget setting process for 2012/13, and have not identified any issues arising from the process.

Risk	Audit response
Changing public services agenda 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. 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: ■ 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.	I will monitor any significant changes to the Council's operating environment and any impact on the Council's financial plans.

Summary of findings

The Council working with other stakeholders and partners is responding to the changing legislative environment. The Health and Social Care Act 2012 introduces a new role for local authorities effective from April 2013, for the co-ordination, commissioning and oversight of health, social care and public health. A shadow health and wellbeing board has been established for the last six months. The Board has discussed its role and established governance arrangements. It is also progressing work on the agreement of a joint strategic needs assessment and the development of a joint health and wellbeing strategy. Work is underway to effect the transfer of all current NHS employees in the health and well being team to the Council.

The Local Government Finance Bill 2011 provides for the ‘localisation’ of council tax benefit from April 2013. From this date, each collection authority will be required to have devised its own scheme of support for low income taxpayers. DCLG will pay grants equivalent to 90 per cent of the present cost of council tax benefit. If the local schemes fail to reduce council tax benefits by 10 per cent, the shortfall has to be met by the precepting and collection authorities in the area pro rata to their share of council tax receipts. For Kent County, this would be approximately £8 million per year. All local authorities in Kent have been working collectively on this issue and in May 2012 through the Kent Forum (comprising the leaders of councils in Kent and their officer advisors) proposals for a common scheme of council tax benefit for the Kent County Council area and risk sharing arrangements were agreed.

Locality Boards have been set up for community budgets. Kent was chosen as one of just 16 areas nationwide to pilot Community Budgets as part of the government’s spending review. From 1 April 2011, the Council was given control of these new local budgets, which bring together various funding streams from central government into a single funding pot. Councils are able to decide at a very local level how they can best spend that money to tackle social problems around families with complex needs. The Council has focused funding on the children’s preventative agenda for vulnerable families as early intervention in these areas will ensure that ongoing funding is reduced. The sharing of information between agencies should reduce the number of people visiting troubled families. The Budget Programme Board has reviewed a proposal to create a management structure for looking at vulnerable children in the 11-24 year old range with a view to expand into client focused teams.

Risk	Audit response
Value for Money probe In the challenging financial environment described above, the Council must ensure that it achieves value for money in all areas of service provision. The Corporate Director of Finance and Procurement 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, I have identified two potential areas of significant expenditure which would be relevant to my VFM conclusion: ■ preventative children’s services and the impact of the cost on placements; or ■ reactive and proactive highways maintenance. 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.	Following a planning meeting with the Corporate Director of Finance and Procurement, I have reviewed the arrangements within children’s services to understand how value for money is achieved.

Summary of findings

Background

The concept of good value for money is a positive relationship between cost and performance. Reviewing value for money profiles comparing the Council to nearest statistical neighbouring councils shows:

- the number of looked after children in Kent in 2010/11 was 54 per 10,000 children (21 per cent higher than in neighbouring authorities) and a 15 per cent increase compared to 2009/10;
- the planned spend per child on looked after children for 2011/12 is six and a half per cent higher than in neighbouring authorities and a five per cent increase compared to 2010/11; and
- the planned spend per child of the adoption service in 2011/12 is ten per cent higher than in neighbouring authorities, and an eight per cent decrease compared to 2010/11.

The profiles indicate that the Council's spend on looked after children is more expensive than at neighbouring authorities because the service is in high demand and there are a high and increasing number of children in the system. There has been a steady increase in the number of looked after children in Kent over the last four years, with a 35 per cent increase since 2006/07. The planned spend in 2011/12 incorporates a £3.5 million investment in services by the Council to support its improvement programme. Further investments are also being made by the Council to implement a new workforce strategy.

Following a critical inspection by Ofsted in October 2010, Kent prioritised improvements in its children's services. The focus of its first improvement plan, commencing in March 2011, was to address the assessment backlog in children's services. The focus of the second improvement plan is on improving the quality of the service delivered and its sustainability by safely reducing the demands on the service. The key themes of the second improvement plan are to:

- maintain the timeliness of assessments and ensure all cases are allocated appropriately;
- reduce the numbers of looked after children and the number of children subject to Child Protection Plans;
- raise the quality of casework and improve care planning and outcomes for looked after children;
- revise the service structure so that services are delivered through a locality-based integrated structure which is fit for purpose, strongly managed, and appropriately staffed;
- put in place a range of preventative services; and
- improve the quality of the adoption service and increase the number of adoptions.

A third improvement plan, which is currently being finalised, focuses on having the right mix of services to meet service user needs.

I have reviewed how the Council is building in value for money considerations to its children's services. I do not make any qualitative judgements on the appropriateness of the Council's response from an operational viewpoint as this is very much the remit of Ofsted.

I have considered the following specific areas as they include many of the key initiatives in the improvement plans:

- work to tackle the assessment backlog;
- specialist children's services restructuring;
- social care workforce planning; and
- changes in management of the adoption service.

Tackling the assessment backlog

The investment made by the Council to reduce the assessment backlog was matched by improved performance. The Council awarded a six month contract in April 2011 for a peripatetic team of 30 social workers and six managers to reduce the number of unallocated cases and the number of incomplete assessments and to restore timely assessment timescales. The peripatetic team contract cost the Council £1.5 million. The additional resources were included in the directorate's budgets and were part of the reason for the increase in the planned spend on looked after children in 2011/12. The Council followed proper procurement processes in the specification and allocation of this short term contract. It chose its supplier based on agreed tender criteria, which included price and quality factors. Positive outcomes have been delivered. The improvement plan updates highlight the progress the Council made in addressing the service backlogs. The backlog of incomplete assessments was significantly cleared by October 2011. The Council reduced unallocated cases and assessments out of timescale by November 2011, meeting its August 2011 Improvement Notice Targets. The Council has successfully maintained its agreed reductions in unallocated cases and timeliness of assessments through to year end. Individual social worker caseloads were significantly reduced following the completion of the contract. The average social worker's caseload was 20.6 cases at March 2012, compared to a target of 20.

Specialist Children's services restructure

The Council is restructuring specialist children's services to create a new structure that is more fit for purpose, strongly managed and appropriately staffed. The restructure seeks to improve the VFM of the service as it is designed to ensure that the right resources are in the right place to deliver the desired results and that there is proper management of resources to avoid waste.

The Council's children's services restructure began in January 2012. Management expect it to be fully implemented by September 2012. It affects the whole service and will significantly alter the way the service is delivered. It includes structural changes for handling initial assessments, building an effective commissioning framework and establishing a range of preventive services. The creation of specialist teams and re-distribution of staff in relation to differential needs and demands across the county has been designed to improve the Council's capacity to effectively manage the service. For example, to facilitate better management of referrals and handling of initial assessments and to ensure the Council has the right amount of staff in the right locations.

Some operational service changes have already been implemented as part of the restructure, which have had a positive impact on the economy and efficiency of the service. These include the establishment of a specialist County Duty Team and a Central Referral Unit, which officers report have reduced both the number of inappropriate referrals to the service and waste of resources through duplication of effort with other agencies. The Council's new specialist County Duty Team (CDT) of social workers went live in May 2011 to deal with all child contacts coming into Kent. The team was set up to apply common thresholds at the point of contact and reduce the number of inappropriate referrals reaching Duty teams. Evidence suggests that the outcomes achieved by the team are in line with its objectives. The CDT has had an impact in reducing the numbers of referrals being made into social care. There was a 26 per cent reduction in referrals in 2011/12, alongside reductions in the number of re-referrals being processed (28 per cent reduction).

A new Central Referral Unit (CRU) went live in January 2012. The CRU brings the CDT and other agencies (including health services, the police and adult services) together under one roof. The aim of the CRU is to facilitate more consistent threshold application between agencies, reduce duplication of effort and promote more effective information sharing. Since the CRU commenced the number of referrals to children's social care have decreased. The CRU has also made a significant impact by reducing the number of inter-agency contacts into social services (eg a 76 per cent reduction in Domestic Abuse Notifications from the Police).

The stated key focus of the restructure is to improve the quality and VFM of the service and the outcomes for children within the existing service resource envelope. However, officers contend the restructure has been designed with potential workload decreases in mind, so that resources can be reduced within the new structure if further caseload reductions are achieved in the future. Planned actions to reduce the caseload and further improve the VFM of the service include increased investment in a range of prevention and early intervention services under a new Preventative and Early Intervention Strategy.

The potential size of any resource reductions have yet to be articulated, as the Council is currently still making changes to improve the service in response to its Improvement Notice. Within the ongoing restructure the Council is considering the relationship between the service workload and optimum resource needs. This includes full consideration of the complexity of individual cases and the experience and competence of staff employed.

Recommendation
R6 Following completion of the service restructure, regularly review staff resources based on service demand changes and resource skills and experience.

Social care workforce planning

The Council has considered value for money in determining the size of and reward arrangements for its social care workforce. Increases in demand for children's services at the Council have led to increased pressures on staffing. One of the Council's key targets for 2011/12 was to improve capacity and capability within social care. Key areas of focus include retaining and recruiting experienced staff, supporting managers and staff training. The Council designed a new Social Care Workforce Strategy for Children's Social Services in May 2011, aimed at making Kent 'the employer of choice' for social work. The strategy incorporates both recruitment and retention. Its objectives are to:

- address vacancy levels in case holder teams (which were 25 per cent in early 2010 and 15 per cent in May 2011);
- reduce staff turnover and minimise the loss of experienced staff; and
- secure the right balance between newly qualified social workers and those with experience.

To inform the new Workforce Strategy the Council prepared an analysis of current staffing levels and a recruitment plan for the next three years. The strategy considers ways to improve the economy, efficiency and effectiveness of the service by assessing the optimum skills and experience of the workforce to deliver the desired outcomes for children. The Strategy also considers how the Council can attract, develop and retain staff through its remuneration and training offer. The Council has fully considered comparative data from other authorities whilst designing its remuneration package. Costs of the proposals have been considered and built into directorate budgets.

Kent's 'compelling offer', aims to bring trained and experienced social workers into Kent, retain existing experienced staff and recruit more staff from within Kent. As a result of the action taken to date, vacancy rates are reducing. Since May 2011 the Council has appointed 44 experienced social workers and has employed agency staff through Kent Tops Temps, following a renegotiation of contract prices. The Council's performance reports to March 2012 show that the ten per cent vacancy rate target recommended by Ofsted had been achieved at March 2012. Progress has also been made in increasing the percentage of posts filled by permanent qualified social workers, up from 80 per cent in December 2010 to 87 per cent in March 2012. The structure of the social workers teams and number of supervisors is also being reviewed within the service restructure proposals. A supervision audit has been carried out and has identified areas where further improvements in supervision are required. Actions are being taken by the Council to address the concerns it highlighted. This includes a new training programme, new data systems, re-issue of the supervision policy and development of supervision practice guidance.

Changes in management of the adoption service

The Council has recently invested additional funds in adoption services, with a view to improving the performance of the service. It is too soon to tell whether this investment will be matched by improved performance. The Council awarded a two year contract in April 2012 for management of the adoption service to oversee planned service improvements, including whether and how adoptions in Kent might increase in number and be brought to completion more speedily. The adoption contract cost the Council £1.1 million. The contract is in addition to the directorate's budgets.

The Council contend that if it is able to increase the number of successful adoptions, not only would it be transforming the lives of vulnerable and disadvantaged children, it could simultaneously achieve significant savings in its service costs. The Council is therefore aiming to improve the economy, efficiency and effectiveness of adoption services by:

- increasing the supply of adoptive parents;
- speeding up the recruitment process; and
- improving care planning and early decision making for children in the care system.

This work is at an early stage, so there is still much to do to improve VFM in adoption services. At March 2012 the percentage of children leaving care who are adopted is behind the Council's 11 per cent target. The total number of adoptions in 2011/12 was 70 (8.2 per cent, compared with the 8 percent achieved in 2010/11). Achievement of the Council's 11 per cent target adoption target is therefore challenging and will require continued focus and close monitoring.

Risk	Audit response
New corporate governance arrangements The Council has adopted a new corporate governance structure during 2011/12 including the introduction of a hybrid model of governance, and a realignment of the officer structure.	A joint review with Internal Audit was completed of the new governance arrangements, focusing on the new Corporate Board. Minutes of the joint corporate board meetings were reviewed and interviews were held with: ■ the Leader; ■ Portfolio Holders for: – Adult Social Care and Public Health; – Business Strategy, Performance and Health Reform; – Finance and Business Support; and – Specialist Children's Services. ■ Members of corporate management team. Internal Audit will report its findings in September. I have seen their draft report and agreed the findings and support the recommendations made.

Summary of findings

The Council implemented new governance arrangements introducing a new cabinet committee structure and revised senior management arrangements, deleting the post of the Managing Director. The structure was approved at the December 2011 County Council meeting with the final committee structure and amendments to the constitution being agreed in March 2012.The stated aim of the changes is to strengthen policy making increasing the input of non executive members and improving strategic decision making and the leadership of the organisation by greater collaborative working between Cabinet and CMT, reducing perceived tensions between the agendas and decisions of Cabinet and CMT.

The Council established a new ‘Corporate Board’ comprising Cabinet and Corporate Management Team. The Board’s function is to achieve the cultural change required to improve collegiate working between members and management. The Corporate Board meetings commenced on 6 March 2012 and it meets every three weeks.

All interviewees agreed that there are positive signs of improved working and a cultural shift, whilst recognising that establishing the required culture will take time. Officers confirmed that they feel able to engage in discussions, speak openly and challenge other officers even if it is not their specialist area. They comment that this is a positive change from how they felt previously, as historically officers were not expected to challenge reports outside of their directorate. Members interviewed felt that the new arrangements are an improvement on the past and whilst acknowledging that they are still relatively new stated there was more to do to develop the ‘strategic overview’ role that all members of the corporate board need to contribute too. The Leader chairs the meetings and is conscious of the need to bring everyone into discussions where it is required.

The governance arrangements of the Board meetings appear appropriate, with some acknowledged areas for improvement. Interviewees confirmed that papers are available on the Thursday before the Monday meeting which is considered acceptable by them. Further consideration needs to be given to agenda management as those interviewed expressed concerns over the length of agendas. Members interviewed acknowledged that on occasions, the setting of the meeting or the length of the agenda has hindered robust debate of issues, although the facility exists to hold additional meetings where required. A support officer to the Board has been recruited in July 2012. Internal Audit reviewed the agendas of meetings to date and concluded that the issues being raised with the Board were of an appropriate level. This view was echoed by members and officers as on the whole they felt the issues being debated by them were relevant to the strategic direction of the Council.

The Board’s Terms of Reference (ToR) establishes the important elements for an effective set up, including the membership, meetings, and agenda management. The Council has set up a number of Boards which are chaired by the Cabinet Member for the related portfolio. These include: Budget Programme Board; Commercial Services; Performance Evaluation Board; Procurement and Commissioning Board; Property Board; and Strategic Communications Board. The purpose of the Boards is to advise the Cabinet Member on key issues and actions being taken by officers to enable the member to effectively carry out their role. It is the responsibility of the Chair of the Boards to report issues being discussed and progress being made to the Corporate Board. As some of these Boards are quite new, these arrangements are not fully in place yet.

Responsibilities of the former Managing Director have been reassigned to other officers. A review was undertaken by the Council to ensure all responsibilities were mapped across. The officers interviewed were happy with the process undertaken and felt that the reallocation has led to a sensible and reasonable workload. They were clear on the purpose of their new role and how this fits into the overall governance arrangements of the Council, including the links to the Bold Steps for Kent. Although the new structure is still in its infancy, no significant weaknesses or issues have arisen to date.

The Head of Paid Service has line management responsibilities for the Corporate Director of Finance and Procurement and Corporate Director of HR and he is also responsible for the 'pay and rations' of all corporate directors. All other line management responsibilities have been passed to the lead Cabinet Member for the portfolio. In some cases, corporate directors reports to two Members. Members interviewed recognise there is a greater need for joined up working by members to ensure that officers receive the same performance message and are not overwhelmed by conflicting interests and work commitments. Cabinet members are responsible for setting objectives and undertaking performance appraisals for corporate directors. Interviews with members and officers confirmed that these meetings were taking place. However, improvements need to be made in the formal minute taking and documentation of appraisals as this is currently a relatively informal process.

Recommendation
R7 The Corporate Board should consider self assessing the effectiveness of its developing culture in the next 6 months.

Risk	Audit response
Performance management The Council published 'Bold Steps for Kent' in December 2010. This is its medium term plan for the four years to 2014/15. In July 2011, the Council published a delivery framework for 'Bold Steps', setting out key priorities, milestones and key performance measures. Work is in progress to develop a rounded, robust performance monitoring suite to track progress against the key priorities.	Internal Audit's 2012/13 plan proposes a review of performance management. Subject to the scope and the timing of its work, I will seek to rely on this for my VFM conclusion, supplemented as appropriate by my own review of the developing performance management arrangements.

Summary of findings

Internal Audit (IA) undertook a review of the progress made to date on the implementation and development of the performance framework and the quality of the information reported. Internal Audit's overall conclusion is that the framework is operating effectively although much work is needed to address the quality of data reported from the systems. IA has planned a significant work programme in the 2012/13 Audit Plan to review the data quality arrangements as the Council has identified this as a corporate risk. I have placed reliance on the work of IA and have supported this with a review of performance reporting to committee and interviews with key officers and members. I support the recommendations made by IA in their report.

The performance management framework has continued to be developed during the year. The 'Bold Steps for Kent' sets out the vision and key priorities for Cabinet and the County Council. There are 16 priorities in the 'Delivering Bold Steps' document, supported by projects/programmes the Council is currently or planning to undertake in the future, and quarterly and annually collected performance indicators. The Council has developed a corporate suite of 30 key performance indicators (KPIs) to measure progress against priorities in its vision. Where possible, the KPIs are reported to Cabinet via quarterly performance reports (QPR). The Leader has expressed the need to increase the level of qualitative performance indicators so the Council has a greater understanding of the customer perspective. This is being led through the customer services strategy with an aim of including qualitative KPIs in the 2012/13 performance reporting. The Performance and Evaluation Board (PEB) a mixed member/officer group, chaired by the Cabinet Member for Business Strategy, Performance and Health Reform provides a detailed challenge to the QPR allowing Cabinet to take an overview. The PEB challenges the action plans for performance improvement to ensure the strategic priorities of the Council are met. It holds KPI owners to account by calling in officers who are responsible for any red rated KPIs. If the Board does not think sufficient action is being taken it can escalate the area of concern to the Corporate Board. Directors from all directorates are representatives on the PEB to ensure it has a Council-wide view of performance issues. The Council plans to complete the cycle of reporting progress against its priorities through a public annual report.

The Council has recently created a programme office which will collate the supporting information from the various projects and programmes in existence that feed into the performance framework. Currently, this information is not reported in the QPR as there is insufficient data available to make direct links. The use of the programme office to report the work of linked projects and programmes aims to improve data available for decision making.

Performance monitoring at directorate level is also being strengthened. Each directorate has performance indicators linked to their business plan which is the method used for monitoring performance at divisional and directorate management teams. The Council has recently enhanced the reporting at this level by creating directorate dashboards. This is most advanced in the children's services directorate and the intention is for this style of dashboard to be rolled out across the Council as the detail in some is still being worked on to make it a useful management tool. This is recognised as an area of transition. The PEB also reviews and challenges performance reported in the directorate dashboards.

Risk	Audit response
Risk management The Council has refreshed its approach to risk management. Managerially, the responsibility for risk management has been assigned to a newly created post of Head of Risk. This area is being covered on an interim basis.	Internal Audit's 2012/13 plan proposes a review of risk management. Subject to the timing of its work, I will seek to rely on this for my VFM conclusion, supplemented as appropriate by my own review of the Council's revised risk management arrangements.

Summary of findings

Risk management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

The Council's formal risk management processes suffered during the significant organisational change undertaken during the year. Internal Audit (IA) undertook a review of risk management arrangements in place in 2011/12 and gave a limited assurance over the adequacy and effectiveness of the Council's formal risk management arrangements. A corporate risk register is in place and some actions identified have been implemented. The Governance & Audit Committee did not review the Corporate Risk Register during 2011/12; it was presented for the first time in April 2012. The Committee has commented on this deficiency and secured the commitment for more regular reporting in the future to allow it to meet its own terms of reference.

During the year, risk management processes were not embedded operationally across the Council. Directorate risk registers, core documents supporting the Corporate Risk Register, were not fully in place following the restructure. Internal Audit found that only two directorates could provide a risk register and these varied in quality and detail without clear links to objectives. In addition, some divisional risk registers, which sit below directorate registers, were unavailable when requested during their audit.

The risk management arrangements have been refreshed during the latter part of the 2011/12 financial year in preparation for the new financial year. The Council has adopted the eight principles of risk management from the Office of Governments Commerce's recognised best practice guidance. These underpin the risk management framework and policy that was endorsed by the Performance Assurance Team (PAT) in September 2011 and approved by Governance and Audit Committee (G&AC) in November 2011. Its risk management policy requires updating to reflect the new governance arrangements. The Council is planning to undertake a review in July 2012 and seek approval by G&AC later in the year. An Interim Risk Manager was appointed and he has worked with directorate and divisional management teams to create risk registers for 2012/13. These support the final version of the 2012/13 Corporate Risk Register approved in March 2012. The Council identified the need to improve the collation and monitoring of risks and has purchased risk management software to enable the registers to become 'live' data. This is currently in test phase with administrator training planned for July 2012. The Risk Manager needs to ensure that this system is used effectively by risk owners when it is rolled out later this year.

Cabinet members and Corporate Directors have undergone risk management training during the year. Risk management training has not been rolled out for all managers responsible for monitoring risks in their directorates. Informal training was provided by the Interim Risk Manager as part of the 2012/13 business planning process but the Council has recognised that further training is required. Risk management training has also been incorporated into the 2012/13 member training programme to ensure that the significant number of members not in the Cabinet have sufficient knowledge of risk management.

Despite the absence of formal, fully embedded risk management arrangements, Cabinet and the Corporate Management Team have continued to manage risks. A summary of the status of key corporate risks was reported quarterly during the year. Key outcomes of practical risk management include the delivery of; challenging financial savings and the annual budget; significant organisational restructuring and service improvements to its children's services. Cabinet and CMT have reviewed the annual governance statement which describes and evaluates the overall governance arrangements in place and reflected the weaknesses in risk management in the year.

Recommendation
R8 The Council needs to ensure that the risk management software is successfully implemented and rolled out to risk owners with clear guidance on using the system as a 'live' data information hub.

Risk	Audit response
Data quality and workforce In 2010/11 the Council's arrangements for safeguarding children was inspected. This raised concerns about operational practice (which is outside the scope of my consideration) and aspects of the Council's proper arrangements. I consider that the inspection highlighted weaknesses in the Council's arrangements for: ■ producing relevant and reliable data and information to support decision making and manage performance; and ■ planning, organising and developing the workforce effectively to support the achievement of strategic priorities	In the event that Ofsted reinspect the Council before I issue my VFM conclusion, I will consider their latest findings that are relevant to my responsibilities.

Summary of findings

Ofsted did not reinspect the Council during the 2011/12 financial year, or in the months up to the date of the VFM conclusion. Therefore, I am unable to remove the ‘except for’ conclusion in respect of the 2010/11 Ofsted report on safeguarding children.

Report by exception

In addition to completing my planned work, I am required to consider any other significant matters that come to my attention and consider the impact on my value for money conclusion. A significant matter is one that could impact adversely on a council’s ‘proper arrangements’ to secure economy, efficiency and effectiveness in its use of resources. ‘Proper arrangements’ are defined in the Audit Commission’s Code of Audit Practice which is approved by Parliament. The relevant extract from the Code is:

“ It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.”

Ofsted’s inspection of the Council’s safeguarding children and young people services and services for looked after children raised significant concerns about operational practice (which is outside of the scope of my consideration) and aspects of the Council’s ‘proper arrangements in 2010/11. I consider that the inspection highlighted weaknesses in the Council’s arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

I am required to recognise these weaknesses within the value for money conclusion as a ‘report by exception’. I am unable to remove the ‘report by exception’ in 2011/12 as Ofsted have not formally inspected the service since the original findings. Improvements made to date have been reported to the relevant committee by officers. Appendix 1 shows how the ‘report by exception’ sits within the context of the complete value for money conclusion.

Fees

I reported my planned audit fee in the 2011/12 Audit Plans.

I will complete the audits within the planned fee.

Table 6: **Kent County Council Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	346,500	346,500
Claims and returns	20,865	20,865
Non-audit work	2,500	2,500
Total	**369,865**	**369,865**

The Audit Commission has paid a rebate of £27,720 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to **£342,145**.

Table 7: **Kent Pension Fund Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	49,170	49,170
Total	**49,170**	**49,170**

The Audit Commission has paid a rebate of £3,933 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to **£45,237**.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

Opinion on the Council financial statements

I have audited the financial statements of Kent County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Kent County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Council and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Report by exception

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. I consider the findings of the Ofsted inspection in October 2010 to be a significant matter. The inspection concluded that the overall effectiveness of safeguarding children and young people services and services for looked after children were inadequate, identifying significant weaknesses in the Council's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

The Council is working to an agreed improvement plan but as Ofsted have not carried out a re-inspection during 2011/12 I am unable to remove to except for qualification.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

I am also required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the Council has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells

District Auditor

Audit Commission
1st floor Millbank Tower
Millbank
London
SW1P 4HQ

26 July 2012

Appendix 2 – Uncorrected errors

I identified the following error during the audit which management have not addressed in the revised financial statements.

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Provisions – note 21	The Council has included a provision for VAT potentially payable to the French government in respect of income related to a property owned by them in France. Due to the Council being unsure whether it needs to register for VAT this does not meet the recognition criteria for a provision. The potential liability should be disclosed as a contingent liability:				
	Net Cost of Services		383		
	Provision			383	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Adult social care – Comprehensive Income and Expenditure Statement	The gross expenditure and gross income are overstated in the CIES by £3.7m. There is no effect on the net expenditure at 31 March 2012. Adult social care calculates the value of care packages on a means tested basis with some clients paying part of their package. Adult social care are accounting for the income paid by the client directly to the provider as notional income in the financial statements. This income is not received by Kent County Council, nor do they have the associated costs of that element of the care package. Therefore, the costs should not be included in the financial statements as it is not the Council's income or expenditure. This was identified as an error in 2010/11 and the Council identified the incorrect treatment in 2011/12 as part of the management review of the draft financial statements.	3,700	3,700		

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
Other operating expenditure – note 9	The loss on disposal of non-current assets is understated by £6,672k as the Council used incorrect 'carrying values' of some disposals to calculate the gain or loss:				
	Gains/losses on the disposal of non-current assets	6,672			
	Non-current assets		6,672		
	Capital Adjustment Account			6,672	
	General Fund				6,672
Property, plant and equipment – note 12	Seven foundation status schools financed via PFI were included on the Balance Sheet. As the council does not have the control over the services provided or the title deed to the assets these should be removed from the Balance Sheet.			132,900	132,900
	One foundation school achieved trust status in the year. This was not removed from the balance sheet.			29,000	29,000
Investment property – note 14	The Council correctly revalued investment assets where their value had increased in the year. But the increase in value was accounted for incorrectly through the revaluation reserve. Correcting this, changes a number of entries in primary statements including the CIES and notes as follows:				
	Adjustments primarily involving the Capital Adjustment Account (note 7)	4,119			
	Income and Expenditure in relation to investment properties and changes in their fair value (note 10)		4,119		
	Revaluation reserve			4,119	

Page 86

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
		Dr	Cr	Dr	Cr
	Capital Adjustment Account				4,119
Cash and cash equivalents - note 16	The cash held on behalf of the Pension Fund was excluded from the Council's financial statements as they believed the Pension Fund would disclose as cash. A transfer was not made between the bank accounts or General Ledger codes before year end so this could not be corrected. Therefore, the cash had to be shown in the Council's financial statements as:				
	Cash			3,313	
	Creditors				3,313
	A recommendation has been made in the main report to improve procedures in 2011/12.				
Operating leases – note 28	Contingent rents have been included in two different disclosure lines in the operating lease note. The Council has removed £412k from the 'minimum lease payments' disclosure.				
Dedicated schools grant – note 34	The Code requires the disclosure of 'in year movement' in the note:				
	Central expenditure	13,538			
	ISB schools		13,538		
Investments in Icelandic banks – note 44	The Council correctly calculated the impairment charge for the Icelandic bank deposits in 2011/12. However, the accounting entries were incorrectly coded in the General Ledger:				

Page 87

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
	Short term investments			2,275	
	Financial Instrument Investment Account				2,275

Kent Pension Fund		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Net Assets Statement and Investment notes 13 and 14	Two changes have been made to the prior year comparators:				
	■ The cash internally invested by the Pension Fund was previously treated as a cash balance. In 2011/12 officers decided to present the cash as part of the cash deposit investments (cash equivalents) and not as cash held by the pension fund. This required a restatement of the prior period figures for cash for these deposits:				
	– 2010/11 investments cash deposits			12,061	
	– 2010/11 current assets cash				12,061
	■ Investment management fees were shown in 10/11 as the net position. Officers feel it is more transparent to show the gross fees:				
	– 2010/11 investment management fees	3,562			
	– 2010/11 income from investments		3,562		

Page 88

Appendix 4 – Draft letter of management representation

Kent County Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other corporate directors of Kent County Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

- In previous years we have received conflicting advice regarding French VAT and made the decision to set up a provision. The treatment will be reviewed next year.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the early retirement provision accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

Two restatements were made to correct material misstatements in the prior period financial statements of capital grant income and the accounting treatment of PFI foundation schools. These affect the comparative information of the Comprehensive Income and Expenditure Statement and Balance Sheet respectively. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Kent County Council

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 26 July 2012.

Signed

Name Andy Wood

Position Corporate Director of Finance and Procurement

Date 26 July 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations	
Recommendation 1	
The Council should ensure that lifecycle costs are based on the actual costs incurred and the actual timing of those costs.	
Responsibility	Capital Finance Manager
Priority	Low
Date	31 March 2013
Comments	CFM to liaise with PFI and property teams to ensure information can be obtained.
Recommendation 2	
Officers should reconcile the accounts receivable system to the GL on a monthly basis using the improved process.	
Responsibility	Chief Accountant
Priority	Medium
Date	31 August 2012
Comments	We have a new improved process in place which will be rolled out by the end of August.
Recommendation 3	
The pension fund bank reconciliation process should ensure that cash held on behalf of the fund by the Council should be transferred back to it on a regular basis, with the cash held as at 31 March being shown as cash in transit in the reconciliations and financial statements.	
Responsibility	Treasury and Investments Manager
Priority	High

Date	31 March 2013
Comments	Arrangements to be made for the cash balance at 31 March 2012 to be transferred from KCC to the Pension Fund. The cash reconciliation to be completed monthly and the cash balance at 31 March 2013 to be transferred and accounted for as recommended

Recommendation 4

Officers should ensure that the requirements of IAS32 (Financial Instruments: Presentation) are met when producing the financial instruments notes for the Council and Pension Fund.

Responsibility	Chief Accountant (Council) and Principal Accountant – Treasury / Senior Accountant - Investments (Pension Fund)
Priority	Low
Date	31 March 2013
Comments	Agreed

Recommendation 5

Officers should continue improvements made in the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days.

Responsibility	Treasury and Investments Manager / Principal Accountant - Pension Fund
Priority	Low
Date	31 March 2013
Comments	The receipts of Contributions continue to be monitored monthly and corrective action taken accordingly.

Recommendation 6

Following completion of the service restructure, regularly review staff resources based on service demand changes and resource skills and experience.

Responsibility	Director of Specialist Children's Services
Priority	Medium
Date	31 March 2013

Comments	The Council plans to further review service resource requirements in light of the findings of peer review and the Ofsted follow up. Any future resource changes will be shared with the Improvement Board for comment.
Recommendation 7	
The Corporate Board should consider self assessing the effectiveness of its developing culture in the next 6 months.	
Responsibility	Corporate Board
Priority	Medium
Date	31 December 2012
Comments	Agreed
Recommendation 8	
The Council needs to ensure that the risk management software is successfully implemented and rolled out to risk owners with clear guidance on using the system as a 'live' data information hub.	
Responsibility	Business Integration Manager
Priority	High
Date	31 December 2012
Comments	Agreed

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July 2012

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

To: Governance and Audit Committee – 26 July 2012

Subject: DRAFT STATEMENT OF ACCOUNTS 2011-12

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2011-12.

FOR DECISION AND APPROVAL

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1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2011-12 follows this report. The Accounts and Audit Regulations 2011 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 The audit is now complete and we therefore recommend that the Accounts are finalised and signed today, as this will free up finance staff to move forward with new year tasks and projects. The Auditors have given an unqualified opinion.

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 Emma Feakins, 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 2011-12 is the second to be prepared on an International Financial Reporting Standards (IFRS) basis. The format of the Accounts has not changed significantly to last year.

2.3 This year there are three new notes in the Accounts:

i) Heritage Assets – Note 13
ii) Exit Packages which are included in Note 32 – Officers Remuneration
iii) Trust Funds – Note 46

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

Foreword Pages 1-4

2.5 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £8.2m 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 9 July.

2.6 There has been an increase in the level of general revenue reserves by £5m and these now stand at £31.7m. This increase is reflecting a budgeted contribution approved by County Council in February 2011 in recognition of our increased risk profile. This is deemed to be an acceptable level of general reserves based on the current budget, and the Council's identified risks, by the Corporate Director of Finance and Procurement.

2.7 Capital expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £5.159m less than the latest revised cash limits. Of this, £9.774m reflected re-phasing of capital expenditure plans across all services and £4.616m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2012-13 and beyond in order to accommodate the revised profiles of capital expenditure.

2.8 Schools have revenue reserves of £37.1m and capital reserves of £2m.

2.9 The 2011-12 IAS 19 report shows an increase in the Pensions Reserve deficit of £327m. See Paragraph 2.26 for more information.

Statement of Responsibilities Page 5

2.10 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 6-17

2.11 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 6 to 17 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2011. The Statement confirms that, during the financial year 2011-12, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies three significant governance issues.

2.12 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 18-21

2.13 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 2011-12 Accounts commenced on the 11^{th} June and ended on the 6^{th} July.

2.14 The external audit provides 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 2012 and its income and expenditure for the year ended 31 March 2012. The audit started in May and finished 12^{th} July. Following approval of the Accounts by Members, the external auditor will issue their signed opinion. The Accounts are expected to be formally signed today (26^{th} July), with an unqualified opinion.

Accounting Policies Pages 28-38

2.15 Our accounting policies have been amended to reflect Heritage Assets and Carbon Reduction Commitment Allowances and are consistent with the Code. They were approved by this Committee at the meeting on the 18th April 2012.

Financial Statements Pages 22-27

Movement in Reserves Statement (MiRS)

2.16 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 £43m in 2011-12. The main increases are:

	£m
General Reserves, to reflect the increased budget risk profile	5
Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding	13
NHS Support for Social Care, reflecting the timing of new projects funded from this grant	13
Rolling Budget Reserve, reflecting the bigger underspend in 2011-12 compared to 2010-11	9
King's Hill Development Reserve, reflecting the distribution to KCC from land disposals at King's Hill. This puts the reserve back into a positive balance	6
Total of major increases in earmarked reserves	**46**

2.17 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

2.18 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.

2.19 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

2.20 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).

2.21 Long-term assets have decreased by £69.1m. The majority of this decrease relates to Property, plant and equipment where we have derecognised assets.

2.22 Long term liabilities have increased by £293.8m. £327m of this is due to an increase in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the decrease can be found in Note 41 on page 115 of the Accounts.

2.23 Our net worth has decreased from £507.7m (restated for adjustments relating to Foundation Schools and a Voluntary Aided school which were shown on our balance sheet but due to technical interpretation of various accounting standards have required the assets to be written off at nil consideration) to £180.4m. This is primarily due to the increased liability of the Pensions Costs, as explained in the paragraph above (and page 115 of the Accounts).

Cash Flow Statement

2.24 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents comprise short term deposits with building societies and account for £126m of the £139.4m on the balance sheet.

Significant Notes to the Accounts pages 28-129

Adjustments between accounting basis and funding basis under regulations

2.25 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

2.26 Details of reserves can be found in the following notes, earmarked reserves in Note 8 on pages 45-49, Usable Reserves in Note 22 which also includes earmarked reserves, and Unusable Reserves in Note 23. Earmarked reserves have increased by £23.2m, the remainder of usable reserves by £19.8m and unusable reserves by £370.3m (£327m of which relates to the Pensions Reserve). The main reasons for these increases are shown in paragraph 2.16.

Property, Plant and Equipment

2.27 Note 12 on pages 51-59 shows the movements on these assets, which have slightly reduced in value (relatively) from £2.28bn to £2.2bn.

Amounts Reported for Resource Allocation Decisions

2.28 Note 28 on pages 80-83 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. This reconciliation is our final outturn report, although as with much of Local Authority accounting, not in an immediately obvious way.

Officers Remuneration

2.29 Note 32 on pages 87-99 provides details of officers' remuneration over £50,000. This year the note provides details on exit packages in bands on £20,000 split between compulsory redundancy and other departures.

Deposits in Icelandic banks

2.30 Note 44 on page 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 £0.6m to the general fund. This was £2.3m of impairment less £1.7m of accrued interest. Under the latest CIPFA LAAP Bulletin on Iceland Accounting our accounts show that of the £50m deposited we are accounting to recover approximately 96%.

Prior Period Adjustment pages 127-129

2.31 This is a detailed note of the changes that were made to the financial statements for 2009-10 and 2010-11 as a result of Foundation Schools and a Voluntary Aided school being written out for nil consideration. These assets were on the balance sheet as they related to PFI contracts but further technical interpretation of related accounting standards has required the assets to be written off (referred to in Section 2.23). The result is that our balance sheet now has the PFI contract on a long-term liability, but no associated asset. We will make representation to the relevant bodies to lodge our concerns over this accounting treatment.

Pension Fund Accounts pages 130-152

2.32 Pages 130-152 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary

2.33 A glossary of some of the terms used within the Accounts is provided on pages 153-154.

Other Issues

2.34 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 Errors, and the report is formally known as the ISA260. This report is provided at agenda item 8 of this Committee.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2011-12.

3.2 Note the recommendations made in the Annual Governance Report.

Emma Feakins
Chief Accountant
Ext: 4634

Andy Wood
Corporate Director of Finance and Procurement
Ext: 4662

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2011-12 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 2011-12 is prepared on an International Financial Reporting Standards (IFRS) basis.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Advisory Board and the UK 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 153 and 154.

The Accounts consist of:

- A Movement in Reserves Statement on pages 22 and 23.
- A Comprehensive Income and Expenditure Statement on pages 24 and 25.
- The Balance Sheet on page 26 which sets out the financial position of Kent County Council as at 31 March 2012.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 27.
- Notes to support the above primary statements, pages 28 to 129.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 130 to 152.

Revenue Budget and Outturn

In February 2011 the Council approved a net revenue budget for 2011-12 of £909.054m. In addition £11.349m of 2010-11 underspending was rolled forward and added to the budget and we have also received a further allocation of Local Services Support Grant during 2011-12 of £1.527m. 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	Outturn	Variance
	£000's	£000's	£000's
Education, Learning & Skills	38,720	35,916	-2,804
Specialist Children's Services	111,326	126,839	15,513
Adult Social Care & Public Health	308,266	302,684	-5,582
Environment, Highways & Waste	149,162	141,897	-7,265
Customer & Communities	91,704	89,807	-1,897
Regeneration & Enterprise	4,730	4,731	1
Finance & Business Support	159,145	155,662	-3,483
Business Strategy, Performance & Health Reform	51,581	49,264	-2,317
Democracy & Partnerships	7,296	6,886	-410
	921,930	913,686	-8,244
Delegated Schools Budgets	0	-3,898	-3,898
	921,930	909,788	-12,142

	Budget	Outturn	Variance
FUNDED BY:-	£000's	£000's	£000's
Reserves (rolling budget reserve)	-11,349	-11,349	0
Formula Grant	-315,987	-315,987	0
Council Tax	-575,679	-575,680	-1
Council Tax Freeze Grant	-14,325	-14,342	-17

New Homes Bonus Grant	-1,400	-1,379	21
Local Services Support Grant	-3,190	-3,191	-1
Total Funding	-921,930	-921,928	2
NET OUTTURN POSITION	0	-12,140	-12,140

The net underspending within the portfolios of £8.242m (excluding £3.898m delegated schools underspend) has been carried forward and will be added to the 2012-13 budget to support the re-scheduling of projects and to fund recent County Council and Cabinet decisions affecting the 2012-13 budget.

Schools

In total, schools underspent against their delegated budgets by £3.898m, which has been transferred to school reserves. This includes a £4.361m drawdown from school reserves as a result of 41 schools converting to new style academy status which allows them to take their reserves with them, and a £6.874m underspend against delegated budgets for the remaining Kent schools. In addition, there was £1.385m of underspending on the unallocated schools budget, largely in respect of a £1.3m increase in DSG after the schools budgets were set which has yet to be allocated by the Schools Funding Forum, and an underspend on early years placements of £0.184m together with other minor variances of +£0.099m. In addition, 4 schools closed during 2011-12 and as a result £0.262m has been transferred from the delegated schools revenue budget reserves to the unallocated schools budget reserve. Schools now have some £37.098m of revenue reserves and there is £21.990m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2012 is £31.725m, which is an increase of £5m from the position as at 31 March 2011 reflecting a budgeted contribution approved by County Council in February 2011 in recognition of our increased risk profile.

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 £50.35m represented 10.9% of the total deposits of the Council of £462.8m. In 2011-12 we recovered our full principal investment in Glitnir and there were repayments from both Heritable and Landsbanki. Latest indications suggest that we will recover 100% from Landsbanki and 88% from Heritable as outlined in LAAP82 Update 6. In real terms this means a recovery of 96% of the original deposit plus interest to the respective claim dates.

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 £265.8m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education, Learning and Skills	100,796	96,897	-3,899
Adult Social Care and Public Health	3,664	3,292	-372
Environment, Highways & Waste	96,654	96,795	141
Customer and Communities	16,863	16,490	-373
Regeneration & Enterprise	2,483	2,450	-33
Business Strategy, Performance and Health Reform	7,556	6,202	-1,354
Specialist Children's Services	14,408	15,139	731
	242,424	237,265	-5,159
Devolved Capital to Schools	30,300	28,300	-2,000
	272,724	265,565	-7,159
Property Enterprise Fund 1		37	37
Property Enterprise Fund 2		159	159
TOTAL	272,724	265,761	-6,963

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £5.158m less than cash limits. Of this, £9.774m reflected re-phasing of capital expenditure plans across all services and £4.616m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2012-13 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2011-12 was £28.300m and at 31 March 2012 schools have in hand some £2.000m of devolved capital funding, a decrease of £5.254m on 2010-11, which will be carried forward to 2012-13 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 £2.654m. There was £4.147m capital receipts realised through the fund, giving a surplus after costs and interest of £1.334m. When this is added to the £20.463m deficit brought forward from 2010-11, the deficit on PEF2 at the end of 2011-12 was £19.129m.

Details of the financing of capital expenditure are on page 104.

Capital Reserves

At 31 March 2012 the Council has earmarked and other capital reserves of £88.9m as shown on page 70.

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 2012 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 69.

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 2011-12 IAS 19 report shows that the Pension Fund now has a deficit of £866m. This is an increase in the deficit of £327m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2011-12, earlier years and for future years. The balance currently stands at £1,103.6m 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 2011-12 the transactions and balances of EKO have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

Prior Period Adjustments

We have made an adjustment to the 2010-11 Statement of Accounts in relation to PFI contracts for Foundation Schools and a Voluntary Aided school. These schools were shown on the authority's balance sheet. However, further technical interpretation of the various accounting standards states that as we do not own the schools or receive economic benefits from the schools the assets should be written off at nil consideration. This resulted in disposals of £161m. The impact of the prior period adjustment is shown on pages 127 to 129.

Further information about the Accounts can be obtained from Emma Feakins, Chief Accountant.

Telephone Maidstone (01622) 694634 or e-mail emma.feakins@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 26 July 2012 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 Corporate Director of Finance & Procurement 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 2012.

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 2012.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood
Corporate Director of Finance and Procurement
17 July 2012

Annual Governance Statement

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 of Corporate Governance 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 2012 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. A new Sustainable Communities Strategy (the Vision for Kent 2011-2021) was developed in 2010-11 and approved by County Council in December 2011. The Vision for Kent also acts as the Kent Forum's partnership strategy for the Kent community. It is developed in partnership between the public, private and voluntary sectors across Kent and sets out the shared priorities of partners to make Kent a better place to live and work. The first version of the Vision for Kent was published in 2002 and refreshed in 2006.

This refresh has resulted in a very different document to previous versions. Instead of being focused around service specific themes, the Vision for Kent is centred on three countywide ambitions shared with the County Council's medium term plan (see below) supporting a focus on the strategic, long term goals for improving the County. This approach encourages greater partnership working and a more innovative approach to service delivery. The Vision for Kent 2011-2021 underwent a 10 week consultation exercise between June and August 2011. Nearly 800 responses were received, of which 75% were from individual members of the public. The consultation exercise showed that there was strong identification and support for the three County Ambitions and the more strategic, long-term approach adopted by the revised Vision for Kent.

The Kent Forum, the high-level strategic group bringing together the family of local government in Kent, owns the Vision for 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. These responsibilities include owning the Vision for Kent 2011-2021, which it approved in February 2012 and supporting the development of Local Boards across the county. The Kent Forum is chaired by the Leader of the County Council. Three Ambition Boards have been created underneath the Kent Forum that support the three shared priorities between the Vision for Kent and Bold Steps for Kent (see below). The creation of Locality Boards emphasises a new way for County and District Councils to work together. Locality Boards aim to support greater democratic accountability through locality partnerships and stimulate more effective joint working between local partners to deliver locality and county priorities. 11 Locality Boards have been established across Kent to date.

Following public and partner consultation in October - November 2010, the Council's medium term plan, Bold Steps for Kent, was approved by County Council on 16 December 2010 and sets out its ambitions over the next four years. These are:

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

Bolds Steps for Kent not only sets out the Council's ambitions and priorities until 2014-15, but also its determination of transform how the Council works and engages with the communities it serves and its partners in the public, private and voluntary sectors, in order to continue to deliver services within a challenging financial climate. 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 sectors play an increasing role in service delivery for the County Council through the transformation agenda that focuses on demand management, service integration and localism. In July 2011, County Council approved Delivering Bold Steps, the overarching delivery framework for Bold Steps for Kent. This identifies 16 priorities central to delivering Bold Steps for Kent. These are:

Priority 1: Improve how we procure and commission services

Priority 2: Support the transformation of health and social care in Kent

Priority 3: Ensure all pupils meet their full potential

Priority 4: Shape education and skills provision around the needs of the Kent economy

Priority 5: Deliver the Kent Environment Strategy

Priority 6: Promote Kent and enhance its cultural and sporting offer for residents

Priority 7: Build a strong relationship with key business sectors across Kent

Priority 8: Respond to key regeneration challenges, working with our partners

Priority 9: Support new housing growth that is affordable, sustainable and with the appropriate infrastructure

Priority 10: Deliver ‘Growth without Gridlock’

Priority 11: Improve access to public services and move towards a single initial assessment process

Priority 12: Empower social service users through increased use of personal budgets

Priority 13: Establish a Big Society Fund to support new social enterprise in Kent

Priority 14: Ensure the most robust and effective public protection arrangements

Priority 15: Improve services for the most vulnerable people in Kent

Priority 16: Support families with complex needs and increase the use of community budgets

Delivery of these 16 priorities is through the Council’s core business planning and performance management arrangements

The Equality Act 2010

The Public Sector Equality Duty (Section 149 of the Equality Act 2010) came into force in April 2011. It requires public bodies to have due regard to:

- Eliminating unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act;
- Advancing equality of opportunity between people who share a protected characteristic and those who do not; and
- Fostering good relations between people who share a protected characteristic and those who do not

Further specific duties require public bodies to publish equality objectives, with subsequent objectives published at least every four years and to produce an annual report on those objectives.

One of the key challenges for KCC and other public sector organisations has been the approach that the courts have taken to the interpretation of "due regard" of the Public Sector Equality Duty. A number of judicial reviews have held local authorities to account in relation to key decisions that have been taken without the due regard to equality considerations.

In response to legislative changes and judicial rulings, KCC has reviewed internal controls and continues to consider internal governance processes in order to ensure that not only is it able to expedite the duties, but also that this agenda supports and enables good and efficient commissioning, delivery, people management and decision making.

KCC has published its Annual Report which demonstrates progress on the previous equality strategy for the authority and it is consulting on new equality priorities with final agreement due in September 2012.

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.

In 2011-12 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 Directory - A new online register is available showing the Council's current, past and future consultations. Relevant officers have undertaken training in how to the 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.

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 Officers provides 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 KCC's engagement activities, and the Community Engagement Team is developing new ways to engage with them more effectively (i.e. online fora, linking with Gypsy and Traveller sites).

The Kent Youth Service working with the Public Health team and other partners has 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 County 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 15 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 Corporate Board (i.e. Cabinet and Corporate Directors), determines the overall officer structure to deliver the Council's responsibilities, under the management of Corporate Directors and officers. The Council appoints the 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 principles governing Members' conduct. All Members receive 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 promoting high standards of ethical conduct among elected councillors, independent and co-opted members. Although the Localism Act 2011 allows for the removal of local standards committees, the Council may seek to retain this mechanism to help ensure 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.

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 March 2011.

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 endorsed by the Leader and the Governance and Audit Committee.

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 a centrally managed corporate complaints team 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 and other decisions to be taken by the Cabinet or one of its portfolio holders are published in the Council'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 a Cabinet Scrutiny Committee and also a Health Overview and Scrutiny Committee each with membership 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's Scrutiny Committee also discharges the functions of Section 19 of the Police and Justice Act 2006.

On 29 March 2012 the County Council established, with effect from 1 April 2012, six Cabinet Committees whose remit includes considering and endorsing or making recommendations on key or significant Cabinet or Cabinet Member Decisions.

The Council maintains an Internal Audit Unit that operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom. The Head of Internal Audit reports to the Corporate Director of Finance & Procurement and had direct access to both the Corporate Management Team and the Head of Paid Service, elected Members and the Chairman of Governance and Audit Committee.

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 comprises of 13 Members and its Terms of Reference were extensively revised during 2011-12 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.

The Council has an 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 Directors salaries and expenses
• Corporate Directors register of gifts and hospitality
• Council Spending
• Councillors' allowances and expenses
• Education Budget and Outturn Statements
• Invoices over £500
• Kent area profiles

The Council's 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, and the Member Development Charter Plus, which was achieved in 2011. 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. The Member development programme is shaped by the Member Development Steering Group which has representation from all of the main political parties. 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. In addition to the courses on offer, Members can access a range of personal development tools including an online 360 tool which maps skills against the national Political Skills Framework.

All officers of the Council, including Corporate Directors, are subject to a consistent Total Contribution appraisal and personal development process, which provides a tailored action and development plan that meets the needs of the individual officer and delivery of objectives in support of their service unit. The personal plans are supported by a comprehensive range of development programmes.

The 'Change to Keep Succeeding' transformation programme has over the year reinforced the 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. The new Organisation and People Plan includes a Training Strategy which covers professional and generic skills development across the Authority. A management standard for KCC, the Kent Manager Standard was introduced in September 2011 with accreditation from Edexcel. Managers taking part need to develop and demonstrate evidence of their knowledge, skills, attitude and behaviour against a specified set of criteria

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 (2011)

The Interim Head of Audit (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 will be reported to the Governance and Audit Committee, the Council's arrangements comply in all significant respects with the principles set out in the CIPFA statement.

Organisational design principles

The Decision Making Accountability (DMA) model has been applied to all restructures since December 2011. In order to meet the commitment within 'Bold Steps for Kent' to develop a structure that is as flat as possible and to create effective spans of control, the intention is to monitor changes in the organisation as restructuring takes place. The aim is to move from an organisation which in December 2011 was 11 layers deep with an average span of control of 5.2 FTE to an organisation with 6 layers from Corporate Director to the front line and an average span of 7 FTEs. Any new structures that fall outside this framework are reported as exceptions to the Corporate Management Team.

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 Interim Head of Audit'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 in *Bold Steps for Kent*, its Medium-Term Plan until 2014-15 and *Delivering Bold Steps*, the overarching delivery framework for Bold Steps for Kent

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 2012, despite the incredibly difficult financial pressures facing the Council.

Each business unit has its own annual 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 2011-12 were considered and approved by Cabinet in April 2012.

Following the restructure of KCC on 4 April 2011, business planning arrangements for 2012-13 were reviewed with the aim to better align the business planning process with the new organisational structure set out through the *Change to Keep Succeeding* report approved by County Council in December 2011, and provide consistency with the new corporate "one-council" approach. Changes were made to the business planning template to make it more action and accountability focussed, but due to the number of ongoing restructures throughout the business planning period, Cabinet agreed that the granularity of business plans should be at 'divisional' level for 2012-13, as this represented the most stable tier of the organisation.

Business planning arrangements are kept under review, and further consideration will be given by Cabinet to the arrangements for 2013-14 to further improve the process and consider the impact of new governance arrangements, such as the development of Cabinet Committees.

Performance Management

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). Cabinet has also considered the outcomes of the work of our external regulators and also considered the draft Budget and Medium Term Plan prior to their submission for approval to the County Council in February of this year. Cabinet also approves the Directorate Business plans.

Policy Overview and Scrutiny Committees

During 2011-12 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 Corporate 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 eight Policy Overview and Scrutiny Committees operating during 2011-12 reviewing the key issues and risks managed by the Council's directorates.

The Standards Committee

During the year, the Standards Committee was responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavoured to address any concerns regarding Members' conduct and dealt with any reports from the Standards Board of England. Dealing with alleged breaches of the Code of Conduct by elected and co-opted Members of the Council continued to be the core work of the Committee, and the number of complaints has remained low, none of which was 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, and Corporate Director of Families and Social Care were effectively fulfilled during 2011-12.

Management

Corporate 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 receives 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 provide an opinion in the Annual Audit report 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 overall governance processes and internal controls across the Council. 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 2011-12 only limited assurance was able to be given in relation to formal risk management processes due to the evolving organisational structure and resulting changes to the Council's Risk Management Framework. In the latter part of the year, many improvements were made, e.g. a refresh of the Corporate Risk Register. Further work is proposed in 2012-13 to embed risk management across the Council.

During 2011-12 seventeen Internal Audit reports have been issued with "Limited" assurance. Common themes within these reports relate to certain information systems not being set up and utilised appropriately and certain central policies that have not been applied consistently across directorates. This is to be expected in a large organisation which has been undertaking significant structural changes, as described earlier. Steps are being taken to address the issues highlighted and Internal Audit will follow up these recommendations to ensure implementation.

In common with most large organisations the Council is subject to fraud. During 2011-12, 28 irregularities were reported to Internal Audit. The Council adopts a zero tolerance approach to irregularities. Accordingly, all reported irregularities were investigated. Two of these were reported to the police, six resulted in disciplinary action and, of these, three staff were dismissed for gross misconduct. In August 2011, the Council appointed a Counter Fraud Manager and a Counter Fraud Officer shortly after. This increased Internal Audit's capacity to proactively address fraud. This proactive work included raising the level of fraud awareness within the Council, assessing fraud risks and promoting the Council's anti-fraud strategy. This approach has led to an increase in the level of reported suspicions of irregularity to Internal Audit compared with previous years.

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 2011-12, 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

During the year, the Audit Commission was the Council's appointed External Auditor. Each year the District Audit issues an opinion on the Councils' financial statements and arrangements for value for money. The opinion for 2010-11 was unqualified, and it is expected that a similar opinion will be issued for 2011-12.

Ofsted's 2011 Annual Assessment of the council, published on 8 Nov 2011, was that Kent's Children's Services were performing poorly. Ofsted based this assessment on their reports which were then in the public domain, notably their Oct 2010 inspection of Safeguarding and Services to Looked After Children. The requirements from that inspection had led to the significant work of the Children's Service Improvement Programme, which reports to the Department for Education and to elected members.

Subsequently, on the 9 Nov 2011, Ofsted published the results of their Oct 2011 unannounced inspection of Contact, Referral and Assessment within Children's Services. This found that all the areas identified in the previous inspection as needing improvement had been tackled. In particular, Children in Need were receiving timely assessments and all Child Protection cases were appropriately allocated. The outcome of this inspection will inform Ofsted 2012 annual assessment of the council's Children Services.

Of the Ofsted inspections of individual services provided by the Council, the inspection of the Adoption Service should also be noted. The inspection was undertaken in November 2011 and reported in February 2012 that the service was unsatisfactory. The inspection looked at four areas. Of these, Protecting children from harm, Helping children to achieve well and Helping children to make a positive contribution were all found to be satisfactory. The fourth area, Organisation, was found to be unsatisfactory and a number of recommendations were made.

As noted by Ofsted in their report, earlier in 2011 the Council had already identified a number of ways in which the Adoption Service needed improving. They noted that elected members, managers and staff were already working hard to deliver the improvements required although the recent changes had not yet had time to demonstrate improved outcomes at the time of the inspection. These improvements are now being evidenced.

An Adoption Service improvement action plan has been developed and the Council is now working with Coram to provide additional expertise to the service. The action plan is being reported, as part of the Children Services Improvement Programme, to the Department for Education and to elected members at the Corporate Parenting Panel.

Risk Management

The Council's Risk Management Framework and Policy was reviewed and updated during 2011-12, with the Policy approved by the Governance and Audit Committee on behalf of the County Council. The changes made within the attached policy are based on the Office of Government Commerce's model guidelines, which are consistent with ISO 31000, the international standard for risk management, and ensure alignment with council priorities. Risk Management guidance materials have been updated to aid staff in managing risks in accordance with the Risk Management Policy.

The Corporate Risk Register was refreshed with information gathered from a series of Cabinet and Corporate Management Team workshops, and published in KCC's Medium Term Financial Plan, along with the Council's Risk Strategy.

The Risk Management Framework will be further updated in 2012-13 to reflect the new governance arrangements for the County Council, which were approved on 29 March 2012.

The responsibility for the Council's Risk Management approach has now transferred from the Finance and Procurement function to Business Strategy, and a dedicated Risk Management team has been established to ensure that Risk Management is embedded across the Council and address known issues in the current arrangements.

Significant governance issues

The following issues have been assessed as being significant for the purpose of the Annual Governance Statement:

Issue	**Proposed action**	**Owner**
Maintaining standards of governance and service delivery in the face of budget demands/pressures	Proceed in accordance with existing plans and keep under review	Corporate Management Team
Service transformation is incomplete in some areas	Continue with existing action plans and keep under review	Corporate Management Team
Concerns regarding delivery of children's services and related data quality	Full implementation of the action plans already in place	Corporate Management Team

We will over the coming year take appropriate steps to address all of these matters and to 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.

Paul Carter
Leader
On behalf of Kent County Council

David Cockburn
Corporate Director, Business Strategy and Support

Independent Auditor's Report to the Members of Kent County Council

Opinion on the Council's Financial statements

I have audited the financial statements of Kent County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Finance and Procurement and the auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the accounting statements:
• give a true and fair view of the financial position of Kent County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of Kent County Council

Matters on which I report by exception

I report to you if:

• in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

• I issue a report in the public interest under section 8 of the Audit Commission Act 1998;

• I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

• I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of Corporate Director of Finance and Procurement and the auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

• give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and

• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

Independent Auditor's Report to the Members of Kent County Council

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Independent Auditor's Report to the Members of Kent County Council

Report by exception

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. I consider the findings of the Ofsted inspection in October 2010 to be a significant matter. The inspection concluded that the overall effectiveness of safeguarding children and young people services and services for looked after children were inadequate, identifying significant weaknesses in the Authority's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

The Council is working to an agreed improvement plan but as Ofsted have not carried out a re-inspection during 2011-12 I am unable to remove to except for qualification

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

I am also required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the Council has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells
District Auditor
Audit Commission
1st Floor, Millbank Tower,
Millbank,
London SW1P 4HQ

26 July 2012

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 2011(Restated)				
	General Fund Balance	**Earmarked GF Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2010	**-25,835**	**-167,950**	**-16,016**	**-65,353**	**-275,154**
Movement in Reserves during 2010-11					
Surplus or (Deficit) on Provision of Services	-131,595				**-131,595**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure and Income	**-131,595**	**0**	**0**	**0**	**-131,595**
Adjustments between accounting basis & funding basis under regulations - Note 7	124,358		-488	4,563	**128,433**
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 (movement) in Year	**-890**	**-6,347**	**-488**	**4,563**	**-3,162**
	Year ended 31 March 2012				
Balance at 31 March 2011 carried forward	**-26,725**	**-174,297**	**-16,504**	**-60,790**	**-278,316**
Movement in reserves during 2011-12					
Surplus or (Deficit) on provision of services	11,983				**11,983**
Other Comprehensive Expenditure and Income		25			**25**
Total Comprehensive Expenditure & Income	**11,983**	**25**	**0**	**0**	**12,008**
Adjustments between accounting basis & funding basis under regulations - Note 7	-43,411		1,607	-13,211	**-55,015**
Net Increase/Decrease before transfers to Earmarked Reserves	**-31,428**	**25**	**1,607**	**-13,211**	**-43,007**
Transfers to/from Earmarked Reserves	26,428	-26,428			**0**
Increase/Decrease (movement) in Year	**-5,000**	**-26,403**	**1,607**	**-13,211**	**-43,007**
Balance at 31 March 2012 carried forward	**-31,725**	**-200,700**	**-14,897**	**-74,001**	**-321,323**

Movement in Reserves Statement

	Total Usable Reserve	Unusable reserves Restated	Total Council Reserves
	Year ended 31 March 2011		
	£'000	**£'000**	**£'000**
Balance at 31 March 2010	**-275,154**	**319,864**	**44,710**
Movement in Reserves during 2010-11			
Surplus or (Deficit) on Provision of Services	-131,595		-131,595
Other Comprehensive Expenditure and Income (total of *'s on CIES)		-420,817	-420,817
Total Comprehensive Expenditure and Income	**-131,595**	**-420,817**	**-552,412**
Adjustments between accounting basis & funding basis under regulations	128,433	-128,433	0
Net increase/Decrease before Transfers to Earmarked Reserves	**-3,162**	**-549,250**	**-552,412**
Transfers to/from Earmarked Reserves	0	0	0
Increase/Decrease (movement) in Year	**-3,162**	**-549,250**	**-552,412**
	Year ended 31 March 2012		
Balance at 31 March 2011 carried forward	**-278,316**	**-229,386**	**-507,702**
Movement in reserves during 2011-12			
Surplus or (Deficit) on provision of services	11,983		11,983
Other Comprehensive Expenditure and Income (total of *'s on CIES)	27	315,318	315,345
Total Comprehensive Expenditure & Income	**12,010**	**315,318**	**327,328**
Adjustments between accounting basis & funding basis under regulations	-55,015	55,015	0
Net Increase/Decrease before transfers to Earmarked Reserves	**-43,005**	**370,333**	**327,328**
Transfers to/from Earmarked Reserves	0	0	0
Increase/Decrease (movement) in Year	**-43,005**	**370,333**	**327,328**
Balance at 31 March 2012 carried forward	**-321,321**	**140,947**	**-180,374**

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 2012		
		Gross Expenditure	**Gross Income**	**Net Expenditure**
Service		**£'000**	**£'000**	**£'000**
Cultural Services		23,366	3,176	20,190
Environmental, Regulatory & Other Services		21,086	13,928	7,158
Planning Services		18,960	3,883	15,077
Court Services		2,684	475	2,209
Arts & Libraries		22,365	2,076	20,289
Waste Management		69,640	2,960	66,680
Children's and Education Services		1,348,977	1,133,369	215,608
Highways, Roads and Transport Services		176,308	19,582	156,726
Adult Social Care		528,013	163,279	364,734
Corporate and Democratic Core		29,276	27,541	1,735
Non Distributed Costs		19,091	16,043	3,048
Cost of Services		**2,259,766**	**1,386,312**	**873,454**
Other operating Expenditure	9			98,463
Net Surplus on trading accounts	29			-8,425
Financing and Investment Inc and Exp	10			71,936
Taxation and Non Specific Grant Income	11			-1,023,445
(Surplus) or deficit on Provision of Services				**11,983**
(Surplus)/deficit arising on revaluation of non current assets			*	-42,292
Actuarial (gains)/losses on pension fund assets / liabilities			*	358,817
(Surplus)/deficit arising on loans and receivables			*	-1,204
Other				25
Total Comprehensive Income and Expenditure				**327,329**

Comprehensive Income and Expenditure Statement

Service	Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
		Year ended 31 March 2011		
Cultural Services		13,843	3,290	10,553
Environmental, Regulatory & Other Services		25,965	6,435	19,530
Planning Services		24,513	8,355	16,158
Court Services		3,114	439	2,675
Arts & Libraries		28,774	1,952	26,822
Waste Management		68,987	5,599	63,388
Children's and Education Services		1,590,381	1,378,896	211,485
Highways, Roads and Transport Services		150,700	13,041	137,659
Adult Social Care		549,826	147,632	402,194
Corporate and Democratic Core		19,937	17,431	2,506
Non Distributed Costs		-180,321	25,475	-205,796
Cost of Services		**2,295,719**	**1,608,545**	**687,174**
Other operating Expenditure	9			140,438
Net Surplus on trading accounts	29			-9,218
Financing and Investment Inc and Exp	10			99,101
Taxation and Non Specific Grant Income	11			-1,049,090
(Surplus) or deficit on Provision of Services				**-131,595**
(Surplus)/deficit arising on revaluation of non current assets			*	-28,690
Actuarial (gains)/losses on pension fund assets / liabilities			*	-383,224
(Surplus)/deficit arising on loans and receivables			*	-8,903
Other				
Total Comprehensive Income and Expenditure				**-552,412**

In 2011-12 Service Reporting Code of Practice (SeRCOP) was adopted replacing Best Value Accounting Code of Practice (BVACOP) which has required the 2010-11 Comprehensive Income and Expenditure Statement to be changed to reflect the new service lines. There has been a movement in the cost of service between the service lines but there is no overall change to the total cost of service.

Last years exceptional item within the Non Distributed costs line is related to the change from Retail Price Index (RPI) to the Consumer Price Index (CPI) in the actuary's assumptions.

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 2012		31 March 11	31 March 10
				Restated	
	Notes	£'000	£'000	£'000	£'000
Non Current Assets					
Property Plant & Equipment	12	2,211,572		2,285,649	2,234,443
Heritage Assets	13	5,980		5,828	5,689
Investment Property	14	23,501		21,078	21,294
Intangible assets	15	1,591		1,632	2,544
Total Property Plant & Equipment			2,242,644	2,314,187	2,263,970
Long-term investments	16	11,320		10,962	35,671
Long-term debtors	17	61,172		59,146	59,154
Total long-term assets			2,315,136	2,384,295	2,358,795
Inventories		7,006		6,694	6,231
Assets held for sale (>1yr)	19	4,820		4,275	9,595
Short term debtors	17	171,016		223,521	210,803
Investments	16	134,681		134,555	89,026
Cash and Cash equivalents	18	139,421		67,310	100,734
Total current assets			456,944	436,355	416,389
Temporary borrowing	16	-77,843		-57,350	-45,240
Short term Lease Liability	16	-4,852		-4,923	-3,983
Short term provisions	21	-29,378		-34,105	-37,235
Creditors	20	-261,008		-291,766	-284,534
Cash and Cash equivalents	18				
Total Current liabilities			-373,081	-388,144	-370,992
Creditors due after one year	20	-3,895		-2,949	-823
Provisions	21	-17,896		-14,077	-14,423
Long-term borrowing	16	-1,025,805		-1,053,557	-1,012,116
Other Long Term Liabilities		-1,133,528		-813,001	-1,347,187
Capital Grants Receipts in Advance	35	-37,501		-41,220	-74,353
Long Term Liabilities			-2,218,625	-1,924,804	-2,448,902
Net Assets			180,374	507,702	-44,710
Usable Reserves	22	-321,322		-278,316	-275,154
Unusable Reserve	23	140,948		-229,386	319,864
Total Reserves			-180,374	-507,702	44,710

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 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	2011-2012 £'000	2010-2011 £'000
Net (Surplus) or deficit on the provision of services		11,984	-131,596
Adjustments to net surplus or deficit on the provision of services for non cash movements	24	-365,264	-227,842
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	224,284	270,052
Net cash flows from operating activities	25	-128,996	-89,386
Investing Activities	26	13,204	145,508
Financing Activities	27	43,681	-22,698
Net increase(-) or decrease in cash and cash equivalents		-72,111	33,424
Cash and cash equivalents at the beginning of the reporting period		67,310	100,734
Cash and cash equivalents at the end of the reporting period	18	139,421	67,310

Note 1 - Accounting Policies

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 2011-12 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.

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.

Heritage Assets

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage assets above our de minimus of £10k are recognised in the balance sheet wherever possible at valuation or cost. In most cases, insurance valuations are used. However, the unique nature of many heritage assets makes valuation complex and so where values cannot be obtained, either due to the nature of the assets or the prohibitive cost of obtaining a valuation, they are not recognised in the balance sheet but comprehensive descriptive disclosures are included in the statement of accounts.

An impairment review of heritage assets is carried out where there is physical deterioration of a heritage asset.

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.

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 its 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.

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 Service Reporting Code of Practice 2011-12 (SerCOP):

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 SerCOP 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.

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
Heritage Assets	- 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 40.

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.

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 66 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

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 46-50 and 67-75.

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.

Carbon Reduction Commitment Allowances

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in it introductory phase which will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide as energy is used. As carbon dioxide is emitted a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured as the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the cost of the Authority's services and is apportioned to services on the basis of energy consumption.

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 2011-12 the only change relates to an amendment to IFRS7 Financial Instruments: Disclosures (transfer of financial assets). The impact of this amendment will be in the 2012-13 accounts. There will be no impact as we are unlikely to transfer financial assets that are not de-recognised.

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 will make a provision where a future event is uncertain but there is a legal or constructive obligation.

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 2012 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	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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £650k 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 £3.3m - this is not material.
	Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2011/12 the following de minimus thresholds were applied: Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m Highways & Waste Depots: £1m County Offices: £2m	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £375k. Over 5 years this would give a difference of £1.9m - this is not material.

Notes 4, 5 and 6

Leases	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.	As the total depreciated value of leases is only £1,161k the effect of the estimation is not material.
Pensions Liability	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.	The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. Accounting standards IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation from corporate bonds decreased from 1.9% to 1.3% during the year due to a decrease in corporate bond yields. Asset performance being less than expected over the year has also led to an increase in pension deficit. During 2011-12, the Council's actuaries advised that the net pensions liability had increased by £1.7m as a result of estimates being corrected as a result of experience and increased by £297m attributable to updating of the assumptions.

Note 5. Material Items of Income and Expense

The net loss on disposal of non-current assets of £97.7m includes £101.3m which relates to schools transferring to academy status and a foundation school gaining trust status in March.

Note 6. Events after the Balance Sheet Date

We received a letter from the Department of Education on 14th May confirming that a sum has been offered to meet our contractual liabilities with regard to the BSF programme. We are still in discussion with the Department and are currently providing additional evidence for further negotiation.

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

31 March 2012	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	-103,380			103,380
Revaluation losses on Property Plant and Equipment	-61,256			61,256
Movements in the fair value of Investment Properties	4,119			-4,119
Amortisation of intangible assets	-498			498
Capital Grants and contributions applied	198,840			-198,840
Revenue expenditure funded from capital under statute	-99,114			99,114
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	-92,364			92,364
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	55,830			-55,830
Capital expenditure charged against the General Fund	24,828			-24,828
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement			-179,812	179,812
Application of grants to capital financing transferred to the Capital Adjustment Account			166,601	-166,601
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		-9,194		9,194
Use of the Capital Receipts Reserve to finance new capital expenditure		10,801		-10,801

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				
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	-5,365			5,365
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	-88			88
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-41,524			41,524
Employer's pensions contributions and direct payments to pensioners payable in the year	73,074			-73,074
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	237			-237
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	3,250			-3,250
Total Adjustments	**-43,411**	**1,607**	**-13,211**	**55,015**

Note 7 - Adjustments between accounting basis & 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	-97,034			97,034
Revaluation losses on Property Plant and Equipment	-28,251			28,251
Amortisation of intangible assets	-1,557			1,557
Capital Grants and contributions applied	247,401			-247,401
Revenue expenditure funded from capital under statute	-145,138			145,138
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	-136,213			136,213
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			-188,281	188281
Application of grants to capital financing transferred to the Capital Adjustment Account			192,844	-192844
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
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	-3600			3,600
				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	-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	120,549			-120,549
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	**124,358**	**-488**	**4,563**	**-128,433**

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. A similar process was undertaken as part of the 2012-13 budget setting process and as a result a further draw down of reserves is planned for 2012-13. 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 2012, the sum of which are shown in the tables on pages 41-44.

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 UK 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 UK Government.

Note 8 - Earmarked Reserves

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 UK Government.

Westview and Westbrook PFI equalisation reserve

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

Better Homes Active Lives PFI equalisation reserve

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

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

This has been established to cover the costs of projects which were included in the capital programme but further details are now available which have made it apparent that these costs are revenue. By switching around funding within the existing capital programme, so that revenue contributions to capital made in 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.

NHS Support for Social Care Reserve

Kent PCTs were allocated £16.226m in 2011-12 to passport to Kent County Council to aid the provision of Social Care Services which are to benefit health and to improve overall health gain. KCC and the PCTs continue to work together to agree jointly appropriate areas for investment which are funded from this reserve.

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.

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.

Note 8 - Earmarked Reserves

Dilapidations reserve

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

Workforce reduction reserve

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

Libraries IT PFI final grant settlement reserve

During 2010-11 the UK 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.

Kent Public Services Network (KPSN) Re-procurement Reserve

This reserve represents a 2% surcharge on all services provided to partners under the KPSN contract, to be used to fund the re-procurement of the contract.

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.

Earmarked Reserve to support next years budget

The approved medium term plan for 2012-15 includes support from 2011-12 underspending, which was transferred into this earmarked reserve during 2011-12 to be drawn down in 2012-13.

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 DFE 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 2012-13 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 8 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2011	Movement	Balance at 31 Mar 2012
	£'000	£'000	£'000
VPE reserve	-3,955	-1,580	-5,535
Special funds	-5,153	987	-4,166
School Maintenance Indemnity schemes	-936	141	-795
Kings Hill development smoothing reserve	4,404	-5,500	-1,096
Swanscombe School PFI equalisation reserve	-5,950	3,552	-2,398
Six schools PFI	-9,942	8,415	-1,527
Three schools PFI	-1,429	-2,292	-3,721
Westview/Westbrook PFI equalisation reserve	-2,344	191	-2,153
Better Homes Active Lives PFI equalisation reserve	-3,564	709	-2,855
Reserve for projects previously classified as capital - now revenue	-5,300	2,453	-2,847
Economic Downturn reserve	-13,308	-3,313	-16,621
Corporate Restructuring reserve	-2,667	729	-1,938
Supporting People reserve	-3,178	1,045	-2,133
NHS Support for Social Care reserve	0	-12,900	-12,900
Environmental initiatives reserve	-2,425	351	-2,074
Rolling budget reserve	-11,349	-8,893	-20,242
Emergency Conditions reserve	-1,309	500	-809
Elections reserve	-422	-410	-832
Dilapidations reserve	-1,643	-877	-2,520
Workforce Reduction reserve	-4,363	0	-4,363
Libraries/IT PFI grant settlement reserve	-2,270	581	-1,689
KPSN Development reserve	-1,042	1,042	0
KPSN Re-procurement reserve	-373	-155	-528
IT Asset Maintenance reserve	-3,898	-744	-4,642
Earmarked Reserve to support next years budget	0	-3,512	-3,512
Prudential Equalisation reserve	-10,104	397	-9,707
Dedicated Schools Grant - Central Expenditure	-4,381	-4,227	-8,608
Turner Contemporary Investment reserve	-3,158	1,068	-2,090
Social Care Supported Living Costs reserve	-1,371	-630	-2,001
Public Inquiries reserve	-635	-64	-699
Other	-4,375	608	-3,767
Total	-106,440	-22,328	-128,768
Insurance Reserve			
KCC	-3,099	-531	-3,630
LATS Reserve			
Landfill Allowance Taxation Scheme	-1,208	1,208	0
	-110,747	**-21,651**	**-132,398**
Commercial Services Earmarked Reserves	-2,332	-1,604	-3,936
EKO	-4,985	5	-4,980
Total Earmarked Reserves	**-118,064**	**-23,250**	**-141,314**
Correction to late entry put through on Insurance Fund in 10-11	-27	27	0
	-118,091	-23,223	-141,314

Note 9. Other Operating Expenditure

	2011-12 £000's	2010-11 £000's
Levies	735	625
Gains/Losses on the disposal of non-current assets	97,728	139,813
	98,463	140,438

Note 10. Financing and investment income and expenditure

	2011-12 £000's	2010-11 £000's
Interest payable and similar charges	77,292	79,519
Pensions interest cost and expected return on pensions assets	8,062	31,409
Interest receivable and similar income	-4,864	-7,095
Income and expenditure in relation to investment properties and changes in their fair value	-4,220	-260
Other investment income	-4,333	-4,472
	71,937	99,101

Note 11. Taxation and non specific grant incomes

	2011-12 £000's	2010-11 £000's
Income from Council Tax	-575,917	-571,765
Non-ringfenced government grants	-447,528	-477,325
	-1,023,445	-1,049,090

Note 12. Property, Plant & Equipment
Movement on balances - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
at 1 April 2011	1,252,407	82,172	1,202,868	8,227	388,797	37,851	2,972,322	116,467
Additions	144,480	8,571	118,028	949	92,774	5,730	370,532	2,848
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	22,950					230	23,180	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-36,783					-1,550	-38,333	
Derecognition - Disposals	-3,464	-5,605				-2,643	-11,712	

Property, Plant & Equipment - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other	-105,661			-358	-8,879		-114,898	
Assets reclassified (to) / from Held for Sale	-798					-780	-1,578	
Other Movements in cost or valuation	16,000		-10,205		-230,018	571	-223,652	
At 31 March 2012	**1,289,131**	**85,138**	**1,310,691**	**8,818**	**242,674**	**39,409**	**2,975,861**	**119,315**

Property, Plant & Equipment - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2011	-65,311	-52,564	-566,933			-1,865	-686,673	-4,083
Depreciation Charge	-32,720	-10,558	-59,633			-729	-103,640	-2,875
Depreciation written out to the Revaluation Reserve	15,334					1,892	17,226	
Depreciation written out to the Surplus / Deficit on the Provision of Services								
Impairment losses / (reversals) recognised in the Revaluation Reserve	45,232					4,959	50,191	
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	48,661					1,550	50,211	

Property, Plant & Equipment - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	379	4,479				6	4,864	
Derecognition - Other	3,637						3,637	
Other movements in Depreciation and Impairment	-93,135	-113				-6,858	-100,106	
At 31 March 2012	**-77,923**	**-58,756**	**-626,566**	**0**	**0**	**-1,045**	**-764,290**	**-6,958**
Net Book Value								
At 31 March 2012	**1,211,208**	**26,382**	**684,125**	**8,818**	**242,674**	**38,364**	**2,211,571**	**112,357**
At 31 March 2011	**1,187,096**	**29,608**	**635,935**	**8,227**	**388,797**	**35,986**	**2,285,649**	**112,384**

Note 12. Property, Plant & Equipment
Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2010	1,255,622	73,154	1,141,300	7,362	332,103	34,537	2,844,078	133,350
Additions	96,000	10,270	61,568	888	168,113		336,839	1,146
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	8,695					6,392	15,087	489
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-23,921					-802	-24,723	-18,518
Derecognition - Disposals	-1,529	-1,252				-4,125	-6,906	

Property, Plant & Equipment - Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'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	**1,252,407**	**82,172**	**1,202,868**	**8,227**	**388,797**	**37,851**	**2,972,322**	**116,467**

Property, Plant & Equipment - Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2010	-53,536	-44,624	-509,868	0		-1,606	-609,634	-2,364
Depreciation Charge	-30,440	-9,156	-57,065			-451	-97,112	-2,859
Depreciation written out to the Revaluation Reserve	13,136					12	13,148	1,140
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	

Property, Plant & Equipment - Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'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					-1,531	-34,540	
At 31 March 2011	**-65,311**	**-52,564**	**-566,933**	**0**	**0**	**-1,865**	**-686,673**	**-4,083**
Net Book Value								
At 31 March 2011	**1,187,096**	**29,608**	**635,935**	**8,227**	**388,797**	**35,986**	**2,285,649**	**112,384**
At 31 March 2010	**1,202,086**	**28,530**	**631,431**	**7,362**	**332,104**	**32,930**	**2,234,443**	**130,985**

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 Lucy Parker MRICS of Jones Lang Lasalle, Philip Schmid MRICS of Jones Lang Lasalle, Andrew Bowyer MRICS of Jones Lang Lasalle 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	Investment Properties	Total
	£'000	£'000	£'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
2011-12	424,096	17,594	441,690

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 2011-12 all land and buildings which have not had a valuation within the last five years have now been valued, these include BSF Schools, Special Schools, Family & Social Care establishments, Highways Depots, Waste Disposal Sites, County Offices 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:

	2011 -12
	£000
Sheppey Academy	23,895
Skinners Academy	14,436

Note 13 - Heritage Assets

Heritage Assets

Heritage Assets are a new classification of asset introduced for the first time in this Statement of Accounts, as required by The Code of Practice. The Council has adopted a new accounting policy for Heritage Assets which is set out on page 33.

	Historic Buildings £000s	Artwork - Paintings & Sculptures £000s	Archives £000s	Historical & Archaeological Artefacts £000s	Civic Regalia £000s	Total Heritage Assets £000s
Cost or Valuation						
At 1 April 2010	**1,114**	**2,200**	**2,261**	**100**	**14**	**5,689**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		68	70		1	**139**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2011	**1,114**	**2,268**	**2,331**	**100**	**15**	**5,828**
Cost or Valuation						
At 1 April 2011	**1,114**	**2,268**	**2,331**	**100**	**15**	**5,828**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		74	77		1	152
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2012	**1,114**	**2,342**	**2,408**	**100**	**16**	**5,980**

It is not practicable to disclose transactions relating to Heritage Assets for the past 5 years as retrospective values are not available for all assets.

Historic Environment & Monuments

Eight **windmills** are included in the balance sheet at a value of £1.003m, which represents spend on these assets. These are either Grade I or II listed buildings and are located across Kent. KCC first took windmills into our care in the 1950s when, with the millers gone, there was no one else to protect these landmark buildings. We now own eight, ranging from Post Mills of Chillenden and Stocks at Wittersham to the magnificent Smock Mill at Cranbrook – the tallest in England.

Kent County Council works with local groups to actively preserve the future of the windmills and to support their repair and, where records exist, restoration. We also encourage improvements to the buildings and sites, to encourage greater public access and greater use of the windmills as an educational resource.

Note 13 - Heritage Assets

Thurnham Castle, located within White Horse Wood Country Park is a late 11th/early 12th century motte and bailey castle with gatehouse and curtain walls in flint and traces of an oval or polygonal shell keep, built on a steep spur of the North Downs. Above ground remains consist of some surviving sections of walling and earthworks of the main castle mound. This is valued at £111k in the balance sheet which represents spend on the asset.

Situated within Shorne Woods Country Park is the site of the medieval manor house **Randall Manor**. The site now consists of below ground archaeological remains, along with earthworks relating to associated fish ponds and field systems.

Hildenborough war memorial consists of a cross shaft with a carved relief of a crucifixion scene. It stands on a plinth on a stepped dais. The inscription to the dead of the First World War is on the front face of the plinth below the cross with names on the side faces and additional names of the fallen on the risers of the steps.

The former World War II Air Raid Wardens' post stands in a fenced and partly walled enclosure at the side of the steps down from Folkestone Road to the approach to Dover Priory railway station. It is a small flat-roofed concrete structure with all apertures boarded up.

Martello Tower No. 5 situated at Folkestone Grammar School is a Scheduled Monument, one of a chain of forts that protected the south coast from the threat of invasion in the Napoleonic period. It stands within the grounds of the school, immediately west of the buildings.

The church of St Martin-le-Grand and remains of the Dover Classis Britannica fort are incorporated and displayed at the Dover Discovery Centre, which houses Dover Library. It was formerly the White Cliffs Experience. The Roman remains relate to the 2nd century fort that occupied the site and the area to the southwest. The church of St Martin-le-Grand was an early foundation that developed through the medieval period. At the time of the Reformation it fell into disuse and buildings were constructed in and around the church. The remains of the church are exposed in the land between the centre and the museum to the northeast.

Artwork

Included in the balance sheet, at insurance valuations, are the following collections:

The Master collection of 16th-19th century prints and drawings, valued at £978k. This collection is currently held at Kings Hill and is soon to be transferred to the Kent History Centre in Maidstone.

Kent Visual Arts Loan Service, a collection of c. 1500 pieces of original artwork, currently held in storage at Kings Hill, valued at £550k.

The **Antony Gormley Boulders Sculptures**, the sculptor's first professional commission, valued at £500k are currently under restoration and will be held at the Kent History Centre, Maidstone.

Contemporary collection of c.200 paintings (6 or 7 collections) in storage at Kings Hill, valued at £252k.

KCC Sessions House collection, valued at £62k

In addition, there are around 100 paintings held within libraries across Kent, however it is expected that the cost of obtaining a valuation of these paintings will exceed the value of the paintings.

Archive Collections

Kent County Council looks after its own records and those of its predecessor authorities. In addition it collects and makes accessible other historic records under the terms of the 1962 Public Records Act and the 1972 Local Government Act. These records include those of public bodies such as courts, health trusts and coroners, of district councils and of individuals and organisations in the county. There are about 14kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the new Kent History and Library Centre in Maidstone. Approximately 25% of the records are owned by KCC, the values of which are included in the balance sheet as follows (valuations are insurance valuations unless otherwise specified):

Note 13 - Heritage Assets

General archive collections - £650k

Knatchbull/Brabourne Manuscripts £1,258k. Family and estate papers relating to the Knatchbull/Brabourne family and comprising accounts, correspondence, legal papers and manorial records.

Rare Books collection £200k based on an informal estimate given by an antiquarian book dealer.

Amherst Family Papers £300k based on a valuation obtained before they were bought via a Heritage Lottery Fund bid.

The **Kent Historic Environment Record** is primarily a digital database (including GIS display) of Kent's archaeological sites, findspots, historic buildings and historic gardens. It also includes paper records of the County aerial photograph series and of archaeological, historic building and historic landscape reports.

Archaeological & historical artefacts

Kent County Council has accepted ownership of the **High Speed 1 archaeological archives** as owner of last resort to prevent the collections from being broken up or disposed of. The collections comprise approximately 70 cubic metres of boxes containing archaeological artefacts including pottery, bone, stone, metalwork and worked flint. They are generally of little financial value. The collections are currently housed half at Kent Commercial Services, Kings Hill and half about to be transferred from the archaeological contractors to a store at Dover Eastern Docks.

KCC owns approximately 2,800 objects of social history, archaeological and geological material, housed at **Sevenoaks Museum**. A marble **roman bust & portrait**, found at Lullingstone Villa, dating back to 2nd Century AD are valued in the balance sheet at £60k and £40k respectively. These are currently on long term loan from Sevenoaks Museum to the British Museum.

There is a collection of artefacts kept at **Ramsgate Museum** including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

Folkestone History Resource Centre, within Folkestone Library houses collections that cover the full range of human history, including archaeology, social, military and civil history, whilst various objects and documents record the maritime history and development of the town. There is also a range of pictorial items of local topographical and biographical interest.

KCC owns **Scientific Calibration Equipment** dating back to the 1800s, in display cases.

Civic Regalia

KCC's silver collection is valued at £16k (insurance value). This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup and The 500 Squadron Silver collection.

Note 14. 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.

	2011 -12 £'000	2010 -11 £'000
Rental income from Investment Property	254	260
Direct operating expenses arising from investment property		
Net gain/(loss)	254	260

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:

	2011 -12 £'000	2010 -11 £'000
Balance at start of the year	21,078	21,294
Additions:		
• Purchases		
• Construction		
• Subsequent expenditure		
Disposals		
Net gains/losses from fair value adjustments	2,161	150
Transfers:		
• to/from Inventories		
• to/from Property, Plant and Equipment	270	-200
Other changes	-8	-166
EKO		
Balance at end of the year	23,501	21,078

Note 15. Movement in intangible assets

	Purchased Software licences £000's	Total £000's
Original cost	14,428	14,428
Amortisation to 1 April 2011	-12,795	-12,795
Balance at 1 April 2011	1,633	1,633
Expenditure in year	456	456
Written off to revenue in year	-498	-498
Balance at 31 March 2012	1,591	1,591

Software licences were purchased for the new Enterprise Resource Programme project, 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 16. 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 2012 £000's	31 Mar 2011 £000's	31 Mar 2012 £000's	31 Mar 2011 £000's
Borrowing	1,025,805	1,053,557	77,534	57,255
EKO			309	95
	1,025,805	**1,053,557**	**77,843**	**57,350**
Other Creditors	3,895	2,949	214,602	219,898
PFI/Finance Lease Liabilities	221,795	226,647	4,852	4,923
Government Grants			10,831	13,487
	1,251,495	**1,283,153**	**308,128**	**295,658**
Investments	11,320	10,962	134,681	134,555
Debtors	61,172	59,146	149,228	199,991
Cash and cash equivalents			139,421	67,310
Total Financial Assets	**72,492**	**70,108**	**423,330**	**401,856**

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

Note 16 - Financial Instruments

	Long Term		Current	
		restated		
	31 Mar 2012	31 Mar 2011	31 Mar 2012	31 Mar 2011
	£000's	£000's	£000's	£000's
Borrowing:				
Nominal Amount	1,012,288	1,039,309	77,330	57,119
Accrued Interest	13,358	13,602	513	231
Unamortised Discounts / (Premiums) on Modified Loans	159	646		
Total Borrowings as per Balance Sheet	**1,025,805**	**1,053,557**	**77,843**	**57,350**
Investments:				
Nominal Amount	10,000	10,000	284,751	221,205
Fire and Pension Fund cash			-7,352	-14,245
Accrued Interest	1,320	962	2,035	2,512
Impairment charge for Iceland			-5,332	-7,607
Total Investments as per Balance Sheet	**11,320**	**10,962**	**274,102**	**201,865**

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

	2011-12		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	£000's	£000's
Interest expense - Debt	-57,835		-57,835
Losses on derecognition	-950		-950
Impairment losses		2,275	2,275
	-58,785	**2,275**	**-56,510**
Interest expense - Finance leases	-20,074		-20,074
Interest expense - PFI	-1,195		-1,195
Interest payable and similar charges	**-80,054**	**2,275**	**-77,779**
Interest income		4,864	4,864
Gains on derecognition		487	487
Interest and investment income	**0**	**5,351**	**5,351**
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	**-80,054**	**7,626**	**-72,428**

Note 16 - Financial Instruments

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 borrowings, investments, cash and cash equivalents.

The 2011/12 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 2011 and 31 March 2012 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.

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 2012		31 March 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	£000's	£000's	£000's
PWLB debt	657,042	846,139	714,788	828,027
Non-PWLB debt	446,297	441,800	396,024	391,800
EKO temporary loan	309	309	95	95
Total Borrowings	1,103,648	1,288,248	1,110,907	1,219,922
Creditors	229,329	229,329	236,334	236,334
Total Financial Liabilities	**1,332,977**	**1,517,577**	**1,347,241**	**1,456,256**

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.

Long Term Investments	11,320	11,654	10,962	11,363
Short Term Investments	134,681	134,681	134,555	134,555
Cash and cash equivalents	139,421	139,421	67,310	67,310
Total Investments and Cash	285,422	285,756	212,827	213,228
Debtors	210,400	210,400	259,137	259,137
Total Financial Assets	**495,822**	**496,156**	**471,964**	**472,365**

Note 17 - Debtors and Note 18 - Cash and Cash Equivalents

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 17. Amounts owed to the Council by debtors

	At 31 March 2012 £000's	At 31 March 2011 £000's
Long Term debtors:		
Medway Council (transferred debtor)	45,342	47,231
Public bodies	1,842	2,134
Other	13,988	9,781
	61,172	59,146
Other debtors:		
Government Departments	33804	71296
Other Local Authorities	7734	10778
NHS Bodies	1,866	2,073
General debtors	105,590	115,769
Payments in advance	21,788	23,530
EKO	234	75
	171,016	223,521

Capital debtors amounting to £11.7m are included in the Accounts at 31 March 2012 (£39.5m in 2010-11). Capital debtors relate to grants towards capital expenditure incurred in 2011-12 which had not been received by 31 March 2012.

Note 18. Cash and Cash Equivalents

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

	At 31 March 2012 £000's	At 31 March 2011 £000's
Cash held by the Council		-645
Bank current accounts	13,411	2,345
Short-term deposits with building societies	126,010	65,610
Total Cash and Cash Equivalents	139,421	67,310

Note 19 - Assets held for Sale and Note 20 - Creditors

Note 19. Assets Held for Sale

	Current	
	2011-12	2010-11
	£000's	£000's
Balance outstanding at start of year	4,275	9,595
Assets newly classified as held for sale:		
Property, Plant and Equipment	1,305	875
Intangible Assets		
Other assets/liabilities in disposal groups		
Revaluation losses	-600	-200
Revaluation gains	715	900
Impairment losses		-350
Assets declassified as held for sale:		
Property, Plant and Equipment		
Intangible Assets		
Other assets/liabilities in disposal groups		
Assets sold	-875	-6,545
Transfers from non-current to current		
Other Movements		
Balance outstanding at year-end	4,820	4,275

Note 20. Amounts owed by the Council to creditors

	At 31 March 2012 £000's	At 31 March 2011 £000's
Central government bodies	10,831	13,487
Other local authorities	5,402	4,861
NHS bodies	4,551	838
General creditors	203,632	213,777
Receipts in advance	32,951	55,203
Deferred income	2,624	3,178
Kent and Essex Inshore Fisheries & Conservation Authority	918	340
EKO	99	82
	261,008	291,766
Creditors due after 1 year	3,895	2949

Capital creditors amounting to £43m are included in the Accounts at 31 March 2012 (£67m in 2010-11).

Note 21. 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	Post Employment	Accumulated Absences	Other Provisions	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short Term					
Balance at 1 April 2011	-5,958	-4,540	-20,548	-3,059	-34,105
Additional Provisions made in 2011-12	-5,583	-6,624	-10,254	-1,158	-23,619
Amounts used in 2011-12	5,565	4,095	17,281	1,043	27,984
Unused amounts reversed in 2011-11		363			363
Balance at 31 March 2012	**-5,976**	**-6,706**	**-13,521**	**-3,174**	**-29,377**
Long Term					
Balance at 1 April 2011	-8,312	-5,765			-14,077
Additional Provisions made in 2011-12	-1,036	-2,783			-3,819
Amounts used in 2011-12					0
Unused amounts reversed in 2011-11					0
Balance at 31 March 2012	**-9,348**	**-8,548**	**0**	**0**	**-17,896**
Total Provisions at 31 March 2012	**-15,324**	**-15,254**	**-13,521**	**-3,174**	**-47,273**

Post Employment

The provision relates to early retirements and redundancies, and are individually insignificant.

Accumulated Absences

The provision relates to annual leave entitlement carried forward at 31 March 2012. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

All other provisions are individually insignificant.

Note 22. Usable Reserves

Reserve	Balance 1 April 2011 £'000	Net Movement in year £'000	Balance 31 March 2012 £'000	Purpose of Reserve
Usable Capital Receipts	-16,504	1,607	-14,897	Proceeds of fixed assets available to meet future Capital Expenditure
General Fund	-26,725	-5,000	-31,725	Resources available to meet future unforeseen events
Capital Grants unapplied	-60,791	-13,211	-74,002	See note below
Earmarked Reserves	-118,064	-23,250	-141,314	See Note 8
Schools Reserve	-55,190	-3,898	-59,088	See below
Surplus on Trading Accounts	-1,015	719	-296	Commercial Services and Oakwood House
Total	**-278,289**	**-43,033**	**-321,322**	
Correction of late entry in 2010-11	-27	27	0	
	-278,316	**-43,006**	**-321,322**	

Capital grants unapplied of £74,002k as at 31 March 2012 include schools capital reserves of £1,975k. This has reduced from the £7,254k held by schools as at 31 March 2011. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2012 funds held in school revenue reserves stood at £59,088k. These reserves are detailed in the table below.

	Balance at 1 April 2011 £'000	Movement £'000	Balance at 31 Mar 2012 £'000
School delegated revenue budget reserves - committed	-7,646	-2,376	-10,022
School delegated revenue budget reserves - uncommitted	-26,863	143	-26,720
Unallocated Schools budget	-20,343	-1,647	-21,990
Community Focused Extended School Reserves	-338	-18	-356
	-55,190	-3,898	-59,088

Note 23. 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 2011 £'000	Net Movement in year £'000	Balance 31 March 2012 £'000	Purpose of Reserve
Revaluation Reserve	-292,362	-16,135	-308,497	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-514,218	69,169	-445,049	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	17,437	-1,116	16,321	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-5,330	-237	-5,567	Movement between the I & E and amount require by regulation to be credited to the General Fund
Deferred capital receipts	-3,600	-5,365	-8,965	
Pensions Reserves				Balancing account to allow
- KCC	537,005	327,177	864,182	inclusion of Pensions
- DSO	2,119	90	2,209	Liability in Balance Sheet
Accumulated Absences Account	20,548	-7,027	13,521	This absorbs the differences on the General Fund from accruing for untaken annual leave
Post Employment Account	9,015	3,777	12,792	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	**-229,386**	**370,333**	**140,947**	

Note 23 - 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.

	2011-12		2010-11	
	£'000		£'000	
Balance as at 1st April		-292,362		-285,449
Upward revaluation of assets	-89,464		-50,807	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	47,172		22,117	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-42,292		-28,690
Difference between fair value depreciation and historical cost depreciation	8,955		6,617	
Accumulated gains on assets sold or scrapped	17,202		15,160	
Amount written off to the Capital Adjustment Account		26,157		21,777
Balance at 31 March		-308,497		-292,362

Note 23 - 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.

	2011-12		2010-11	
	£'000		£'000	
Balance at 1 April		-514,218		-583,506
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	164,636		125,285	
- Revaluation losses on Property, Plant and Equipment	-17,202		-15,160	
- Amortisation of intangible assets	498		1,557	
- Revenue expenditure funded from capital under statute	99,114		145,138	
- 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	103,093		143,413	
		350,139		400,233
Adjusting amounts written out of the Revaluation Reserve		-8,955		-6,617
Net written out amount of the cost of non-current assets consumed in the year		-173,034		-189,890
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	-1,607		487	

Note 23 - Unusable Reserves

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-172,420		-247,401	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-13,211		-4,562	
- Statutory provision for the financing of capital investment charged against the General Fund	-55,830		-55,979	
- Capital expenditure charged against the General Fund	-24,828		-16,873	
		-267,896		-324,328
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-4,119		0
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement				0
Balance at 31 March		-445,049		-514,218

Note 23 - 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.

	2011-12		2010-11	
	£'000		£'000	
Balance at 1 April		17,437		26,229
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		-950		-950
are different from finance costs chargeable in the year in accordance with statutory requirements		-166		-7,842
Balance at 31 March		16,321		17,437

Note 23 - 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.

	2011-12	2010-11
	£'000	**£'000**
Balance at 1 April	539,124	1,131,499
Actuarial gains or losses on pensions assets and liabilities	358,817	-383,224
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	41,524	-120,549
Employer's pensions contributions and direct payments to pensioners payable in the year	-73,074	-88,602
Balance at 31 March	866,391	539,124

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.

	2011-12	2010-11
	£'000	**£'000**
Balance at 1 April	-5,330	-4,475
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	-237	-855
Balance at 31 March	-5,567	-5,330

Note 23 - 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.

	2011-12		2010-11	
	£'000		£'000	
Balance at 1 April		-3,600		0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-8,965		-3,600	
Transfer to the Capital Receipts Reserve upon receipt of cash	3,600		0	
Balance at 31 March		-8,965		-3,600

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.

	2011-12		2010-11	
	£'000		£'000	
Balance at 1 April		20,548		25,720
Settlement or cancellation of accrual made at the end of the preceding year	-20,548		-25,720	
Amounts accrued at the end of the current year	13,521		20,548	
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		-7,027		-5,172
Balance at 31 March		13,521		20,548

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.

	2011-12		2010-11	
	£'000		£'000	
Balance at 1 April		9,015		9,846
Settlement or cancellation of accrual made at the end of the preceding year	-3,250		-3,594	
Amounts accrued at the end of the current year	7,028		2,763	
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		3,778		-831
Balance at 31 March		12,793		9,015

Note 24. Cash Flow - Non Cash Adjustments

	2011-12	2010-11
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	31,550	209,151
Carrying amount of non-current assets sold	-123,171	-162,464
Amortisation of fixed assets	-498	-1,557
Depreciation of fixed assets	-103,816	-97,034
Impairment & downward valuations	-60,822	-28,251
Increase/decrease debtors	-24,673	-5,609
Increase/decrease creditors	6,263	-7,946
Increase/decrease stock	312	463
Movement on investment properties	4,118	
REFCUS	-99,114	-145,138
Other non-cash items charged to the net surplus/deficit on the Provision of Services	4,587	10,543
	-365,264	-227,842
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property plant and equipment, investment property and intangible assets	25,443	22,651
Capital grants applied	198,841	247,401
	224,284	270,052
	-140,980	42,210

Notes 25, 26 and 27 - Cash Flow - Operating, Investing and Financing Activities

Note 25. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2011-12	**2010-11**
	£'000	**£'000**
Interest received	-4,546	-7,345
Interest paid	77,254	78,921
Employee Costs	979,135	1,144,701
Income from Council Tax	-575,917	-571,765
Government Grants	-1,448,767	-1,871,842

Note 26. Cash Flow Statement - Investing Activities

	2011-12	**2010-11**
	£'000	**£'000**
Purchase of property, plant and equipment, investment property and intangible assets	291,280	331,127
Purchase of short-term and long-term investments	3,347,481	2,774,055
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-25,443	-22,651
Proceeds from shot-term and long-term investments	-3,355,654	-2,740,381
Other receipts from investing activities	-244,459	-196,642
Net cash flows	13,205	145,508

Note 27. Cash Flow Statement - Financing Activities

	2011-12	**2010-11**
	£'000	**£'000**
Cash receipts of short- and long-term borrowing	-50,000	-100,000
Other receipts from financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	21,184	24,421
Repayments of short- and long-term borrowing	57,024	46,031
Other payments for financing activities	15,473	6,850
Net cash flows from financing activities	43,681	-22,698

Note 28. 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 Service Reporting 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 2012					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-92,761	-120,212	-34,645	-43,090	-57,726	-348,434
Government Grants	-835,371	-83,534	1,999	-15,876	-14,311	-947,093
Total Income	-928,132	-203,746	-32,646	-58,966	-72,037	-1,295,527
Employee expenses	656,032	157,704	20,953	63,002	75,090	972,781
Other operating expenses	289,006	461,822	151,928	79,602	208,781	1,191,139
Support Service recharges	15,113	13,267	1,661	6,092	5,262	41,395
Total operating expenses	960,151	632,793	174,542	148,696	289,133	2,205,315
Net Cost of Services	32,019	429,047	141,896	89,730	217,096	**909,788**

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

	£000's
Cost of Services in service analysis	909,788
Add services not included in main analysis	
Add amounts not reported to management	244,626
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-280,959
Net Cost of Services in Comprehensive Income & Expenditure Statement	**873,455**

Note 28 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2012 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	-348,434		-980	20,614	-146,269
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-947,093		28,485		
Total Income	**-1,295,527**	**0**	**27,505**	**20,614**	**-146,269**
Employee expenses	972,781		-39,612		
Other service expenses	1,191,139		91,546	-301,573	146,269
Support Service recharges	41,395				
Depreciation, amortisation and impairment			165,136		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,205,315**	**0**	**217,070**	**-301,573**	**146,269**
Surplus or deficit on the provision of services	**909,788**	**0**	**244,575**	**-280,959**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	£000's	£000's
Fees, charges & other service income	-475,069		**-475,069**
Surplus or deficit on associates and joint ventures			**0**
			0
Interest and Investment Income		-13,781	**-13,781**
Income from council tax		-575,917	**-575,917**
Government grants and contributions	-918,608	-447,528	**-1,366,136**
Total Income	**-1,393,677**	**-1,037,226**	**-2,430,903**
Employee expenses	933,169		**933,169**
Other service expenses	1,127,432		**1,127,432**
Support Service recharges	41,395		**41,395**
Depreciation, amortisation and impairment	165,136		**165,136**
Interest payments		77,292	**77,292**
Precepts & Levies		735	**735**
Gain or Loss on Disposal of Fixed Assets		97,728	**97,728**
Total operating expenses	**2,267,132**	**175,755**	**2,442,887**
Surplus or deficit on the provision of services	**873,455**	**-861,471**	**11,984**

Note 28 - Amounts Reported for Resource Allocation Decisions

	Year ended 31 March 2011					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-86,247	-134,965	-18,215	-48,128	-87,053	-374,608
Government Grants	-1,126,968	-24,239	-4,474	-13,711	-9,083	-1,178,475
Total Income	-1,213,215	-159,204	-22,689	-61,839	-96,136	-1,553,083
Employee expenses	802,639	167,077	21,650	69,054	69,996	1,130,416
Other operating expenses	395,604	455,474	147,485	81,639	192,519	1,272,721
Support Service recharges	29,757	20,685	657	13,378	14,654	79,131
Total operating expenses	1,228,000	643,236	169,792	164,071	277,169	2,482,268
Net Cost of Services	14,785	484,032	147,103	102,232	181,033	**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	2,805
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-244,817
Net Cost of Services in Comprehensive Income & Expenditure Statement	**687,173**

Note 28 - 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	-374,608		4,472	18,602	95,135
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-1,178,475		-20,753		
Total Income	**-1,553,083**	**0**	**-16,281**	**18,602**	**95,135**
Employee expenses	1,130,416		-240,560		
Other service expenses	1,272,721		138,071	-263,419	-95,135
Support Service recharges	79,131				
Depreciation, amortisation and impairment			121,575		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,482,268**	**0**	**19,086**	**-263,419**	**-95,135**
Surplus or deficit on the provision of services	**929,185**	**0**	**2,805**	**-244,817**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	**£000's**	**£000's**
Fees, charges & other service income	-256,399		**-256,399**
Surplus or deficit on associates and joint ventures			**0** **0**
Interest and Investment Income		14,836	**14,836**
Income from council tax		-571,765	**-571,765**
Government grants and contributions	-1,199,228	-477,324	**-1,676,552**
Total Income	**-1,455,627**	**-1,034,253**	**-2,489,880**
Employee expenses	889,856		**889,856**
Other service expenses	1,052,238		**1,052,238**
Support Service recharges	79,131		**79,131**
Depreciation, amortisation and impairment	121,575		**121,575**
Interest payments		75,048	**75,048**
Precepts & Levies		624	**624**
Gain or Loss on Disposal of Fixed Assets		139,813	**139,813**
Total operating expenses	**2,142,800**	**215,485**	**2,358,285**
Surplus or deficit on the provision of services	**687,173**	**-818,768**	**-131,595**

Note 29. Trading Operations

The results of the various trading operations for 2011-12 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover £'000	Expenditure £'000	Surplus/ Deficit(-) 2011-12 £'000	Surplus/ Deficit(-) 2010-11 £'000
Kent County Supplies and Furniture	48,573	45,489	3,084	3,087
Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly				
Facilities & Technical Services	6,992	6,420	572	838
Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT				
Brokerage Services	251,588	248,300	3,288	3,645
Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for ELS, E&E & FSC				
County Print	2,276	2,259	17	125
Graphic design and general printing				
Transport Services	18,421	17,366	1,055	1,403
Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport				
Landscape Services	7,369	6,957	412	305
Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment				
Oakwood House				
Conference centre	1,973	1,976	-3	-185
Total surplus	337,192	328,767	8,425	9,218

Note 30. 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. It's 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. Windchimes, Bluebells and Treetops are all short stay respite units providing a multi agency day care service or short term overnight stays for children with disabilities.

KDAAT	2011-12	2010-11
	£'000	£'000
Gross Funding		
East & West Kent PCT	2,755	2,715
National Treatment Agency	6,089	6,155
Kent County Council	1,252	1,672
Total Funding	10,096	10,542
Expenditure	10,096	10,469
Net	0	73
KCC share of surplus		11

RNCC	2011-12	2010-11
	£'000	£'000
Gross Funding		
Eastern & Coastal Kent PCT	4,078	4,003
West Kent PCT	4,439	4,374
Total Funding	8,517	8,377
Expenditure	8,517	8,377
Net	0	0

Westbrook/West View PFI	2011-12	2010-11
Gross Funding	£'000	£'000
Eastern & Coastal Kent PCT	3,220	3,256
Kent County Council	3,617	3,607
PFI Credits	1,624	1,519
Total Funding	8,461	8,382
Expenditure	8,461	8,382
Net	0	0

ICES	2011-12	2010-11
Gross Funding	£'000	£'000
Eastern & Coastal Kent PCT	725	689
West Kent PCT	282	309
Medway PCT	35	35
Medway Council		
Kent County Council	955	947
Total Funding	1,997	1,980
Expenditure	1,657	1,617
Net	340	363
KCC share of surplus	116	127

Gravesham Place PFI	2011-12	2010-11
Gross Funding	£'000	£'000
West Kent PCT	2,782	2,638
Kent County Council	4,860	4,662
Total Funding	7,642	7,300
Expenditure	7,642	7,300
Net	0	0

LD Integrated Staffing	2011-12	2010-11
Gross Funding	£'000	£'000
Eastern & Coastal Kent PCT		2,418
Kent & Medway NHS & Social Care Partnership Trust	147	1,768
Kent County Council	4,019	4,117
Kent Community Health NHS Trust	4,203	
Total Funding	8,369	8,303
Expenditure	8,092	8,317
Net	277	-14
KCC share of surplus	252	-86

Note 30 - Pooled Budgets and Note 31 - Members Allowances

Note 30. Pooled Budgets

Windchimes Childrens Respite Centre	2011-12	2010-11
Gross Funding	£'000	£'000
Eastern & Coastal Kent PCT	40	
Kent County Council	609	
Total Funding	649	0
Expenditure	616	
Net	33	0
KCC share of surplus	33	

Bluebells Childrens Respite Centre	2011-12	2010-11
Gross Funding	£'000	£'000
West Kent PCT	240	
Kent County Council	192	
Total Funding	432	0
Expenditure	379	
Net	53	0
KCC share of surplus	53	

Treetops Childrens Respite Centre	2011-12	2010-11
Gross Funding	£'000	£'000
West Kent PCT	236	
Kent County Council	472	
Total Funding	708	0
Expenditure	696	
Net	12	0
KCC share of surplus	12	

Note 31. Members Allowances

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

	2011-12	**2010-11**
	£'000	**£'000**
Salaries	0	0
Allowances	1,662	1,728
Expenses	140	128
Total	**1,802**	**1,856**

In 2011-12 the cost of the County Cars were £50k.

Note 32 - Officers Remuneration

Note 32. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2011 to 31 March 2012

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 Head of Paid Services and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2011-12, 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 2012	Schools 31 March 2012	Non-Schools 31 March 2011	Schools 31 March 2011
50,000 - 54,999	175	242	179	300
55,000 - 59,999	103	174	123	225
60,000 - 64,999	68	124	83	137
65,000 - 69,999	37	70	48	74
70,000 - 74,999	37	27	26	42
75,000 - 79,999	15	18	12	25
80,000 - 84,999	10	14	12	13
85,000 - 89,999	10	16	7	15
90,000 - 94,999	9	7	3	20
95,000 - 99,999	7	8	7	9
100,000 - 104,999	5	5	4	3
105,000 - 109,999	2	3	3	4
110,000 - 114,999	3	0	2	1
115,000 - 119,999	0	0	0	3
120,000 - 124,999	0	0	1	1
125,000 - 129,999	2	0	1	2
130,000 - 134,999	1	0	0	0
135,000 - 139,999	0	0	2	0
140,000 - 144,999	1	0	1	0
145,000 - 149,999	0	0	0	0
150,000 - 154,999	0	0	2	0
155,000 - 159,999	1	0	1	0

Note 32 - Officers Remuneration

Remuneration	**Total number of employees cont**			
(£)	Non-Schools 31 March 2012	Schools 31 March 2012	Non-Schools 31 March 2011	Schools 31 March 2011
160,000 - 164,999	0	0	3	0
165,000 - 169,999	0	0	0	0
170,000 - 174,999	1	0	2	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	0	0
185,000 - 189,999	0	0	2	0
190,000 - 194,999	2	0	0	0
195,000 - 199,999	0	0	0	0
200,000 - 204,999	0	0	0	0
205,000 - 209,999	0	0	1	0
210,000 - 214,999	0	0	1	0
215,000 - 219,999	1	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	0	0
245,000 - 249,999	0	0	0	0
290,000 - 294,999	0	0	1	0
325,000 - 329,999	0	0	1	0
430,000 - 434,999	0	0	1	0
555,000 - 559,999	1	0	0	0
Total	**491**	**708**	**529**	**874**

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 in the CIPFA Code, issued by The Chartered Institute of Public Finance and Accountancy. No bonuses were paid to Senior Officers in 2011-12. 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.

The reduction in the number earning over £50k is mainly due to the restructure of the Council, and the transfer to Academy status for a significant number of schools; figures for Academies are not included in the above table.

Note 32 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

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 £
Group Managing Director - Katherine Kerswell	1	139,806			420,000		559,806	29,359	589,165
Corporate Director Business Strategy & Support - David Cockburn		173,991					173,991	36,225	210,216
Corporate Director Customer & Communities - Amanda Honey		159,075					159,075	32,130	191,205
Corporate Director Families & Social Care - Andrew Ireland	2	64,500					64,500	13,545	78,045
Corporate Director Enterprise & Environment - Mike Austerberry		150,000					150,000	31,500	181,500

Note 32 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

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 £
Corporate Director Education Learning & Skills - Patrick Leeson	3	69,919		3,199			73,118	15,355	88,473
Corporate Director Finance & Procurement - Lynda McMullan	4	45,450			172,000		217,450	9,545	226,995
Interim Corporate Director Families & Social Care - Malcolm Newsam	5	195,000					195,000		195,000
Interim Corporate Director Education Learning & Skills - Andy Roberts	6	101,800					101,800		101,800
Director of Governance & Law - Geoff Wild		105,900		22,370			128,270	26,937	155,207

Note 32 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

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 £
Corporate Director Finance & Procurement - Andy Wood		114,727					114,727	24,093	138,820
Corporate Director Human Resources - Amanda Beer		111,600					111,600	23,436	135,036

* This includes all contractual entitlements. Both sums are subject to Confidentiality Agreements

Note 32 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Notes

1 Ms Kerswell left KCC during December 2011. The annualised salary for this post was £197,000.

2 Mr Ireland joined KCC in November 2011.

3 Mr Leeson joined KCC in October 2011.

4 Ms McMullan left KCC during July 2011. The annualised salary for this post was £136,350.

5 The fee paid for Mr Newsam was for 32 weeks interim employment between April 2011 - November 2011. The figure shown is the amount paid to the recruitment agency and not to the individual.

6 The fee paid to Mr Roberts was for 30 weeks interim employment between April 2011 and October 2011. The figure shown is the amount paid to the recruitment agency and not the individual.

Note 32 - Officers Remuneration

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

Note 32 - Officers Remuneration

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 £
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 and Education - Andy Roberts	*4*	11,700	0	0	0	0	11,700	0	11,700

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

Notes	
1	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.
2	Ms Kerswell joined KCC in June 2010 replacing Mr Gilroy
3	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.
4	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.

Senior Officers Pay, where annual equivalent salary is between £50,000 and £150,000 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 of 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 £50,000 and £150,000 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	18080	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 £50,000 and £150,000 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.

Note 32 - Officers Remuneration

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. Of the total redundancies made 78% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000 and £20,001 - £40,000 and have applied this percentage equally to each of those bands. The total cost in 2011-12 of £10.0m includes schools and commitments in 2012-13. The total cost in 2011-12 of £10m includes schools and commitments in 2012-13.

(a) Exit package cost band (inc special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2010/11	**2011/12**	**2010/11**	**2011/12**	**2010/11**	**2011/12**	**2010/11 £**	**2011/12 £**
100,001-450,000	0	1	5	1	5	2	1,075,264	592,000
80,001-100,000	1	0	1	0	2	0	187,624	0
40,001-80,000	3	3	8	6	11	9	553,790	419,310
20,001-40,000	65	109	18	31	83	140	2,291,685	3,650,979
0-20,000	384	666	108	188	492	854	2,799,177	5,346,184
Total	**453**	**779**	**140**	**226**	**593**	**1,005**	**6,907,540**	**10,008,473**

Note 33 - Audit Costs and Note 34 - Dedicated Schools Grant

Note 33. Audit Costs

In 2011-12 the following fees were paid relating to external audit and inspection :

	2011-12	2010-11
	£'000	£'000
Fees payable for external audit services carried out by the appointed auditor	319	342
Fees payable to the Audit Commission in respect of statutory inspection		4
Fees payable to the appointed auditor for the certification of grant claims and returns	11	14
Fees payable in respect of other services provided by the appointed auditor	32	2
	362	362

Fees payable in respect of other services provided by the appointed auditor have increased in 2011-12 due to an objection raised.

Note 34. 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 2011. The Schools Budget includes elements for a range of educational services provided on a 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 2011-12 are as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2011-12			792,799
Brought forward from 2010-11			21,997
Carry Forward to 2012-13 agreed in advance			0
Agreed initial budget distribution in 2011-12	125,154	689,642	814,796
In year adjustments	-13,538	13,538	0
Agreed budgeted distribution in 2011-12	111,616	703,180	814,796
Less actual central expenditure	85,108		85,108
Actual ISB deployed to schools		703,180	703,180
Local Council contribution for 2011-12	0	0	0
Carry Forward to 2012-13	26,508	0	26,508 *

Notes *
The total carry forward to 2012-13 of £26,508k represents a carry forward of £8,608k on the centrally retained DSG budget and £17,900k on the schools' unallocated budget. The schools unallocated reserve now stands at over £21m, 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. It should be noted that the Schools' Forum have now committed the majority of the unallocated reserve and it is estimated that over half will be spend in 2012-13.

Note 35. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011-12:

	2011-12	2010-11
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-575,917	-571,765
Council Tax Freeze	-14,342	
Revenue Support Grant	-315,987	-275,715
Local Services Support Grant	-3,125	-88,520
Performance Reward Grant		290
New Homes	-1,379	
Capital Government Grants and Contributions	-112,695	-113,380
Total	-1,023,445	-1,049,090
Credited to Services		
Dedicated Schools Grant	-792,799	-789,139
Learning and Skills Council/Young Persons		
Learning Agency	-756	-116,990
Other DFES Grants	-168,111	-316,476
Department of Health Grants	-38,126	-9,334
Asylum	-12,166	-15,274
Other	-32,289	-65,574
Total	-1,044,247	-1,312,787

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:

	2011-12	2010-11
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	-11,817	-23,890
Other Grants	-2,265	-140
Other Contributions	-23,419	-17,190
Total	-37,501	-41,220

Note 36. 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 28 on reporting for resources allocation decisions.

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 2011-12. The total of members' allowances paid in 2011-12 is shown in Note 31 on page 86.

Officers

Details of senior officers' remuneration are shown in Note 32 on pages 87 to 99.

All key management personnel are required to declare any pecuniary interests on an annual basis. For 2011-12, there were no material transactions between the Council and its key management personnel.

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 30 on page 85 to 86.

The Council's Director of Public Health is a joint appointment with East Kent & Coastal and West Kent PCTs. During 2011-12 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 41 on pages 113 to 117 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 £2.612m and cash held by KCC on behalf of the Pension fund is £3.313m.

Payments to other local authorities and health bodies, excluding precepts, totalled £25.5m.

Receipts from other local authorities and health bodies totalled £71.2m.

Note 36 - 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	Expenditure £'000's	Balance held £'000
Contract	181	26,645	91
Grants	73	2,517	9
Other payments	137	15,239	1,300

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 45.

Payments made to Kent Top Temps Ltd (KTT) amounted to £27.8m. A further £0.34m of the loan provided to KTT was repaid in 2011-12 with a balance of £0.2m remaining. KCC received £0.030m of interest. KTT made £3m of purchases from KCC (including Commercial Services).

Payments made to Kent County Facilities Ltd (KCF) amounted to £0.8m. 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 £0.008m of interest.

A loan of £0.429m was made to East Kent Opportunities LLP in 2010-11, and this, with existing loans and recharges of internal services provided, leaves a balance of £0.071m in 2011-12.

A loan of £0.100m was made to Kent Cultural Trading in 2011-12.

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

Active companies with less than 50% control	Payments made in 11-12
Association of Tourist Attractions in Kent	-
Groundwork Kent and Medway	£130,852
Aylesham and district Community Workshop Trust	£2,281
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	£14,095
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	£764,322
Locate in Kent Ltd (as amended on 5/5/2000)	£2,006,500
Trading Stds South East Ltd	£65,164
Business Support Kent Community Interest	£100,823
East Kent Spatial Development Company	-
Active companies with greater than 50% control	
Produced in Kent (PINK) Ltd	£88,511
Kent Cultural Trading Limited	£131,728
Dormant companies	
Kent Training Centres Ltd	-
Kentish Fare Ltd	-
Invicta Innovations Ltd	-
Kent Access Ltd	-
Invicta Services Ltd	

Note 37. 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.

	2011-12	Restated 2010-11
	£000's	£000's
Opening Capital financing requirement	1,518,146	1,411,489
Capital investment		
Property, Plant and Equipment	177,200	251,730
Intangible assets	385	645
Revenue expenditure funded from capital under statute	86,110	124,271
	1,781,841	1,788,135
Sources of finance		
Capital receipts	-10,801	-15,430
Government grants and other contributions	-194,509	-251,962
Direct revenue contributions	-24,828	-16,373
(MRP/loans fund principal)	-55,830	-55,979
PFI Liability where we don't realise the asset		69,755
Closing Capital Financing Requirement	1,495,873	1,518,146
Movement	**-22,273**	**106,657**
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)		
Increase in underlying need to borrow (unsupported by Government financial assistance)	-22,273	36,902
Assets acquired under finance leases		
PFI/PPP contracts where no asset is acquired		69,755
Increase/(decrease) in Capital Financing Requirement	**-22,273**	**106,657**

Note 38. 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 2012 £'000	31 Mar 2011 £'000
Other Land and Buildings	1,043	1,420
	1,043	1,420

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 2012 £'000	31 Mar 2011 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	439	574
• Non-current	901	1,340
Finance costs payable in future years	1,127	1,255
Contingent rents payable in future years	2,336	2,334
Minimum lease payments	4,803	5,503

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

	Minimum Lease Payments		Finance Lease Payments	
	31 Mar 2012 £'000	31 Mar 2011 £'000	31 Mar 2012 £'000	31 Mar 2011 £'000
Not later than one year	820	919	99	127
Later than one year and not later than five years	985	1,463	270	309
Later than five years	2,998	3,121	758	819
	4,803	5,503	1,127	1,255

In 2011-12 £333k contingent rents were payable by the Council (£206k in 2010-11).

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

Note 38 - 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 2012	31 Mar 2011
	£'000	£'000
Other Land and Buildings	7,353	5,832
	7,353	5,832

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 2012	31 Mar 2011
	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	356	338
• Non-current	3,479	3,830
Finance costs payable in future years	2,284	2,506
Minimum lease payments	6,119	6,674

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

	Minimum Lease Payments		Finance Lease Payments	
	31 Mar 2012	31 Mar 2011	31 Mar 2012	31 Mar 2011
	£'000	£'000	£'000	£'000
Not later than one year	559	559	203	222
Later than one year and not later than five years	1,349	1,644	662	711
Later than five years	4,211	4,471	1,419	1,573
	6,119	6,674	2,284	2,506

Note 38 - 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 2012 £'000	31 Mar 2011 £'000
Not later than one year	16,865	17,216
Later than one year and not later than five years	25,478	31,000
Later than five years	7,479	4,306
	49,822	52,522

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

	31 Mar 2012 £'000	31 Mar 2011 £'000
Minimum lease payments	19,645	19,674
Contingent rents	412	601
Sublease payments receivable	0	-2
	20,057	20,273

Note 38 - 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 2012 £'000	31 Mar 2011 £'000
Not later than one year	2,108	2,108
Later than one year and not later than five years	4,837	5,264
Later than five years	0	0
	6,945	7,372

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these embedded leases was approximately £2,108k (£1,744k in 2010-11).

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 2012 £'000	31 Mar 2011 £'000
Not later than one year	1,055	533
Later than one year and not later than five years	1,821	1,236
Later than five years	2,342	2,192
	5,218	3,961

In 2011-12 no contingent rents were received by the Council (2010-11 £73k).

Note 39. 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**	**TOTAL** £'000
As at 31 March 2011	44,330	20,757	9,819	48,148	123,054
Additions	147	603	250	235	1,235
Revaluations					
Transfer from/to WIP					
Impairment					
Depreciation	-1,183	-691	-227	-1,064	-3,165
As at 31 March 2012	43,294	20,669	9,842	47,319	121,124

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 2011	77,651	9,128	14,431	59,187	65,085	225,482
Fair value of assets coming into use in-year						0
Liability repaid	-1,542	-157	-294	-932	-1,086	-4,011
As at 31 March 2012	76,109	8,971	14,137	58,255	63,999	221,471

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	1,548	6,641	2,900	459	11,548
Within 2-5 years	6,294	25,288	12,270	3,496	47,348
Within 6-10 years	9,975	28,387	17,144	6,510	62,016
Within 11-15 years	12,856	23,651	19,397	10,487	66,391
Within 16-20 years	19,791	17,079	21,945	11,128	69,943
Within 21-25 years	25,644	6,095	19,615	5,192	56,546

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 39 - PFI and Similar Contracts

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	133	1,284	558	397	2,372
Within 2-5 years	911	4,856	2,376	1,550	9,693
Within 6-10 years	2,139	5,193	3,302	1,949	12,583
Within 11-15 years	5,043	2,930	3,707	1,010	12,690
Within 16-20 years	745	107	397	0	1,249

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	257	1,092	1,399	341	3,089
Within 2-5 years	1,426	4,159	6,008	1,167	12,760
Within 6-10 years	1,547	4,614	8,538	3,066	17,765
Within 11-15 years	2,600	3,854	9,858	2,967	19,279
Within 16-20 years	4,683	2,566	11,399	1,610	20,258
Within 21-25 years	3,625	466	2,487	225	6,803

The RPIx and AWE (was 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 AWE 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	958	4,137	0	276	5,371
Within 2-5 years	4,398	15,814	0	1,272	21,484
Within 6-10 years	6,295	17,983	0	2,577	26,855
Within 11-15 years	8,492	15,536	0	2,827	26,855
Within 16-20 years	12,446	11,885	0	2,524	26,855
Within 21-25 years	17,681	6,901	0	2,272	26,854
Within 26-30 years	7,984	804	0	163	8,951

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

Note 39 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,161	5,947	1,841	41	8,990
Within 2-5 years	5,271	22,612	7,836	872	36,591
Within 6-10 years	8,509	25,265	10,949	3,179	47,902
Within 11-15 years	11,014	20,824	12,387	6,078	50,303
Within 16-20 years	15,416	15,180	14,015	8,955	53,566
Within 21-25 years	22,628	5,685	10,307	2,623	41,243

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	4,057	19,101	6,698	1,514	31,370
Within 2-5 years	18,300	72,729	28,490	8,357	127,876
Within 6-10 years	28,465	81,442	39,933	17,281	167,121
Within 11-15 years	40,005	66,795	45,349	23,369	175,518
Within 16-20 years	53,081	46,817	47,756	24,217	171,871
Within 21-25 years	69,578	19,147	32,409	10,312	131,446
Within 26-30 years	7,984	804	0	163	8,951
Total	221,470	306,835	200,635	85,213	814,153

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.

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 2011-12 the Council made payments of £3.5m 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 £3.6m for 2012-13 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 2012-13 the Council is committed to making payments estimated at £2.5m 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 (£2.4m was paid in 2011-12). 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 2011-12 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 40. Termination Benefits

The Authority terminated the contracts of a number of employees in 2011-12, incurring liabilities of £10m (£6.91m in 2010-11) - see Note 32 for the number of exit packages and total cost per band. Of this total £0.42m is payable to Group Managing Director and £0.17m payable to Corporate Director Finance & Procurement in the form of loss of office, as disclosed in Note 32. The remaining £9.41m is payable to officers across the Authority who were made redundant as part of the rationalisation of services.

Note 41 - Pensions Costs

Note 41a - Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011-12 Kent County Council paid £42.6m (£58.2m in 2010-11), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 12.8% 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 2011-12 these amounted to £4.3m (£4.5m in 2010-11), representing 1.3% (1.1% in 2010-11) of pensionable pay.

Note 41b. Defined Benefit Pension Scheme

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	
	2011-12	**2010-11**
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-50,015	-71,439
• Past service costs and curtailments	16,553	223,397
Financing and Investment Income and Expenditure		
• Interest cost	-108,811	-124,247
• Expected return on assets in the scheme	100,749	92,838
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-41,524	120,549
• Actuarial gains and losses	-358,817	383,224
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-400,341	503,773
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	41,524	-120,549
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-73,074	-88,602

Note 41 - Pensions Costs

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 2011-12 Kent County Council paid an employer's contribution of £73.1m (£88.6m in 2010-11) into the Pension Fund, representing 23% (25% in 2010-11) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2011-12 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 2011-12 (£0k in 2010-11). The capital value of payments agreed in earlier years is £116m (£112m in 2010-11).

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2011-12	**2010-11**
	£000's	**£000's**
1 April	1,471,303	1,344,338
Expected rate of return	100,749	92,838
Actuarial gains and (losses)	-64,518	13,473
Employer contributions	77,592	93,064
Contributions by scheme participants	21,175	23,621
Benefits paid inc unfunded benefits	-95,492	-86,493
Receipt /payment of bulk transfer values	-11,916	-9,538
31 March	1,498,893	1,471,303

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 £36,231k (2010-11: £114,146k)

Reconciliation of present value of the scheme liabilities:

	Liabilities: Local Government Pension Scheme	
	2011-12	**2010-11**
	£000's	**£000's**
1 April	2,008,308	2,473,567
Current service cost	50,015	71,439
Interest cost	108,811	124,247
Contributions by scheme participants	21,175	23,621
Actuarial (gains) and losses	298,727	-365,138
Benefits paid	-95,492	-86,493
Liabilities extinguished on settlements	-35,097	-37,478
Past service costs	6,628	-195,457
31 March	2,363,075	2,008,308

Note 41 - Pensions Costs

Scheme History

	2007-08 as restated	2008-09	2009-10	2010-11	2011-12
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
• Local Government Pension Scheme	-1,716,700	-1,706,200	-2,473,567	-2,008,308	-2,363,075
Fair value of assets in the Local Government Pension Scheme	1,147,400	966,300	1,344,338	1,471,303	1,498,893
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-569,300	-739,900	-1,129,229	-537,005	-864,182

Net Pension assets as at	**31 Mar 2012**	**31 Mar 2011**	**31 Mar 2010**
	£000's	**£000's**	**£000's**
Present value of funded obligation	2,302,631	1,950,959	2,407,024
Fair value of scheme assets (bid value)	1,498,893	1,471,303	1,344,338
Net Liability	**803,738**	**479,656**	**1,062,686**
Present value of unfunded obligation	60,444	57,349	66,543
Net Liability in Balance Sheet	**864,182**	**537,005**	**1,129,229**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £864m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative movement of £327.1m

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 decreased from 1.9% to 1.3% 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 2011 levels then the pensions deficit would have been £298,727,000 less at £565,455,000. 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 5.8%.

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).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £67,200k.

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.

Note 41 - Pensions Costs

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2011-12	**2010-11**
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.30%	7.40%
Gilts	3.30%	4.40%
Bonds	4.60%	5.50%
Property	4.30%	5.40%
Cash	3.00%	3.00%
Target Return Portfolio	4.70%	-
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	20.0 years	19.8 years
Women	24.0 years	23.9 years
Longevity at 65 for future pensioners:		
Men	22.0 years	21.9 years
Women	25.9 years	25.8 years
Rate of inflation	3.3%	3.5%
Rate of increase in Consumer Price Index	2.5%	2.7%
Rate of increase in salaries	3.8%	4.0%
Rate of increase in pensions	2.5%	2.7%
Rate for discounting scheme liabilities	4.6%	5.5%
Take-up option to convert annual pension into retirement lump sum	50%	50%

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

	March 2012	**March 2011**
	%	**%**
Equity Investments	74%	76%
Gilts	1%	1%
Bonds	10%	12%
Property	9%	9%
Cash	4%	2%
Target Return Portfolio	2%	-
	100%	100%

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2011-12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007-08 as restated	**2008-09 as restated**	**2009-10**	**2010-11**	**2011-12**
	%	%	%	%	%
Differences between the expected and actual return on assets	-9.7	-32.2	20.7	0.9	-4.3
Experience gains and losses on liabilities	4.3	-0.1	-0.4	-5.3	0.1

Note 41 - Pensions Costs

Analysis of Amount Recognised in the Comprehensive Income and Expenditure Statement

	2011-12	2010-11	2009-10
	£000's	£000's	£000's
Actuarial Gains/Losses	-363,388	380,650	-631,384
Increase / Decrease in irrecoverable surplus from membership fall and other factors	4,571	2,574	251,029
Actuarial gain / (loss) recognised	-358,817	383,224	-380,355

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £2.2m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2012 in accordance with IAS19.

Note 42. Contingent Liabilities

Employment

There are eight claims relating to discrimination and breach of contract in employment. Of these, seven are limited to unfair dismissal and one is against schools. In addition to the seven 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 £140k and an additional amount of approximately £150k 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 no education cases.

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 368 live cases where proceedings have actually been issued. 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 nine of these are expected to exceed £300k in total. The remaining case is in relation to a contractual dispute to which the financial exposure to Kent is difficult to determine but could be in excess of £1m.

Asylum & Judicial review

There is one judicial review case of Age assessment for which the cost is likely to exceed £10k. There are four further cases, two of which, if successful, would exceed £10k each. The third case has been settled, the issue of costs is outstanding but it is likely to exceed £10k. The fourth case claim has been withdrawn but legal costs are being sought, which if successful would exceed £10k.

Nearest Relative

There is one case seeking to remove a parent from role as nearest relative. The outcome is unpredictable but if successful will be in excess of £10k.

Court of Protection

There are matters of Court of Protection which has jurisdiction over cases involving the interests of vulnerable people under the Mental Health Act 2005. There is a wide discretion for the Court in such litigation and individual costs may exceed £10k. These cases are not likely to attract cost orders that place KCC potentially liable or exposed to risk.

Note 43. 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 2011).

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. The limits for 2011-12 were: DMO £450m, UK banks £40m, building societies £20m and the maximum duration for any new deposit is 12 months. The counterparty limits for 2012-13 are: UK banks and building societies £50m with a group limit for banks £75m, and a maximum duration of 12 months.

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 2011-12, approved by Full Council 17 February 2011 and with the immediate implementation of the 2012-13 strategy approved approved at Full Council on 9 February 2012.

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 2011-12 the minimum criteria for new investments has been a long term rating of A+or equivalent.

Note 43 - Nature and Extent of Risks Arising from Financial Instruments

Counterparty	Credit Rating Criteria met when investment placed?	Criteria rating met on 31 March 2012?	Balance invested as at 31 March 2012				Total
			Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	
	Yes/No	Yes/No	£000's	£000's	£000's	£000's	£000's
Call Accounts	Yes	Yes	126,000				126,000
UK Banks	Yes	Yes	41,600	33,000		10,000	84,600
Overseas Banks	Yes	No					0
Total Banks			167,600	33,000	0	10,000	210,600
UK Building Societies	Yes	Yes	14,300	35,700			50,000
DMO	Yes	Yes					0
Total			181,900	68,700	0	10,000	260,600

With the exception of 2 long term deposits placed in 2008 and 2009 all deposits outstanding as at 31 March 2012 met the Council's credit rating criteria on 31 March 2012.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £14.6m.

Receivables

The Council does not generally allow credit for its debtors, as such £1.903m of the £149.228m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2012	31 Mar 2011
	£000's	£000's
One to three months	195	750
Three to six months	1,115	740
Six months to one year	336	189
More than one year	257	130
	1,903	**1,809**

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 2012 was £57.1m.

Note 43 - 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 Public Works Loan Board and commercial banks. There is no perceived 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 would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme of to finance future debt maturities.
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 2012	31 Mar 2011
	£000's	£000's
Less than one year	77,021	57,024
Between one and two years	2,015	77,021
Between two and six years	121,195	91,209
Between six and fifteen years	173,005	188,005
More than fifteen years	716,073	683,074
	1,089,309	**1,096,333**

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 2012, 86.69% of the debt portfolio was held in fixed rate instruments, and 13.31% 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.

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.

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

	£000's
Increase in interest payable on variable rate borrowings	1,450
Increase in interest receivable on variable rate investments	(1,310)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**140**
Decrease in fair value of fixed rate investment assets	303
Impact on Other Comprehensive Income and Expenditure	**303**
Decrease in fair value of fixed rate borrowings / liabilities*	**77,439**

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

44. Deposits 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.

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

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 calculated loss for the Council is £0.5m based on the latest update of CIPFA LAAP Bulletin 82.

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 2012 of 64.4% and as at 31 March 2012, the calculated return of our investment is 88% as per LAAP Bulleton 82 update 6. In calculating the impairment the Council has followed LAAP 82, which makes the following assumptions re timing of the recoveries:

April 2012	3.79%	January 2013	3.50%
July 2012	3.50%	April 2013	3.50%
October 2012	3.50%	July 2013	5.81%

Landsbanki

As at the 31 March 2012 the Council received 30% of the recoverable amount. The estimate of the recoverable amount from this Iceland-domiciled bank is 100%. This return is anticipated over the following period:

December 2012	8.00%	December 2016	8.00%
December 2013	8.00%	December 2017	8.00%
December 2014	8.00%	December 2018	22.00%
December 2015	8.00%		

Glitnir Bank hf

As at the 31 March 2012 the Council received 100% of the recoverable amount.

The Council received £2.96m in Icelandic Kroner for Iceland-domiciled accounts. This has been placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

Note 45 - Subsidiaries

45. 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 4 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 Connect2Staff. It also operates buses for contract and private hire trading as Kent Top Travel. KTT had a turnover in 2011-12 of £34.2m with a net profit of £0.29m before tax, £0.22m after tax (estimated). In 2010-11 its net assets were £1.2m and in 2011-12 they are £1.4m. £0.54m of the loan provided in earlier years has been repaid and stood at £0.2m at year end, set against the net indebtedness of the Council to KTT of £5.4m.

Kent County Facilities Ltd (KCF) is a subsidiary of Kent County Trading Ltd., wholly owned by Kent County Council. KCF 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 including waste management, and transport servicing and repairs. In 2011-12 KCF had a turnover of £3.1m, a net profit of £0.2m and its net assets were £0.533m. The loan previously provided by Commercial Services was fully repaid in March 2010, and the indebtedness of the Council to KCF is £0.236m.

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. During the year the Careworker trading activities were transferred into KCS from Kent Top Temps Ltd. KCS had a turnover in 2011-12 of £13m with a net profit of £0.35m before tax, £0.26m after tax (estimated). At the end of 2011-12 its net current assets were £0.004m. A loan of £0.150m has been provided by Kent County Council in 2010-11. The indebtedness of the Council to KCS amounted to £0.003m.

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 2011-12, 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 £0.40m.

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 2011-12. This situation is reviewed on an annual basis.

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

Note 46. Trust Funds

Funds which KCC acts as custodian trustee

2011-12	Income	Expenditure	Assets	Liabilities
	£'000	£'000	£'000	£'000
Hidenborough War Memorial	0	0	1	0
James Wilford (Kent) Charity	0	0	0	0
Hugh and Montague Leney Travelling Award Trust Countywide. Awards for educational travel.	8	10	179	0
Jim Petrie Memorial Fund Pupils/students in secondary schools and colleges. To encourage appreciation of country life.	0	1	2	0
Joan Kemsley Memorial Fund Countywide. Reflection of opera experience/attending opera at Gyndebourne	1	0	3	0
J A Tapping Trust Provision of comforts for needy children in the Deal area.	0	0	3	0
Grace Say Charity Provision of comforts for needy people in the Dartford area.	1	0	33	0
Glyndebourne To promote the musical education of school children.	0	1	0	0
Total	**10**	**12**	**221**	**0**

Note 46 - Trust Funds

2010-11	Income	Expenditure	Assets	Liabilities
	£'000	£'000	£'000	£'000
Hidenborough War Memorial	0	0	1	0
James Wilford (Kent) Charity	0	0	0	0
Hugh and Montague Leney Travelling Award Trust Countywide. Awards for educational travel.	13	5	184	0
Jim Petrie Memorial Fund Pupils/students in secondary schools and colleges. To encourage appreciation of country life.	0	1	4	0
Joan Kemsley Memorial Fund Countywide. Reflection of opera experience/attending opera at Gyndebourne	0	0	2	0
J A Tapping Trust Provision of comforts for needy children in the Deal area.	0	0	5	0
Grace Say Charity Provision of comforts for needy people in the Dartford area.	1	0	33	0
Glyndebourne To promote the musical education of school children.	0	0	1	0
Strickland Scholarship To promote the musical education of school children.	0	18	0	0
Total	**14**	**24**	**230**	**0**

Other Funds

	2010-11 Capital Value to fund £'000	2011-12 Capital Value to fund £'000
Criminal Injuries Compensation Awards	1,196.0	852.0
Maidstone Grammar Schools Endowment Fund	213.0	220.0
W H Petty Testimonial Fund	7.0	7.0
	1,416	1,079

Note 47 - 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 124 -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 2011-12.

Prior Period Adjustments

The following pages provide details of a prior period adjustment that we have made in relation to a) schools that have transferred ownership and b) a transfer of grant from the taxation and non specific grant income line to the service line to match the spend where it is revenue expenditure funded from capital under statute and is funded from grant. Under a) there are 6 Foundation schools and 1 Voluntary Aided school. These schools are PFI schools and were on our balance sheet to match the liability. However, as ownership has transferred we are required to write them off at nil consideration.

2010-11 Restated Income and Expenditure Account	**Net Expenditure**	**Write out of PFI and Trust Schools**	**Refcus**	**Restated**
Service	**£'000**	**£'000**	**£'000**	**£'000**
Cultural Services	10,559		-6	10,553
Environmental, Regulatory & Other Services	19,530			19,530
Planning Services	16,578		-420	16,158
Court Services	2,675			2,675
Arts & Libraries	26,822			26,822
Waste Management	63,388			63,388
Children's and Education Services	351,743	-7,276	-132,982	211,485
Highways, Roads and Transport Services	137,659			137,659
Adult Social Care	402,919		-725	402,194
Corporate and Democratic Core	2,506			2,506
Non Distributed Costs	-205,796			-205,796
Net Cost of Service	**828,583**	**-7,276**	**-134,133**	**687,174**
Other operating expenditure	70,683	69,755		140,438
Net Surplus on trading accounts	-9,218			-9,218
Financing and Investment Inc and Exp	99,101			99,101
Taxation and Non Specific Grant Income	-1,183,223		134,133	-1,049,090
(Surplus)/deficit arising on reval of non current assets	-28,690			-28,690
Actuarial (gains)/losses on pension fund assets/liabilities	-383,224			-383,224
(Surplus)/deficit arising on loans and receivables	-8,903			-8,903
Other				0
Net General Fund Surplus(-)/Deficit	**-614,891**			**-552,412**

Prior Period Adjustments

2009-10 Restated Balance Sheet

	31 March 2010		
		Write out of PFI and Trust Schools	Restated
	£'000	£'000	£'000
Non- Current Assets			
Property Plant & Equipment	2,304,676	-70,233	2,234,443
Heritage Assets	5689		5,689
Investment Property	21,294		21,294
Intangible Assets	2,544		2,544
Total Property Plant & Equipment	2,330,292		2,263,970
Long-term investments	35,671		35,671
Long-term debtors	59,154		59,154
Total long-term assets	2,425,117	-70,233	2,358,795
Inventories	6,231		6,231
Assets held for sale (>1yr)	9,595		9,595
Short term debtors	210,803		210,803
Investments	89,026		89,026
Cash and Cash equivalents	100,734		100,734
Total current assets	416,389		416,389
Temporary borrowing	-45,240		-45,240
Short term Lease Liability	-3,983		-3,983
Short term provisions	-37,235		-37,235
Creditors	-284,534		-284,534
Cash and Cash equivalents			
Total current liabilities	-370,992		-370,992
Creditors due after one year	-823		-823
Provisions	-14,423		-14,423
Long-term borrowing	-1,012,116		-1,012,116
Other Long Term Liabilities	-1,347,187		-1,347,187
Capital Grants Receipts in Advance	-74,353		-74,353
Long-term Liabilities	-2,448,902	-70,233	-2,448,902
Net Assets	21,612	-70,233	-44,710
Usable Reserves	-275,154		-275,154
Unusable Reserves	249,631	70,233	319,864
Total Reserves	-21,612	70,233	44,710

Prior Period Adjustments

2010-11 Restated Balance Sheet

	31 March 2011		
		Write out of PFI and Trust Schools	Restated
	£'000	£'000	£'000
Non- Current Assets			
Property Plant & Equipment	2,418,360	-132,711	2,285,649
Heritage Assets	5,828		5,828
Investment Property	21,078		21,078
Intangible Assets	1,632		1,632
Total Property Plant & Equipment	2,446,898		2,314,187
Long-term investments	10,962		10,962
Long-term debtors	59,146		59,146
Total long-term assets	2,517,006	-132,711	2,384,295
Inventories	6,694		6,694
Assets held for sale (>1yr)	4,275		4,275
Short term debtors	223,521		223,521
Investments	134,555		134,555
Cash and Cash equivalents	67,310		67,310
Total current assets	436,355		436,355
Temporary borrowing	-57,350		-57,350
Short term Lease Liability	-4,923		-4,923
Short term provisions	-34,105		-34,105
Creditors	-291,766		-291,766
Cash and Cash equivalents			
Total current liabilities	-388,144		-388,144
Creditors due after one year	-2,949		-2,949
Provisions	-14,077		-14,077
Long-term borrowing	-1,053,557		-1,053,557
Other Long Term Liabilities	-813,001		-813,001
Capital Grants Receipts in Advance	-41,220		-41,220
Long-term Liabilities	-1,924,804		-1,924,804
Net Assets	640,413	-132,711	507,702
			0
Usable Reserves	-278,316		-278,316
Unusable Reserves	-362,097	132,711	-229,386
Total Reserves	-640,413	132,711	-507,702

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 a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Pension Fund is a contributory defined benefit scheme administered in accordance with the Local Government Pension Scheme Regulations 2007-09, as amended. It is contracted out of the State Second Pension.

The fund is overseen by the Kent County Council Superannuation Fund Committee which is a committee of Kent County Council.

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 include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employee contributions are matched by employers' contributions which are 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.

The Fund is maintained by investing in a range of assets, primarily equities, fixed income, property and cash. 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 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.

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 Pension Fund's website at:

Kent Pension Fund

Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

Fund Account for the year ended 31 March

	Notes	2011-12 £000's	2010-11 £000's
Contributions and Benefits			
Contributions Receivable:			
From employers	5	167,318	180,822
From employees	5	46,719	48,866
Transfers In	6	11,561	13,929
		225,598	243,617
Benefits Payable			
Pensions	7	-136,263	-126,220
Lump Sums	7	-51,640	-40,803
Payments to and on account of leavers			
Refunds of contributions		-59	-24
Transfers Out	8	-8,031	-10,595
Administrative & other expenses borne by the scheme	9	-2,954	-2,868
		-198,947	-180,510
Net additions from dealings with Members		26,651	63,107
Returns on Investments			
Investment Income	10, 11	76,835	62,993
Tax on Income		-2,897	-2,865
Change in Market Value of Investments	13	19,038	203,838
Loss on Icelandic Investment			0
		92,976	263,966
Investment Management Expenses	12	-11,481	-10,094
Net Return on Investments		81,495	253,872
Net increase in Fund during the year		108,146	316,979
Opening Net Assets of the Scheme at 1 April		3,202,442	2,885,463
Closing Net Assets of the Scheme at 31 March		3,310,588	3,202,442

Pension Fund Accounts

Net Assets Statement as at 31 March

	Notes	**2012** **£000's**	**2011** **£000's**
Investments at Market Value	13		
Index-Linked Securities		34,990	34,731
Equities		1,057,570	1,062,652
Pooled Investments		1,720,756	1,680,490
Private Equity / Infrastructure		45,360	26,296
Property		222,576	190,955
Pooled Property Investments		88,074	89,615
Cash Deposits		98,850	72,972
Other Investments		6,694	5,089
		3,274,870	3,162,800
Investment Liabilities	13	-173	0
		3,274,697	3,162,800
Current Assets	19	45,890	48,200
Current Liabilities	20	-9,999	-8,558
Net Assets		3,310,588	3,202,442

Notes to the Pension Fund Account

1. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2011-12 financial year and its position at 31 March 2012.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Summary of Significant Accounting Policies

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.
Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations
Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged
Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, interest and rental income have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

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 and gains on selling transactions. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

f) Investment management and administrative expenses

All expenses are accounted for on an accruals basis.

g) Financial assets

Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2012. Unquoted investments are valued by the fund managers 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 2011.
The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2012.

h) Derivatives

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.

i) Foreign currency transactions

Assets and liabilities in foreign currenty are translated into sterling at exchange rates ruling at the year-end. Differences arising on the translation of investments are include in investment gains. All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date. Foreign income has been translated into sterling at the rate ruling at the date of the transaction.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Cash held as Demand Deposits and all Cash Equivalents whether managed by KCCor other fund managers are included in investments. All other Cash is included in Current Assets.

k) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

3. Actuarial valuation at 31 March 2010

As required by Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended, an actuarial valuation of the Fund was carried out as at 31 March 2010. The next valuation will take place as at March 2013

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% (2007 73%) of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows:-

Valuation of assets:-	assets have been valued at a 6 month smoothed market value	
Rate of return on investments		6.6% pa
Rate of general pay increases		5% pa
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-		3.0% pa

The actuarial valuation was undertaken on the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; and 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 and 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.

4. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the fund's liabilities on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts.

The actuary has calculated that as at 31 March 2012 based on the actual Fund value, the Pension Fund had a net liability of £2,180m as follows:

Net Pension Asset as at	31 Mar 2012	31 Mar 2011	31 Mar 2010
	£000's	£000's	£000's
Present Value of Funded Obligation	5,490,539	4,523,250	5,137,091
Fair Value of Scheme Assets (bid value)	3,310,588	3,202,442	2,885,463
Net Liability	2,179,951	1,320,808	2,251,628

Note, the Present Value of Funded Obligation consists of £4,496.696m in respect of Vested Obligation and £993.843m in respect of Non-Vested Obligation.

The liability above is calculated on an IAS19 basis and therefore differs from the results of the 2010 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

5. Contributions Receivable

		2011-12	2010-11
		£000's	£000's
From Employers	Normal	93,657	110,877
	Early Retirements recoverable costs	12,107	9,173
	Deficit Funding	61,554	60,772
		167,318	180,822
Analysis of Employers' Contributions	Kent County Council	70,948	80,525
	Scheduled Bodies	87,350	89,668
	Admitted Bodies	9,020	10,629
		167,318	180,822

		2011-12	2010-11
		£000's	£000's
From Employees	Kent County Council	19,926	21,473
	Scheduled Bodies	23,908	24,362
	Admitted Bodies	2,703	2,729
	Lump Sum Contributions	182	302
		46,719	48,866

Note:	As at 31 March the comparative numbers of members are:	2012	2011
	Kent County Council	21,752	21,956
	Scheduled Bodies	17,905	19,540
	Admitted Bodies	1,766	1,912
		41,423	43,408

6. Transfers In

	2011-12	2010-11
	£000's	£000's
Individual	9,680	13,929
Bulk	1,881	
	11,561	13,929

7. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2011-12	2010-11
	£000's	£000's	£000's	£000's	£000's
Pensions					
Retirement pensions	43,264	44,975	4,529	92,768	85,512
Widows' pensions	2,476	3,119	260	5,855	5,592
Children's allowances	97	140	5	242	218
Pensions increase	19,315	21,225	1,325	41,865	39,376
Less benefits recovered directly from employing authorities	0	-4,346	-121	-4,467	-4,478
	65,152	65,113	5,998	136,263	126,220
Lump Sums					
Retirement (Lump Sums)	21,252	24,633	1,843	47,728	37,379
Death gratuities	1,146	2,430	336	3,912	3,424
	22,398	27,063	2,179	51,640	40,803

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.

8. Transfers Out

	2011-12	2010-11
	£000's	£000's
Individual	8,031	10,595

9. Administrative and other Expenses borne by the Scheme

	2011-12	2010-11
	£000's	£000's
Internal Administration	2,455	2,423
Actuarial Fees	240	205
Audit Fee	45	50
Legal and Other Professional Fees	157	108
Other miscellaneous expenses	57	82
	2,954	2,868

10. Summary of Income from Investments

	2011-12 £000's	2011-12 %	2010-11 £000's	2010-11 %
Index-Linked	685	0.89	253	0.40
Equities	37,161	48.36	31,008	49.22
Pooled Investment Vehicles	15,350	19.99	15,086	23.95
Private Equity / Infrastructure	3,014	3.92	479	0.76
Property	11,345	14.77	10,379	16.48
Pooled Property Investments	3,959	5.15	4,919	7.81
Total Income From Investments	71,514	93.08	62,124	98.62
Cash and Cash equivalents	5,103	6.64	538	0.85
Sub-Underwriting Commission/other			79	0.13
Stock Lending	218	0.28	252	0.40
Total	76,835	100.00	62,993	100.00

11. Property Income and Expenditure

	2011-12 £000's	2010-11 £000's
Rental Income from Investment Properties	11,345	10,379
Management Fees	-686	-635
Direct Operating Expenses on investment properties generating rental income (note 12)	-864	-843
	9,795	8,901

12. Investment Management Expenses

	2011-12 £000's	2011-12 £000's	2010-11 £000's	2010-11 £000's
Investment Managers		10,354		8,904
Actuarial (Investment Consultancy)		114		177
Performance Measurement		97		115
Custody fees		52		55
		10,617		9,251
Property Management Expenses				
- Miscellaneous property expenses	819		533	
- Insurance recoverable received	126		68	
- Disbursements paid	630		570	
- Recoverable expenses	-711	864	-328	843
		11,481		10,094

13. Analysis of Change in Market Value of Investments

	Market Value as at 31 March 11 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 12 £000's
Index Linked	34,731	26,172	-31,985	6,072	34,990
Equities	1,062,652	220,942	-188,753	-37,271	1,057,570
Pooled Investments	1,680,490	89,478	-101,295	52,083	1,720,756
Private Equity / Infrastructure	26,296	20,536	0	-1,472	45,360
Property	190,955	31,268	0	353	222,576
Pooled Property Investments	89,615	108	-922	-727	88,074
	3,084,739	388,504	-322,955	19,038	3,169,326
Cash deposits	72,972				98,850
Other Investments					
- Debtors - Outstanding Sales	656				40
- Creditors - Outstanding Purchases	0				-173
- Investment Income Accruals	4,433				6,654
Total	3,162,800			19,038	3,274,697

	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 Restated £000's
Index Linked	30,540	8,100	-4,594	685	34,731
Equities	1,186,584	286,264	-483,819	73,623	1,062,652
Pooled Investments	1,287,411	484,747	-211,431	119,763	1,680,490
Private Equity / Infrastructure	8,004	16,549	0	1,743	26,296
Property	168,177	15,709	0	7,068	190,954
Pooled Property Investments	64,334	22,899	0	2,383	89,616
Derivatives	151	789	-940	0	0
	2,745,201	835,057	-700,784	205,265	3,084,739
Cash Deposits	63,706			-1,427	72,972
Other Investments					
- Debtors - Outstanding Sales	2,213				656
- Creditors - Outstanding Purchases	-3,682				0
- Profit/Loss on Forward Currency	-21				
- Investment Income Accruals	3,502				4,433
Total	2,810,919			203,838	3,162,800

During 2010-11 the Alliance Bernstein mandate was terminated and all derivatives were closed out. The fund no longer holds any derivatives.

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 £880,221 (2010-11 £884,068). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments. The amount of indirect costs is not separately provided to the Pension Fund.

14. Analysis of Investments (excluding derivative contracts) 2011-12

	Market Value as at 31 March 11 £'000's	Market Value as at 31 March 11 £'000's
FIXED INTEREST SECURITIES		
UK		
Public Sector Quoted	34,990	34,731
	34,990	**34,731**
EQUITIES		
UK		
Quoted	555,603	556,262
OVERSEAS		
Quoted	501,967	506,390
	1,057,570	**1,062,652**
POOLED FUNDS - Additional Analysis		
UK		
Fixed Income	343,487	325,127
Unit Trusts	612,887	623,024
OVERSEAS		
Fixed Income	76,790	71,288
Unit Trusts	687,592	661,051
	1,720,756	**1,680,490**
PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE		
Property		
UK	222,576	190,955
Property Unit Trusts		
UK	72,111	71,875
Overseas	15,963	17,740
	88,074	**89,615**
Private Equity Funds		
UK	3,574	2,091
Overseas	5,334	1,147
Infrastructure		
UK	8,441	8,130
Overseas	28,011	14,928
	45,360	**26,296**
TOTAL	**3,169,326**	**3,084,739**

15. Investments analysed by Fund Manager

	2012		2011	
	£000's	%	£000's	%
Baillie Gifford	582,653	17.8	574,355	18.2
DTZ	310,651	9.5	280,887	8.9
GMO	192,010	5.9	191,489	6.0
Goldman Sachs	270,503	8.3	244,713	7.7
HarbourVest	5,334	0.2	1,147	0.0
Henderson	8,441	0.3	8,130	0.3
Impax	23,517	0.7	26,877	0.9
Invesco	398,911	12.2	355,861	11.3
Partners Group	28,011	0.8	14,928	0.5
Pyrford	80,354	2.4	0	0.0
Schroders	874,007	26.8	883,517	28.0
State Street Global Advisors	441,211	13.5	537,701	17.0
YFM	3,574	0.1	2,091	0.1
Kent County Council Investment Team	49,000	1.5	36,734	1.1
	3,268,176	100	3,158,430	100.00

The investment manager totals exclude investment debtors and creditors.

16. Financial Instruments

16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

	31 March 12			31 March 11		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Financial Assets						
Index Linked Securities	34,990			34,731		
Equities	1,057,570			1,062,652		
Pooled Investments	1,720,756			1,680,490		
Property Pooled Investments	88,074			89,615		
Private Equity/Infrastructure	45,360			26,296		
Cash		104,307			73,983	
Other Investment Balances		6,694			5,089	
Debtors/ Receivables		40,433			47,189	
	2,946,750	**151,434**	**0**	**2,893,784**	**126,261**	**0**
Financial Liabilities						
Derivative Contracts						
Other Investment balances		-173				
Creditors			-9,999			-8,558
Borrowings						
	0	**-173**	**-9,999**	**0**	**0**	**-8,558**
	2,946,750	**151,261**	**-9,999**	**2,893,784**	**126,261**	**-8,558**

16b. Net Gains and Losses on Financial Instruments

	31 March 12	31 March 11
Financial assets	£000's	£000's
Fair value through profit and loss	18,684	196,770
Loans and receivables	0	0
Financial assets measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	**18,684**	**196,770**

16c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 12		31 March 11	
	Carrying value	Fair Value	Carrying value	Fair Value
	£000's	£000's	£000's	£000's
Financial assets				
Fair value through profit and loss	2,946,750	2,946,750	2,893,784	2,893,784
Loans and receivables	151,434	151,434	126,261	126,261
Total financial assets	**3,098,184**	**3,098,184**	**3,020,045**	**3,020,045**
Financial liabilities				
Loans and receivables	-173	-173	0	0
financial liabilities at amortised cost	-9,999	-9,999	-8,558	-8,558
Total financial liabilities	**-10,172**	**-10,172**	**-8,558**	**-8,558**

16d. Valuation of Financial Instruments carried at Fair Value

Level 1

Financial instruments at Level 1 are those where the fair values are derived from adjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2012	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial Assets				
Financial assets at fair value through profit and loss	2,901,390		45,360	2,946,750
Loans and receivables	151,434			151,434
Total financial assets	**3,052,824**	**0**	**45,360**	**3,098,184**
Financial Liabilities				
Loans and receivables	-173			-173
Financial liabilities at amortised cost	-9,999			-9,999
Total financial liabilities	**-10,172**	**0**	**0**	**-10,172**
Net financial assets	**3,042,652**	**0**	**45,360**	**3,088,012**

Values at 31 March 2011	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial Assets				
Financial assets at fair value through profit and loss	2,867,488		26,296	2,893,784
Loans and receivables	126,261			126,261
Total Financial assets	**2,993,749**	**-**	**26,296**	**3,020,045**
Financial Liabilities				
Financial liabilities at fair value through profit and loss				
Financial liabilities at amortised cost	-8,558			-8,558
Total financial liabilities	**-8,558**	**0**	**0**	**-8,558**
Net financial assets	**2,985,191**	**0**	**26,296**	**3,011,487**

17. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Superannuation Fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risks. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012-13 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Equities	13.30%
Overseas Equities	15.25%
Global Pooled inc UK	15.01%
UK Index Linked securities	3.90%
Cash	0.00%
Alternatives	17.09%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Other price risk - sensitivity analysis

Asset Type	Value as at 31 March 12	Percentage change	Value on increase	Value on decrease
	£000's	%	£000's	£000's
Cash and cash equivalents	98,850	0.00	98,850	38,850
Investment portfolio assets:				
UK Equities	555,603	13.30	629,498	481,709
Overseas Equities	501,967	15.25	578,517	425,418
Global Pooled inc UK	1,808,830	15.01	2,080,336	1,537,325
UK Index Linked securities	34,990	3.90	36,355	33,625
Private Equity	8,908	17.09	10,431	7,386
Infrastructure Funds	36,452	17.09	44,681	30,222
Investment income due	6,654	0.00	6,654	6,654
Amounts receivable for sales	40	0.00	40	40
Amounts payable for purchases	-173	0.00	-173	-173
Total assets available to pay benefits	**3,052,121**		**3,485,189**	**2,561,056**

Asset Type	Value as at 31 March 11	Percentage change	Value on increase	Value on decrease
	£000's	%	£000's	£000's
Cash and cash equivalents	72,972	0.00	72,972	72,972
Investment portfolio assets:				
UK Equities	556,262	13.30	630,245	482,279
Overseas Equities	506,390	15.25	583,615	429,166
Global Pooled inc UK	1,770,104	15.01	2,035,796	1,504,411
UK Index Linked securities	34,731	3.90	36,085	33,376
Private Equity	3,238	17.09	3,792	2,685
Infrastructure Funds	23,058	17.09	26,999	19,118
Investment income due	4,433	0.00	4,433	4,433
Amounts receivable for sales	656	0.00	656	656
Amounts payable for purchases	0	0.00	0	0
Total assets available to pay benefits	**2,971,844**		**3,394,593**	**2,549,096**

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Asset Type	As at 31 March 12	As at 31 March 11
	£000	**£000**
Cash and cash equivalents	98,850	72,972
Fixed Interest Securities	367,045	362,499
Total	**465,895**	**435,471**

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying amount as at 31 March 12	Change in year in the net assets available to pay benefits	
	£000's	£000's	£000's
Cash and cash equivalents	98,850	99,838	97,862
Fixed Interest Securities	367,045	370,715	363,374
Total change in assets available	**465,895**	**470,553**	**461,236**

Asset Type	Carrying amount as at 31 March 11	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	72,972	73,702	72,242
Fixed Interest Securities	362,499	366,124	358,874
Total change in assets available	**435,471**	**439,826**	**431,116**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 12	Asset value as at 31 March 11
	£000's	£000's
Overseas Equities	501,967	506,390
Global Pooled Funds	780,345	702,397
Global Private Equity and Infrastructure	33,345	16,075
Non Sterling Cash	38,873	22,139
Total overseas assets	**1,354,530**	**1,247,001**

Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2012-13 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A relevant strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 12	Percentage change	Change to net assets available to pay benefits	
	£000's	%	£000's	£000's
Overseas Equities	501,967	8.32	543,747	460,187
Global Pooled Funds	780,345	6.67	832,355	728,334
Global Private Equity and Infrastructure	33,345	6.55	35,528	31,162
Non Sterling Cash	38,873	9.62	42,613	35,133
Total change in assets available	**1,354,530**		**1,454,243**	**1,254,816**

Currency exposure - asset type	Asset value as at 31 March 11	Percentage change	Change to net assets available to pay benefits	
	£000's	%	£000's	£000's
Overseas Equities	506,390	8.32	548,415	464,366
Global Pooled Funds	702,397	6.67	749,301	655,493
Global Private Equity and Infrastructure	16,075	6.55	17,128	15,023
Non Sterling Cash	22,139	9.62	24,293	19,985
Total change in assets available	**1,247,001**		**1,339,137**	**1,154,867**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.
In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.
Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. TheCouncil has also set limits as to the maximum amount may be placed with any one financial institution. In addition, the council invests its cash in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.
The Council believes it has managed its exposure to credit risk. Pension Fund cash was invested with other Council money with Icelandic Banks in 2008. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £47.18m (31 March 2011: £34.5m). This was held with the following institutions:

Summary	**Rating**	Balance as at 31 March 12 £000's	Balance as at 31 March 11 £000's
Funds Managed under Internal Treasury arrangements			
Money Market funds			
JP Morgan Sterling Liquidity Fund - GBP	**AAA**	17,088	1,206
JP Morgan Sterling Liquidity Fund - USD	**AAA**	20,230	21,769
Blackrock Sterling Government Liquidity Fund	**AAA**	3,100	
Goldman Sachs Sterling Government Fund	**AAA**	2,952	
		43,370	**22,975**
Bank Deposit Accounts			
NatWest SIBA	**A**	3,809	11,520
		47,179	**34,495**
Bank Current Accounts			
Natwest Current Account - GBP	**A**	84	324
Natwest Current Account - Euro	**A**	2,767	370
Barclays - DTZ client monies account	**A**	2,606	317
		5,457	**1,011**
Total		**52,636**	**35,506**
Funds Managed by fund Managers			
Money Market funds			
JP Morgan Sterling Liquidity Fund - GBP	**AAA**	47,674	27,048
Bank Current Accounts			
JP Morgan Chase - Current Account - GBP	**A+**	3,996	11,429
Total		51,670	38,477

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.
The Council has immediate access to its pension fund cash holdings.
Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.
All financial liabilities at 31 March 2012 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Stock Lending

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	47,296	51,479	Securities
Sovereigns - Euro	4,953	5,201	Securities
	52,249	56,680	

19. Current Assets

	2012		2011	
	£000's	£000's	£000's	£000's
Debtors				
- Contributions due - Employees	3,529		3,818	
- Contributions due - Employers	26,142		27,846	
- Sundry debtors	738	30,409	863	32,527
Amounts due to KCC		10,024		14,662
Cash		5,457		1,011
		45,890		48,200
Analysis of debtors				
Central Government Bodies		262		332
Other Local Authorities		27,268		29,285
Other Entities and individuals		2,879		2,910
		30,409		32,527

20. Current Liabilities

	2012 £000's	2011 £000's
Current Liabilities		
Unpaid Benefits	-4,291	-4,386
Other current liabilities	-5,708	-4,172
	-9,999	-8,558
Analysis of creditors		
Central Government Bodies	0	0
Other Local Authorities	-2,976	-2,531
Public Corporations	-11	-12
Other Entities and individuals	-7,012	-6,015
	-9,999	-8,558

21. Loss on Icelandic Investment

At 31 March 2012 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. This is included in other current liabilities per Note 20.

22. 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: £811,233 (£753,300 in 2010-11). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2011-12 £000's	2010-11 £000's	2011-12 £000's	2010-11 £000's	2011-12 £000's	2010-11 £000's
Value at 1 April	4,390	3,906	2,058	2,082	1,136	1,222
Income						
Contributions Received	1,309	1,198	188	183	8	10
Transfer Values Received	136	65	0	0	0	0
Interest & bonuses	36	46	0	0	22	58
Total	1,481	1,309	188	183	29	68
Expenditure						
Retirement Benefits Paid	-781	-762	-290	-357	-186	-143
Transfer Values Paid	-151	-16	0	0	-4	-11
Refund of Contributions	-10	-37	0	0	0	0
Total	-942	-815	-290	-357	-190	-154
Change in Market Value	99	-10	79	150	0	0
Value at 31 March	5,028	4,390	2,035	2,058	975	1,136

23. Related Party Transactions

The Kent Pension Fund is administered by Kent County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

	2011-12	2010-11
	£000's	£000's
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,612	2,531
Year end balance due from KCC arising out of transactions between KCC and the Pension Fund	3,313	1,580
In respect of interest received on cash deposits		89

There were no related party transactions with members or senior officers.

24. Contingent Liabilities and Contractual Commitments

As at 31 March 2012 the Pension Fund has a future commitment to invest in the following Funds:

Fund	**Total Commitment**		**Invested**		**Outstanding**
	Base Currency	**£**	**Base Currency**	**£**	**£**
YFM Private Equity	£6m	6m	£4m	4m	2m
Partners Group	€83m	69m	€34m	29m	40m
HarbourVest	$67.5m	42m	$4m	2m	40m
HarbourVest	€37m	31m	€5m	4m	70m

25. Contingent Assets

22 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

26. Prior Period Adjustments

Cash and Cash Equivalents

In previous years, amounts owed to/by KCC arising out of joint banking arrangements, were treated as cash assets or liabilities under current Assets. Currently with the operation of a separate bank account of the Pension Fund, these amounts are now shown as Debtors/Creditors under Current Assets.

In the previous financial year, Cash Equivalents managed by KCC were included in Current Assets and those managed by External Fund Managers were included in Investments. In the current financial year, all Cash Equivalents are included under investments to accurately reflect the nature and purpose of those investments.

Scheduled Bodies

Local Authority and District Councils

Ashford Borough Council
Canterbury City Council
Dartford Borough Council
Dover District Council
Gravesham Borough Council
Kent County Council
Maidstone Borough Council
Medway Council
Sevenoaks District Council
Shepway District Council
Swale Borough Council
Thanet District Council
Tonbridge & Malling Borough Council
Tunbridge Wells Borough Council

Schools

Allington Primary School
All Souls County Primary School
Angley School
Archbishops CE School
Astor College of Arts
Astor of Hever School
Aycliffe CEP
Aylesford School
Barton Court Grammar School
Barton Junior School
Birchington CEP School
Borden Grammar School
Borough Green Primary School
Bredgar School
Brockhill Park School
Brookfield Junior School
Charles Dickens High School
Chatham Grammar School for Girls
Chatham Grammar School for Boys
Chaucer Technology School
Crockenhill Primary
Cranbrook School
Dartford Grammar School for Girls
Ditton Infant School
Ditton CE Junior School
Dover Grammar School for Boys
Dover Grammar school for Girls
Downsview Infants School
East Borough Primary School
Five Acre Wood School
Folkestone School for Girls
Gateway Community Primary School
Gravesend Grammar School for Boys
Gravesend Grammar School for Girls
Greatstone County Primary School
Halfway House County Primary School
Harcourt County Primary School
Herne Bay Junior School
Hextable School
High Firs Primary School
Maplesden Noakes School,Maidstone
Mascalls School
Northfleet Technical College
Northfleet School for Girls
Oakwood Park Grammar School
Our Lady of Hartley RC Primary School
Parkway Primary
Pent Valley Secondary School
Rainham Mark Grammar School
Riverview Infants School
Riverview Junior School
Robert Napier School
Roseacre Junior School
Sandling CP
Shatter Locks Infants
Simon Langton Grammar School for Boys
Skinners School
Snodland County Primary School
St Anselm's RC Comprehensive School
St Bartholomew County Primary School
St Botolphs County Primary School
St Edmund of Canterbury Comprehensive
St Francis County Primary School
St George's School, Broadstairs
St George's School,Gravesend
St Gregory's Catholic Comprehensive
St Johns CEP School
St John RC Comprehensive
St Joseph RC Primary School
St Mary's CEP
St Peter's Aylesford
St Simon Stock School
Staplehurst School
Stella Maris RC Primary School
Sutton at Hone County Primary School
Thamesview School
The Norton Knatchbull
Thomas Aveling School
Tunbridge Wells Girls Grammar School
Valence Special School

Highsted Grammar School
Hillview School for Girls
Holy Family RC Primary
Holy Trinity County Primary School, Dartford
Holy Trinity County Primary School, Gravesend
Horton Kirby County Primary School
Hundred of Hoo School
Hugh Christie School
John Wesley School
Judd School Tonbridge
Malling School
West Minster CP Sheppey
White Cliffs Primary
Whitehill Primary School
Willesborough County Primary Junior School
Wilmington County Primary School
Wilmington Grammar School for Boys
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 and South Darenth Parish Council
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
Littlebourne 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
Temple Ewell Parish Council
Tenterden Town Council
Thanet Joint Computer Committee
Upper Medway Internal Drainage Board
Westerham Parish Council
West Kingsdown Parish Council
Woodnesborough Parish Council

Academies

Amherst School Academy
Barton Court Grammar School (Academy)
Bennett Memorial Diocesan School (Academy)
Bishop of Rochester Academy
Borden Grammar School (Academy)
Brockhill Park Performing Arts College (Academy)
Brompton Academy
Canterbury Academy
Castle Community College Academy
Chatham Grammar School for Girls (Academy)
Chatham House Grammar School Academy
Chatham Grammar School for Boys
Chiddingstone Primary School Academy
Clarendon House Grammar School Academy
Cliffewoods Primary School Academy
Cornwallis Academy
Cranbrook School (Academy)
Dane Court Grammar School (Academy)
Dartford Grammar School For Boys Academy
Dover Christchurch Academy
Duke of York Military Academy
Folkestone Academy
Folkestone School for Girls (Academy)
Fort Pitt Grammar School Academy Trust
Fulston Manor School Academy
Graveney Primary School Academy
Gravesend Grammar School (Boys) Academy
Hartsdown Technology College (Academy)
Hayesbrook High School for Boys Academy
Herne Bay High School Academy
Highstead Grammar School Academy
Highworth Grammar School Academy
Hillview School for Girls (Academy)
Homewood School (Academy)
Hundred of Hoo School (Academy)
Isle of Sheppey Academy
Joydens Infant School Academy
Joydens Junior School Academy
John Wallis Academy
Kemnal Academy Trust Horizons Primary School
Kemnal Academy Trust: Orchards Academy
Kemnal Academy Trust: Rainham School for Girls
Kemnal Academy Trust: Smarden Primary School Academy
King Ethelbert School (Academy)
Knole Academy
Leigh Technology Academy
Longfield Academy
Lynsted & Norton Primary School Academy
Marlowe Academy
Marsh Academy
Mascalls School (Academy)
Mayfield Grammar School (Academy)
Meopham Community Academy
Milestead & Frinsted CE Primary
Milestone Academy
New Line Learning Academy
Oakwood Park Grammar School (Academy)
Queen Elizabeth's Grammar School (Academy)
Rainham Mark Grammar School Academy
Regis Manor Commuinty Primary School Academy
Rochester Grammar School for Girls Academy
Saint George Church of England School
Sandwich High School Academy
Selling CE Primary Academy
Sheldwich Primary School
Sir Joseph's Williamson Math School Academy
Sir Roger Manwood School Academy
Sittingbourne Community College Academy
Skinners Academy
Spires Academy
St Augustine Academy
St John's Primary School Academy
St Stephens Junior School Academy
Strood Academy
The Maplesden Noakes School (Academy)
The Abbey School Academy
Thomas Aveling School (Academy)
Tonbridge Grammar School for Girls Academy
Walderslade Girls School Academy
Weald of Kent Grammar School Academy
Wentworth Primary School Academy
Westlands Primary School Academy
Westlands School Academy
Wilmington Academy
Wilmington Girls Grammar School (Academy)
Wilmington Grammar School for Boys (Academy)
Wilmington Primary School (Academy)

Glossary of terms

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 Service Reporting 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.

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.

Glossary of terms

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.

Revenue expenditure funded from capital under statute (Refcus)
Refcus includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

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 Corporate Director of Finance & Procurement
To:	Governance and Audit Committee – 26 July 2012
Subject:	**TREASURY MANAGEMENT ANNUAL REVIEW 2011-12**
Classification:	Unrestricted

Summary: To report a summary of Treasury Management activities in 2011-12

FOR DECISION

INTRODUCTION

1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

2. Treasury Management is defined as: "the management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

   Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

3. This report:

   - Is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
   - Reports on the implications of treasury decisions and transactions;
   - Gives details of the outturn position on treasury management transactions in 2011-12;
   - Confirms compliance with Treasury limits and Prudential Indicators.

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

ECONOMIC BACKGROUND

5. At the time of determining the strategy in March 2011, there were tentative signs that the UK was emerging from recession with the worst of the financial crisis behind it. Recovery in growth was expected to be slow and uneven as the austerity measures announced in the 2010 Comprehensive Spending Review were implemented in order to bring down the budget deficit and government borrowing and rebalance the economy and public sector finances. Inflation measured by the Consumer Price Index (CPI) had remained stubbornly above 3%; unemployment was at a 16 year high at 2.5 million and was expected to rise further as the public and private sector contracted. There was also a high degree of uncertainty surrounding Eurozone sovereign debt sustainability.

Inflation

6. During 2011-12 inflation remained high with CPI (the official measure) and RPI rising in September to 5.2% and 5.6% respectively primarily due to escalating utility prices and the January 2011 increase in VAT to 20%. Inflation eased slowly as reductions in transport costs, food prices intensifying competition amongst retailers and supermarkets and the VAT effect falling out in 2012, pushed February 2012's CPI down to 3.4% and RPI to 3.7%. This, however, was not enough to offset low wage growth and, as a result, Britons suffered the biggest drop in disposable income in more than three decades.

Growth, Employment, House Prices

7. Growth, on the other hand, remained elusive. The Bank's Quarterly Inflation Reports painted a bleak picture as the outlook was downgraded to around 1% in 2011 and 2012 alongside. The unresolved problems in the Eurozone weighed negatively on global economic prospects. UK GDP was positive in only the first and third calendar quarters of 2011; annual GDP to December 2011 registered just 0.5%. Unemployment rose to 2.68 million and, worryingly, youth unemployment broke through the 1 million barrier. House prices struggled to show sustained growth and consumer confidence remained fragile.

Monetary Policy

8. (1) It was not surprising that the Bank of England's Monetary Policy Committee maintained the status quo on the Bank Rate which has now been held at 0.5% since March 2009, but increased asset purchases by £75bn in October 2011 and another £50bn in February 2012 taking the Quantitative Easing (QA) total to £325bn.

(2) The policy measures announced in the March 2012 Budget Statement were judged to be neutral. The government stuck broadly to its austerity plans as the economy was rebalanced slowly. The opinion of the independent Office for Budget Responsibility (OBR) was that the government was on track to meet its fiscal targets; the OBR identified oil price shocks and a further deterioration in Europe as the main risks to the outlook for growth and in meeting the fiscal target.

US

9. The US economy continued to show tentative, positive signs of growth alongside a gradual decline in the unemployment rate. The US Federal Reserve (the Fed) committed to keeping policy rates low until 2014, although a modest shift in the Fed's language in March, alongside an improvement in economic activity, cast doubts about the permanence of the Fed's policy commitment.

Europe

10 (1) In Europe, sovereign debt problems for some peripheral countries became critical. Several policy initiatives were largely ineffectual; two bailout packages were required for Greece and one for Portugal, and the contagion spread to Spain and Italy whose sovereign bonds came under increased stress in November. Standard & Poor's downgraded nine European sovereigns and the EFSF bailout fund. The successful Greek sovereign bond swap in March 2012 shortly after its second bailout package allowed it to avoid bankruptcy later that month, but it was not a long-term solution. The ECB's €1.3 trillion Long-Term Refinancing Operations (LTROs) flooded the financial markets with ultra-cheap 3-year liquidity and relieved much of the immediate funding pressure facing European banks in 2012, but markets ultimately took the view that the LTROs simply served to delay a resolution of, rather than addressed, the fundamental issues underpinning Euroland's problems.

(2) Market sentiment oscillated between 'risk on' / 'risk off' modes, this swing becoming the norm for much of 2011-12 as investors shifted between riskier assets and the relative safety of higher quality government bonds. Gilts, however, were a principal beneficiary of the 'risk-off' theme which helped push yields lower. There was little market reaction to or impact on gilts by the decision by Fitch and Moody's to change the outlook on the UK's triple A rating from stable to negative. Over the 12-month period from April 2011 to March 2012, 5-year gilt yields more than halved from 2.40% to 1.06%; 10-year gilt yields fell from 3.67% to 2.25%; 20-year yields fell from 4.30% to 3.20% and 50-year yields from 4.20% to 3.35%. PWLB borrowing rates fell commensurately but the cost of carry

associated with borrowing longer-term loans whilst investing the monies temporarily until required for capital financing remained high, in excess of 4.1% for 20-year PWLB Maturity borrowing.

Credit

11. Europe's banking sector was inextricably linked with the sovereign sector. Sharp moves in sovereign CDS and bond yields were fairly correlated with the countries' banking sector performance. The deterioration in the prospects for real growth had implications for earnings and profit growth and banks' creditworthiness. The European Banking Council's banking stress tests of 70 EU banks undertaken in October 2011 identified a collective €106 billion shortfall to banks' Core Tier 1 ratio of 9%. The slowdown in debt and equity capital Market activity also had implications for banks' funding and liquidity. These principal factors, as well as a reassessment by the rating agencies of future sovereign support for banks, resulted in downgrades to the long-term ratings of several UK and non-UK financial institutions in autumn 2011.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

12. The overall borrowing position is summarised below:

	Balance on 31/3/2011 £000's	Debt Maturing £000's	New Borrowing £000's	Balance on 31/3/2012 £000's	Avg Rate %
Capital Funding Requirement	1,309,517				
Short Term Borrowing	0	0	0	0	0
Long Term Borrowing	1,096,333	57,024	50,000	1,089,309	5.30
TOTAL EXTERNAL DEBT	1,096,333	57,024	50,000	1,089,309	5.30

13. The PWLB remains the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide.

Loans Borrowed during 2011-12	Principal £000's	Average Rate %	Average Maturity (years)
PWLB Fixed Rate Maturity Loans	0	0	0
PWLB Fixed Rate EIP Loans	0	0	0
Market Loans	50,000	3.83	46.5
Total	50,000	3.83	46.5

14. As significant cuts to local government funding have put pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant (between 2% - 4%). The use of internal resources in lieu of borrowing was judged to be the most cost effective means of funding £7.024m of maturing loans as well as £14.83m of capital expenditure. This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. This strategy is expected to be maintained in 2012/13.

15. No debt rescheduling was undertaken in the year.

16. Changes in the debt portfolio have increased the average life from 27.82 years to 30.13 years.

INVESTMENT ACTIVITY

17. The CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

18. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2011-12. Investments during the year included

    - Deposits with the Debt Management Office

    - Call accounts and deposits with Banks and Building Societies systemically important to the UK. These were:

        - Royal Bank of Scotland (RBS) Group
        - Lloyds Banking Group
        - Barclays
        - HSBC
        - Santander UK
        - Nationwide
        - Standard Chartered

    There has been a temporary hold on Santander UK since April 2010 and RBS since June 2012.

19. Counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swaps, GDP of the country in which the institution operates, the country's net debt as a percentage of GDP, any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2011-12 treasury strategy was A+ across rating agencies Fitch, S&P and Moody's. Downgrades in autumn 2011 of the long-term ratings of the RBS Group, the Lloyds Banking Group and Nationwide resulted in their ratings falling below the Authority's minimum threshold of A+. The downgrades were driven principally by the agencies' view of the extent of future government support (flowing from the recommendations to the government from the Independent Commission on Banking) rather than a deterioration in the institutions' creditworthiness. Further use of these counterparties was suspended until a revised criterion of A- was approved by Cabinet in February 2012. Santander UK remained suspended throughout the year.

20. In keeping with CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and of call accounts.

21. The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments.

22. The Council's investment income for the year was £1.7m compared with a budget of £2.0m. The Council held average cash balances of £307.98m during the year. These represented working cash balances / capital receipts, and the Council's reserves.

23. All investments made during the year complied with the Council's agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits. No control issues were identified when the treasury management activities were once again subject to internal audit by Deloittes.

24. Deposits as at 31 March 2012 are shown in Appendix 1.

ICELANDIC EXPOSURE

25. The Council had an exposure of £50.35m to Icelandic Banks (£15.0m Glitnir, £17.0m Landsbanki and £18.35m Heritable). In October 2011 the Icelandic Supreme Court confirmed that UK local authorities were preferred creditors in Glitnir and Landsbanki. This will result in 100% recoveries on both banks.

26. Glitnir – in March 2012 a full recovery was made – 18% of the total payment was in Icelandic Krona and this is still held in an escrow account in Iceland. UK local Council representatives continue to pursue a resolution of this issue.

27. Landsbanki – dividends to the value of 43p in the £ have now been made – only 2% was in Icelandic Krona. Regular dividend payments will now be made.

28. Heritable – the estimated recovery is 90% and to date 71.71% has been received.

29. Total recoveries received to date are £35.3m. The Council will comply with the CIPFA Guidance on the accounting arrangements for the deposits and dividends.

COMPLIANCE WITH PRUDENTIAL INDICATORS

30. The Council can confirm that it has complied with its Prudential Indicators for 2011-12, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 2.

TREASURY ADVISER

31. KCC currently employs Arlingclose as Treasury Advisers.

RECOMMENDATION

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

Alison Mings
Treasury and Investments Manager
Ext: 7000 6294

Appendix 1

Deposits as at 31 March 2012

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate	Territory
	Total Icelandic Bank Deposits	**£21,131,926.92**			
Same Day Call Deposit	Bank of Scotland	£34,000,000.00	n/a	0.75	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000.00	31/05/2013	6.8	UK Bank
Fixed Deposit	Barclays Bank	£2,000,000.00	10/04/2012	1.359	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000.00	08/06/2012	1.37	UK Bank
Same Day Call Deposit	Barclays Bank	£22,000,000.00	n/a	0.5	UK Bank
Fixed Deposit	Barclays Bank	£3,000,000.00	28/05/2012	0.72	UK Bank
Fixed Deposit	HSBC	£5,000,000.00	02/04/2012	0.4	UK Bank
Fixed Deposit	HSBC	£4,000,000.00	03/04/2012	0.4	UK Bank
Fixed Deposit	HSBC	£6,000,000.00	04/04/2012	0.4	UK Bank
Fixed Deposit	HSBC	£9,200,000.00	10/04/2012	0.4	UK Bank
Fixed Deposit	HSBC	£7,400,000.00	13/04/2012	0.4	UK Bank
Fixed Deposit	HSBC	£8,000,000.00	11/04/2012	0.4	UK Bank
Fixed Deposit	Lloyds TSB	£4,000,000.00	08/05/2012	2.1	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000.00	26/06/2012	1.4	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000.00	31/05/2012	0.75	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000.00	29/06/2012	1.4	UK Bank
Fixed Deposit	Lloyds TSB	£6,000,000.00	10/05/2012	0.65	UK Bank
Same Day Call Deposit	NatWest	£35,000,000.00	n/a	1.15	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000.00	18/10/2013	1.68956	UK Bank
Same Day Call Deposit	Royal Bank of Scotland	£35,000,000.00	n/a	1.25	UK Bank
	Total UK Bank Deposits	**£210,600,000.00**			
Fixed Deposit	Nationwide Building Society	£1,200,000.00	04/05/2012	1.17	UK Building Society
Fixed Deposit	Nationwide Building Society	£10,000,000.00	04/05/2012	0.62	UK Building Society
Fixed Deposit	Nationwide Building Society	£10,650,000.00	25/04/2012	0.55	UK Building Society
Fixed Deposit	Nationwide Building Society	£13,000,000.00	25/06/2012	0.98	UK Building Society
Fixed Deposit	Nationwide Building Society	£1,500,000.00	27/06/2012	0.98	UK Building Society

Fixed Deposit	Nationwide Building Society	£3,650,000.00	30/04/2012	0.55	UK Building Society
Fixed Deposit	Nationwide Building Society	£5,000,000.00	01/06/2012	0.74	UK Building Society
Fixed Deposit	Nationwide Building Society	£5,000,000.00	02/07/2012	1.1	UK Building Society
	Total UK Building Society Deposits	**£50,000,000.00**			
	Grand Total of All Deposits	**£281,731,926.92**			

Appendix 2

PRUDENTIAL INDICATORS

1. Estimate of capital expenditure (excluding PFI)

Actual 2010-11	£377.147m	
Original estimate 2011-12	£305.448m	
Revised estimate 2011-12	£273.377m	(this includes the rolled forward re-phasing from 2010-11)

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

	2010-11 Actual	2011-12 Original Estimate	2011-12 Outturn as at 31.03.12
	£m	£m	£m
Capital Financing Requirement	1,286.518	1,308.640	1,300.801
Annual increase in underlying need to borrow	36.902	35.527	14.283

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

3. Estimate of ratio of financing costs to net revenue stream

Actual 2010-11	12.85%
Original estimate 2011-12	11.77%
Revised estimate 2011-12	13.98%

The actual 2010-11 and revised estimate 2011-12 includes PFI Finance Lease costs but these costs were not included in the original estimate calculation.

4. 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 will not be exceeded in 2011-12

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

	Prudential Indicator 2011-12	Position as at 31.03.12
	£m	£m
Borrowing	1,158	1,044
Other Long Term Liabilities	0	0
	1,158	1,044

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

	Prudential Indicator 2011-12 £m	Position as at 31.03.12 £m
Borrowing	1,204	1,089
Other Long Term Liabilities	0	0
	1,204	1,089

5. 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 2011-12 are:

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

	£m
Borrowing	1,198
Other long term liabilities	0
	1,198

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

	£m
Borrowing	1,204
Other long term liabilities	0
	1,204

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.

6. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the Code of Practice on Treasury Management and has adopted a Treasury Management Policy Statement. Compliance has been tested and validated by our independent professional treasury advisers.

7. Upper limits of fixed interest rate and variable rate exposures

The Council has determined the following upper limits for 2011-12

Fixed interest rate exposure	100%
Variable rate exposure	50%

These limits have been complied with in 2011-12.

8. Upper limits for maturity structure of borrowings

	Upper limit	Lower limit	As at 31.03.12
	%	%	%
Under 12 months	25	0	0
12 months and within 24 months	40	0	7.07
24 months and within 5 years	60	0	5.44
5 years and within 10 years	80	0	11.02
10 years and within 20 years	25	10	10.74
20 years and within 30 years	25	5	15.92
30 years and within 40 years	25	5	12.01
40 years and within 50 years	25	10	16.59
50 years and within 60 years	30	10	21.21

9. Upper limit for principal sums invested for periods longer than 364 days

Indicator	Actual
£50m	**£10m**

By:	Roger Gough, Cabinet Member for Business Strategy, Performance & Health Reform Amanda Beer, Corporate Director Human Resources
To:	Governance and Audit Committee – 26 July 2012
Subject:	Update on Change to Keep Succeeding
Classification:	Unrestricted – for assurance

Summary: This update on the Change to Keep Succeeding programme of organisational change covers the completion of appointments to the senior level of the new operating framework and the changes to staffing across the Authority since April 2011. The Governance and Audit Committee is invited to note the changes covered in the report and agree to receive further reports when there has been significant change or if specifically requested.

1. Introduction

This paper is a result of the request made at the meeting of the Governance & Audit Committee on 14 September 2011 for a quarterly update on Change to Keep Succeeding, with particular reference to staffing numbers.

2. The Operating Framework

Restructures

The level of restructure activity throughout the Authority remains high. The significant restructure of Finance is now complete. There remains major HR activity on the Youth Service transformation, Older People's Units and Strategic Commissioning.

Recent Appointments to senior posts;

Ian McPherson was appointed to the post of Director of Commercial Services and took up the post in May 2012. He was previously a consultant with BDO.

Kevin Shovelton has been appointed as the Director of Education Planning and Access. He is joining us from Southend on Sea Borough Council, where he is the Group Manager for Special Education Needs (SEN) and Inclusion Services. Kevin is expected to take up his new position in October.

These last two appointments now provide the County Council with its full complement of Directors

3. Staffing Numbers and Reductions

It is expected that a total of 1500 posts will be lost over the four financial years from April 2011. Appendix 1 shows the staffing numbers at the end of June 2012.

The figures attached show a reduction in headcount (excluding casual, relief, sessional and supply staff) of 1,331. This reduction will include both redundancies and natural wastage where staff have left KCC and not been replaced. 629 staff were made redundant between 1 April 2011 and 31 May 2012 and redundancy payments for that period totalled £5,723,378. The restructures currently under consultation and being planned are likely to result in a further reduction in posts.

4. Organisational Development

The programme is changing the manner in which we manage Organisational Development (OD). Since the last update OD groups have been established in each Directorate to facilitate the building of a KCC wide training strategy, with consistency and business input. This structure provides a greater transparency and robustness to the significant training investment the organisation makes and alignment between different activities to build capacity and improve performance. The OD groups will also be the vehicle for monitoring delivery of the OD & People Plan at Directorate level.

5. The Kent Manager

Kent Manager is the standard that clearly defines the management role within KCC and provides an agreed benchmark for all Kent Managers to work towards. To assist our managers in the process of Kent Manager accreditation both the overarching KCC and specific level of management priorities have been indentified from the suite of competencies. The organisations commitment to these standards was recently reaffirmed by Corporate Board.

6. Internal Communication & Staff Engagement

This remains a significant part of the programme. Talk to the Top continues to develop and feedback on the EVP staff survey is being given to all the divisions which took part in the pilot. The feedback from all internal communication channels and the staff survey will be used to inform the ongoing development of the Engagement Strategy.

7. Conclusion

Significant progress continues to be made in implementing Change to Keep Succeeding. There is an established understanding of the programme amongst staff through internal communication remains a critical factor.

8. Recommendation

That future reports are provided on an ad hoc basis, as a result of either significant change in the programme or at the specific request of the Committee.

Background papers

Update on Change to Keep Succeeding - Governance and Audit Committee 14.9.11.

Update on Change to Keep Succeeding - Governance and Audit Committee 18.4.12.

Organisation Development & People Plan – Personnel Committee 23.9.11

Change to Keep Succeeding – the next steps. County Council 15.12.11

Amanda Beer
Corporate Director Human Resources
4136

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Staffing Numbers

Jun 12

Based on Active Assignments

	Assignment Count	Headcount (inc CRSS)	Headcount (exc CRSS)	FTE
Total KCC	**42,875**	**36,226**	**32,061**	**23,514.33**
Total Non Schools	**13,671**	**12,430**	**10,613**	**8,971.02**
Non Schools Workforce difference compared with Mar 11	**-1,659**	**-1,420**	**-1,331**	**-1,089.85**
Total Schools	**29,204**	**23,960**	**21,517**	**14,543.31**
Directorate Split				
BSS	**1,559**	**1,555**	**1,540**	**1,427.96**
ELS	**1,589**	**1,526**	**1,237**	**947.65**
FSC	**5,384**	**4,865**	**4,560**	**3,862.74**
CC	**3,941**	**3,398**	**2,239**	**1,706.67**
EE*	**1,198**	**1,184**	**1,072**	**1,026.00**

NB CRSS = Staff on Casual Relief, Sessional or Supply contract

* Includes Commercial Services figures as shown below.

EE - Commercial Services	**603**	**596**	**587**	**561.90**

Notes

If a member of staff works in more than one directorate they will be counted in each. However, they will only be counted once in the Non Schools Total and once in the KCC Total.

If a member of staff works for both Schools and Non-Schools they will be counted in both of the total figures. However, they will only be counted once in the KCC Total.

Produced by Business Systems Development Team
Human Resources

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By:	Cabinet Member for Finance Corporate Director of Finance & Procurement
To:	Governance & Audit Committee – 26 July 2012
Subject:	**DEBT MANAGEMENT**
Classification:	Unrestricted

Summary: To report on the Council's debt position

FOR ASSURANCE

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with assurance on 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 2012 as shown on Oracle Accounts Receivable is £39,903,580. This represents social care debt from SWIFT of £18,513,461 (32,553 invoices) and sundry debt of £21,390,119 (4,924 invoices) which includes FSC Health debt of £3,051,940.

4. The detail around the Social Care element of debt can be found in sections 14- 20, with earlier sections referring to AR sundry debt only. The Social Care debt reflects the four weekly client billing process run on the 29th May 2012. The outstanding debt was £18,554k.

5. Please note that throughout this report Business and Strategic Support (BSS) will include the old Chief Executive debt; Education and Learning Skills (ELS) will include the old CFE debt; Enterprise & Environment (E&E) will include the old EHW debt; Customers & Communication (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 current 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 2012.

Directorate	Outstanding Debt (excluding debts not yet due)	0 – 60 Days	Over 60 Days and Under 6 Months	Over 6 Months
BSS	931,022	595,908	132,155	202,959
ELS	1,155,335	311,992	353,436	489,907
E&E	1,766,175	746,294	712,751	307,130
C&C	371,327	257,959	64,681	48,687
FSC + KASS (Sundry)	4,446,605	2,475,768	750,662	1,220,175
Total	**8,670,464**	**4,387,921**	**2,013,685**	**2,268,858**

The above figures do not include those debts which are not yet due, which total £12,719,655.

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 75%
- Total outstanding sundry debt over 6 months old – less than 20%

As at 31 May 2012 80% of the total sundry outstanding debt is under 60 days old and 11% is over 6 months old.

DEBT LEVELS OVER SIX MONTHS OF AGE

8. Below is an analysis of the categories of debt over 6 months old by Directorate, followed by more detailed analysis.

Directorate	Status of Debt	Amount Over 6 Months Old
BSS	Instalments	25,773
	Referred to legal services	2,874
	Referred to directorate for action	126,520
	Ongoing action	39,424
	Referred for write off	8,368
	Sub total	**202,959**

9. BSS

- The £39k marked as Ongoing Action represents 52 invoices, the largest being an invoice to Tourism South East for £4k raised in August 2011 which has just been paid.

- The £126k marked as Referred to Directorate represents 35 invoices, the largest being a repayment of an empty property loan of £100k.

Directorate	Status of Debt	Amount Over 6 Months Old
ELS	Instalments Referred to legal services Referred for write off Referred to directorate for action Ongoing action Internal school charges **Sub total**	24,276 60,903 108,769 151,106 142,703 2,150 **489,907**

10. ELS

- The £151k marked as Referred to Directorate for action represents 29 invoices. Of these there are 2 invoices totalling £113k invoiced to Maidstone & Tunbridge Wells NHS Trust in respect of Kent Portage Services.

- The £109k marked as Referred for Write Off represents 9 invoices, the largest of which is £105k raised to West Kent PCT, again for Portage Services.

- The £143k marked as Ongoing Action represents 24 invoices, the largest of which is £11.8k raised in February 2011 to The Parents Consortium in respect of a contribution towards a training kitchen for the year 9/10.

Directorate	Status of Debt	Amount Over 6 Months Old
E&E	Instalments Referred for write-off Ongoing action Referred to directorate for action Insurance Referred to legal services **Sub total**	5,875 2,732 65,231 148,749 56,198 28,345 **307,130**

11. E&E

- The £149k marked as Referred to Directorate for Action represents 54 invoices, the largest being £45.5k for a Section 278 charge on the County Square site, Ashford.

Directorate	Status of Debt	Amount Over 6 Months Old

FSC (Sundry debt)	Instalments Ongoing action Referred to legal services Referred for write-off Health debt Referred to directorate for action Instalment Small Claims Insolvency Paid to CS in error Small Claims **Sub total**	22,036 31,198 44,094 20,815 996,694 99,695 4,530 362 235 516 **1,220,175**

12. FSC

- The £100K marked as Referred to Directorate for Action relates to 22 invoices, with an average value of £4.5k. The largest value invoice is £9.9k for an overpaid kinship allowance raised in October 2012. Recently arrangements have been made with the debtor to repay by instalments.

- The £1 m of Health Debt relates to 27 invoices. There are 2 invoices over £100k in value. One is £400k raised in February 2011 to West Kent PCT in respect of the re-ablement fund agreement for the year 2010-11. The Director of Commissioning and Provision for FSC has previously advised that the invoice is on hold pending final discussions for the year's re-ablement monies, owing to the PCT having picked up some of KCC's costs. The other is £196k raised in March 2011 to Lambeth Primary Care Trust in respect of reimbursement for CHC funding for a residential placement for the period June 2010 – March 2011. The Director of Learning Disability and Mental Health Services is in ongoing discussion with Legal Services regarding this invoice.

Directorate	Status of Debt	Amount Over 6 Months Old
Communities	Instalments Referred for write-off Referred to directorate for action Ongoing action Referred to legal services **Sub total**	1,973 5,631 9,783 25,820 5,480 **48,687**

13. C&C

- The £26k marked Ongoing Action represents 25 invoices, the largest of which is £7.9k to The Performing Rights Society raised in September 2011 to re-coup an unused credit note. There is an ongoing discussion with the supplier to resolve this.

INSTALMENT PAYMENTS

14. The table below represents the amount and value of debt being paid by instalments.

Directorate	Number of Cases	Total Value £
BSS	14	37,141
ELS	35	37,028
C&C	12	4,611
E&E	12	29,063
FSC + KASS (sundry debt)	30	35,512
Total	**103**	**143,355**

15. The table below represents the sundry debt for Kent Adult Social Services and the former Social Services. Unfortunately, it is not possible to break the figures down by district; however the age analysis is detailed.

Area	0-60 Days	Over 60 Days and Under 6 Months	Over 6 months	Total
EK KASS	40	401	95,150	**95,591**
EK Social Services	0	0	10,684	**10,684**
HQ KASS	0	0	69,162	**69,162**
MK Social Services	0	0	1,092	**1,092**
WK KASS	0	0	730,041	**730,041**
Other FSC KASS/SS Debt	2,475,728	750,261	314,045	**3,540,034**
Total Debt	2,475,768	750,662	1,220,174	**4,446,604**

16. The 'Other FSC/KASS/SS Debt' figures represent charges raised through the Oracle system that do not denote a specific area. Debts within this category will include salary overpayments, Direct Payments and home support fund repayments.

TRENDS

17. 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 2012	30 April 2011	30 April 2010	30 April 2009	30 April 2008
12%	8%	6%	11%	12%

18. The numbers and values of invoices raised for the last 4 years are:

	11-12	10-11	09-10	08-09
Number of invoices raised	32,029	29,336	30,369	34,097
Value of invoices raised	£160,139,056	£176,597,554	£183,961,032	£183,804,045

WRITE OFFS

19. The table below shows the sum written off per Directorate for the year 2011- 2012

Directorate	Total £
BSS	13,707
ELS	4,100
E&E	6,069
FSC (Sundry debt only)	61,027
C&C	27,889
Total	**112,792**

SOCIAL CARE DEBT

20. **Client Charging**

(i) Clients are financially assessed to determine their contribution towards either their residential or non residential care costs.

(ii) Residential Charging - This charging is distinct from non-residential 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.

(iii) Non-Residential Charging - Section 17 of the Health and Social Security and Social Services Adjudication Act 1983 gives councils the power to charge a person for non-residential services no more than it appears reasonable for them to pay. This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute to the costs. In Kent we currently only charge for domiciliary type care, however following the decision by the cabinet member for Adult Social Care & Public Health, Kent is due to start charging for day care from 23rd July 2012.

(iv) In 2011-12 the total amount of income charged to clients through the client billing system was as follows:

Residential	£48,803k
Non Residential	£11,174k
Total	**£59,977k**

ANALYSIS OF CLIENT RELATED DEBT

21. As at the 29 May 2012 the overall client related social care debt stood at £18,554k, the debt can be broken down as follows:

Residential	£16,161k
Domiciliary	£2,393k
Total	**£18,554k**

22. Of the £18,554k only £13,683k is actually due for payment, invoices had only just been dispatched for the remaining £4,871k.

23. The £13,683k can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£4,898k
• Unsecured – terminated/deceased clients	£1,165k
• Total Unsecured	£6,063k
• Secured with legal charges	£7,615k
• Health contributions	£5k
• Overall total of due debt	£13,683k

AGED ANALYSIS OF CLIENT RELATED DEBT

24. The following table shows an analysis of unsecured debt that is due for payment:

	Under 6 months £k	6 months to a year £k	Over One Year £k	Total £k
Unsecured – ongoing client debt	2,290	789	1,819	4,898
Unsecured - Deceased/terminated client debt	192	144	829	1,165

Total unsecured client debt	2,482	933	2,648	6,063

NUMBERS OF UNSECURED DEBTORS

25. The table below analyses the number of debtors with an unsecured debt, both due and not yet due.

	Numbers
Unsecured – ongoing debtors with debts	11,413
Unsecured deceased/terminated debtors with debts	716
Total Unsecured Debtors	12,129

BAD DEBT PROVISION – CLIENT RELATED

26. The total bad debt provision that exists for client related debt at the end of 2011-12 was £3,798k. This is calculated by looking at the value of all of the debts under various debt categories, covering secured, unsecured and Health. It also takes into account the age of the debt.

27. The total provision includes £2,385k 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.

28. The general provision is £1,413k. 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. The percentages for the main categories used in the general provision on the remaining outstanding invoices are shown in the following table.

Debt Provision %	Under 6 months %	Over 6 months %
DEFERRED PAYMENT - SECURED	0%	2%
DEFERRED PAYMENT - UNSECURED	5%	60%
ESTATE	10%	20%
HEALTH - HOLDING	10%	20%
HEALTH DEBT – WEST KENT	10%	20%
INSTALMENTS	5%	40%
LEGAL CHARGE SEC 22	0%	2%

PARKED TERMINATED	100%	100%
REFERRED FOR WRITE OFF	100%	100%
REFERRED TO LEGAL	5%	60%
SOLICITORS UNDERTAKING	0%	5%
TERMINATED SERVICE	33%	75%
UNSECURED	5%	60%
UNSECURED - FORWARDED FOR LEGAL CHARGE	0%	10%

WRITE OFFS

29. In 2011-12 £411k of client related debt was written off.

RECOMMENDATION

30. Members are asked to note the content of this report.

Nick Vickers
Head of Financial Services
01622 694603

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From: Mike Hill, Cabinet Member for Customer and Communities
Amanda Honey, Corporate Director Customer and Communities

To: Governance & Audit Committee

Date: 26 July 2012

Subject: Annual RIPA report on ‘surveillance’ and other activities carried out by KCC between January 2011 and March 2012

Classification: Unrestricted

Summary This report outlines the work undertaken in 2011 and the first three months of 2012 by KCC Officers on surveillance and other activities governed by the Regulation of Investigatory Powers Act 2000 (RIPA).

FOR ASSURANCE

1. Background

1.1. The document sets out the extent of Kent County Council’s use of RIPA and those who can authorise such activity. There remains considerable interest from the media and pressure groups so the County Council wishes to be as open and transparent as possible to assure the public that these powers are used only in a ‘lawful, necessary and proportionate’ manner.

1.2. To achieve maximum transparency and ensure the County Council maintains public confidence and in accordance with the Codes of Practice, a report at the end of each year is submitted by the Senior Responsible Officer to the appropriate audit committee, outlining the work carried out in the preceding year by KCC which falls within the remit of RIPA.

This is the fourth Annual Report to this committee.

Some of the roles and responsibilities have altered since the report from 2011. The KCC policy document has been amended and the current policy document is attached as Appendix 1.

1.3. Previous reports in relation to this matter have reported on a calendar year whereas all other KCC monitoring is done and reported on a business year basis. So that future reports can be aligned with the normal reporting timescales, and to allow the Senior Responsible Officer to carry out the required monitoring, this report covers all activity in 2011 and also the activity in the first three months of 2012. Future reports will be on a business year basis.

2. What this report covers

2.1. There are three types of activity where authority is required to be granted to individual officers to carry out a specific function within the remit of RIPA. These are as follows:

- Acquisition of Communications Data

- Covert Surveillance
- Covert Human Intelligence Source (CHIS)

Each of the above is defined in detail within the policy document but in simplified form they can be described as follows:-

Acquisition of communications data – this allows investigators to find out who is using a telephone number or e-mail address and, to some extent, who they are communicating with. It does not allow them to see what is being said between users (they cannot "bug" telephones, for instance).

Covert Surveillance – this allows investigators to watch those suspected of committing crime in such a way that the person does not know they are being watched. Local authorities are only permitted to carry out certain types of covert surveillance and, for example, cannot carry out surveillance within or into private homes or vehicles (or similar "bugging" activity).

Covert Human Intelligence Source (CHIS) – this allows an investigator to form a relationship with someone suspected of committing a crime without that person knowing their true identity. In most cases this would be an officer acting as a potential customer and talking to a trader about the goods / services being offered for sale. Alternatively, a theoretical and rare occurrence would be the use of an 'informant' working on behalf of an officer of the Council. In such cases, due to the potential increased risks, KCC has agreed an understanding with Kent Police.

2.2. In each of the above scenarios an investigator is required to obtain authorisation from a named senior officer before undertaking the activity. This decision is logged in detail, with the senior officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing and signing an authorisation document, which is then held on a central file. There is one central file for KCC, held by Trading Standards on behalf of the Corporate Director of Customer and Communities, which is available for inspection by the Office of the Surveillance Commissioner and the Interception of Communications Commissioner's Office.

3. RIPA work carried out during the period 1st January 2011 – 31st March 2012

3.1. The KCC policy requires that a survey of all KCC units is carried out every two years to establish what use of RIPA is made across KCC. This survey was carried out during the reporting period and revealed that only Trading Standards and Environmental Crime make use of RIPA, which represents no change on the previous survey.

3.2. Appendix 2 to this report gives the month and general purpose or reason for which authority was granted under each of the three headings. It is not possible to give further details as this may breach confidentiality legislation, such as the Enterprise Act, offend the subjudice rules, interfere with the proper investigation of potential offenders, or disclose other operational information which could hinder past, current or future activities, investigatory techniques or investigations.

3.3. It can be seen from the information in the appendix that the only activities covered by RIPA, across the whole of KCC, were carried out within two services, Environmental Crime (Environment, Highways and Waste Directorate) and Trading Standards (Communities Directorate).

3.4. Total number of authorisations granted in the reported period (and 2010 for comparison):

Surveillance – 37 (2010 = 37)

Acquisition of communications data (telecoms) – 50 (2010 = 29)

Covert human intelligence source (CHIS) – 8 (2010 = 17)

3.5. Although it is not possible to give full details of each authorisation, it is possible to summarize the benefit of the activity undertaken using RIPA. In the period concerned RIPA activity has led to or produced evidence in relation to:-

- 13 arrests
- 6 warnings/cautions
- Prosecution of 8 criminals
- 11 reports for prosecution currently in the legal system
- 4 penalty notices for disorder
- 6 licence reviews

In addition one authorisation has provided evidence linking the seizure of counterfeit goods at Dover with a major investigation in another part of the UK linked to counterfeit goods and drugs. Several people are in custody awaiting trial.

There are a number of matters still under active investigation.

Each investigation may have a number of RIPA authorisations within it. For example a recent seizure of 15,000 items of counterfeit goods with 5 arrests required 5 surveillance authorisations to locate the storage unit being used.

4. The Interception of Communications Commissioner's Office and the Office of Surveillance Commissioner

4.1. There are two separate national bodies which carry out audits to ascertain standards within those enforcement bodies which carry out covert surveillance and access communications data. These are respectively the Office of the Surveillance Commissioner (OSC) and the Interception of Communications Commissioner's Office (IoCCO). As required by the legislation and codes, a brief report of usage and of any error has been submitted covering this reporting period. There were no errors to report to either regime.

4.2. In March 2012 the OSC audited KCC's use of RIPA for surveillance and CHIS activity.

His Honour Dr Colin Kolbert reported that all of the recommendations made in the last audit (2009) had been discharged. He also reported that KCC makes significant use of RIPA, adopting a progressive approach and that standards are good.

HH Dr Kolbert made two minor recommendations. One related to using the central record as an audit tool internally and one related to training. The first recommendation has been adopted in full and we are in the process of identifying suitable training providers in relation to the second.

4.3. During the reported period the IoCCO carried out an inspection of the National Anti-Fraud Network, who, on Home Office advice, co-ordinate our RIPA activity in relation to communications data. No issues in relation to KCC activity were raised.

5. Developments in 2011

5.1. Changes to authorisation process

Government is making slow progress towards their stated policy of requiring local authorities to seek judicial approval for their authorisations under RIPA.

We expect this new system to come into force on 1 November 2012.

As yet there are no details relating to how judicial approval is to be sought other than the fact that it will be via the Magistrates Court.

5.2. Memorandum of Understanding with Kent Police on Covert Human Intelligence Sources

In 2009 Cabinet Member M. Hill, for Trading Standards, and Chief Constable M. Fuller, for Kent Police, signed a formal Memorandum of Understanding relating to the operation and handling of CHIS. The agreement recognizes the need to protect the safety and welfare of any "informant" or similar person. The handling of informants requires special care, skills and security. Kent Police take the lead and legal responsibility in these circumstances, however there has been no use of this arrangement in the reported period.

5.3. Change to agreed policy

Environmental Crime Officers (ECOs) within the Environment, Highways and Waste Directorate identified a need for them to be able to seek communications data in the course of their criminal investigations. This need arose as the ECOs found instances where piles of fly tipped rubbish contained details of telephone numbers but not addresses. Access to details of the owners of these telephone numbers was, therefore, the only means of investigating these crimes.

Research revealed that ECOs were lawfully allowed the same access to communications data as Trading Standards Officers and were subject to the same safeguarding procedures.

The matter was put to the Corporate Director, Customer and Communities in her capacity as Senior Responsible Officer under RIPA.

The Corporate Director authorised this change to KCC policy subject to its inclusion in this report.

6. Conclusion

6.1. During the reporting period, applications to use the RIPA powers are all submitted in relation to criminal investigations where there is a clear statutory duty and responsibility.

6.2. The applications were all carefully considered and found to be legal, necessary and proportionate.

7. Recommendation

7.1. Members are asked to:

a) Note for assurance the use of the powers under RIPA during the period.
b) Endorse the minor change in policy set out at 5.3 above.

Background Documents:
- Appendix1 : KCC – RIPA Policy
- Appendix 2 : KCC – Use of RIPA Powers 1January 2011 – 31 March 2012.

Further information:
Mark Rolfe – Trading Standards Manager (East)

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Appendix 1

Kent County Council

Policy in relation to the Regulation of Investigatory Powers Act 2000

Contents

Appendix 1

1. Introduction to Regulation of Investigatory Powers

This policy document is based on the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA) as amended and the Home Office's Code of Practices for Directed Surveillance, Covert Human Intelligence Sources (CHIS) and Acquisition and Disclosure of Communications data.

Links to the above documents can be found at:
http://www.opsi.gov.uk/acts/acts2000/ukpga_20000023_en_1
http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/
http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-codes-of-practice/

1.1 Surveillance plays a necessary part in modern life and law enforcement. It is used not just in the targeting of criminals, but also as a means of preventing crime and disorder. The Regulation of Investigatory Powers Act 2000 (RIPA) introduced a system of authorisation and monitoring of activities, to ensure that the rights of the individual were not unnecessarily compromised, in the pursuance of regulatory compliance.

1.2 Within the County Council, trading standards officers may need to covertly observe and then visit a shop, business premises or to follow a vehicle as part of their enforcement function. During a visit or a test purchase situation it may be necessary to covertly video record a transaction, as it takes place. Similarly, environmental crime enforcement staff may need to observe or record at places where illegal tipping or other similar crimes take place. They need to use covert surveillance techniques as part of their official duties.

1.3 Only those officers designated as "authorising officers" from the specified units or services are permitted to authorise the use of techniques referred to in RIPA. Trading Standards may use Covert Directed Surveillance, Covert Human Intelligence Sources and acquisition of communications data. Environmental Crime enforcement team may use Covert Directed Surveillance and acquisition of communications data. The Director of Governance and Law may also be designated as an "authorising officer".

1.4 Covert Directed Surveillance is undertaken in relation to a specific investigation or operation, where the person or persons subject to the surveillance are unaware that it is, or may be, taking place. The activity is also likely to result in obtaining private information about a person, whether or not it is specifically for the purpose of the investigation.

1.5 Our investigations may also require the use of Covert Human Intelligence Sources (CHIS). These may be under-cover officers, agents or informants. Such sources may be used by the County Council to obtain and pass on information about another person, without their knowledge, as a result of establishing or making use of an existing relationship. This clearly has implications as regards the invasion of a person's privacy and is an activity which the legislation regulates. A CHIS (other than our own staff) would be used only rarely and in exceptional circumstances.

1.6 The RIPA also requires a similar control and authorisation procedure to be in place in respect to the acquisition of telecommunications data. The County Council needs to comply with these requirements when obtaining telephone subscriber, billing and account information.

1.7 In addition, the Act put in place an Office of Surveillance Commissioners, and the Interception of Communications Commissioner, whose duties are respectively to inspect those public bodies undertaking covert surveillance and the acquisition of communications data, and introduced an Investigatory Powers tribunal to examine complaints that human rights may have been infringed.

2. Policy Statement

2.1 Kent County Council will not undertake any activity defined within the Regulation of Investigatory Powers Act 2000 without prior, or emergency, authorisation, from a trained, senior officer who is empowered to grant such consents.

2.2 The Corporate Director of Customer and Communities has been appointed the Senior Responsible Officer (SRO) and, as such, has been given authority to appoint Authorising Officers (for surveillance activities) and Designated Persons and Single Points of Contact (for the purposes of access to communications data) under the Act. The SRO is a member of the corporate leadership team currently called Corporate Management Team.

2.3 The Authorising Officer or Designated Person will not authorise the use of surveillance techniques, human intelligence sources or access to communications data unless the authorisation can be shown to be necessary for the purpose of preventing or detecting crime or of preventing disorder.

2.4 In addition, the Authorising Officer or Designated Person must believe that the surveillance or obtaining of communications data is necessary and proportionate to what it seeks to achieve. In making this judgment, the officer will consider whether the information can be obtained using other methods and whether efforts have been made to reduce the impact of the surveillance or intrusion on other people, who are not the subject of the operation.

2.5 Applications for authorisation of surveillance, the use of a CHIS or the obtaining of communications data will, except in emergency where legislation permits, be made in writing on the appropriate form (see Annexes 1, 2 or 3 for example forms).

2.6 Intrusive surveillance operations are defined as activities using covert surveillance techniques, on residential premises, or in any private vehicle, which involves the use of a surveillance device, or an individual, in such a vehicle or on such premises. Kent County Council officers are NOT legally entitled to authorise these types of operations. Operations must not be carried out where legal consultations take place, places of business of legal advisors or similar places such as courts, Police stations, prisons or other places of detention.

2.7 However, public bodies are permitted to record telephone conversations, where one party consents to the recording being made and a Directed Surveillance authorisation has been granted. On occasions, officers of the Trading Standards Service do need to record telephone conversations, to secure evidence.

2.8 It is the policy of this authority to be open and transparent in the way that it works and delivers its services. To that end, a well-publicised KCC Complaints procedure is in place and information on how to make a complaint to the Investigatory Powers Tribunal will be provided on request to the SRO or Authorising Officer.

3. Obtaining Authorisation

3.1 The SRO shall designate by name one or more Directors, Heads of Service, Service Managers or equivalent to fulfil the role of Authorising Officer (for the purposes of Surveillance and CHIS authorisation) and Designated Person and Single Point of Contact (for the purposes of access to communications data). The SRO shall maintain a register of the names of such officers.

3.2 Where the CHIS is a juvenile or a vulnerable person, or there is the likelihood that the information acquired by covert surveillance will be Confidential Information (see Glossary), then the authorisation must be from the Head of Paid Service or, in his absence, a Corporate Director nominated by the Head of Paid Service to deputise for him. In the event of such circumstances, the Director of Governance and Law shall also be informed.

3.3 Authorisations from the Authorising Officer for directed surveillance or to use a CHIS shall be obtained using the appropriate application form (see annexes 1 and 2 for example forms). Also see Section 12 in relation to CHIS.

3.4 Applications for access to communications data shall be made to the Designated Person using the appropriate application form (see annex 3 for example form). Data can be accessed by a Notice (which is served on the Communications Service Provider (CSP) to produce the data) or by way of an Authorisation (which enables persons within a Public Authority to obtain the data). The latter process is unlikely to be used by officers of the County Council.Also see Section 11.

3.5 Guidance for completing and processing the application forms is attached (annexes 4, 5, or 6).

3.6 (a) In urgent cases, authorisations or notices may be given orally by the Authorising Officer or Designated Person. In such cases, a statement that that officer has expressly authorised the action and the reason for the oral authorisation shall be recorded by the applicant officer as soon as reasonably practicable.

(b) A case is not normally to be regarded as urgent unless the time that would elapse before the authorising officer was available to grant the authorisation would, in the judgment of the applicant officer; be likely to endanger life or jeopardise the investigation or operation for which the authorisation was being given.

3.7 Only the Trading Standards Service has officers trained to the appropriate Home Office requirement to seek communications data.

4. Duration of authorisations

4.1 All records shall be kept for at least 3 years.

4.2 A written authorisation (unless renewed) will cease to have effect at the end of the following periods from when it took effect:

a) Directed Surveillance - 3 months
b) Conduct and use of CHIS - 12 months

4.3 A notice issued for the production of communication data will remain valid for one month.

4.4 An urgent oral authorisation for Surveillance/CHIS (unless renewed) will cease to have effect after 72 hours from when it was granted. Any urgent oral request for access to communications data must be followed up by a written notice issued retrospectively to the CSP within one working day of the oral notice.

5. Reviews

5.1 Regular review of authorisations and notices shall be undertaken by the relevant Authorising Officer to assess the need for the surveillance or notice to continue. The results of the review shall be recorded on the central record of authorisations (see annexes 1, 2 or 3 for review forms). Where surveillance provides access to Confidential Information or involves collateral intrusion, particular attention shall be given to the review for the need for surveillance in such circumstances.

5.2 In each case, the Authorising Officer shall determine how often a review is to take place, and this should be as frequently as is considered necessary and practicable.

6. Renewals

6.1 If, at any time, an authorisation or notice ceases to have effect and the Authorising Officer considers it necessary for the authorisation or notice to continue for the purposes for which it was given, s/he may renew it, in writing, for a further period of:

- three months – directed surveillance
- twelve months – use of a CHIS
- one month – access to communications data
- (see annexes 1,2 or 3 for examples of renewal forms)

6.2 Renewals for directed surveillance or the use of CHIS may also be granted orally, in urgent cases, and last for a period of up to 72 hours.

6.3 A renewal takes effect at the time at which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until shortly before the authorisation period is drawing to an end. Any person who would be entitled to grant a new authorisation can renew an authorisation. Authorisation may be renewed more than once provided they continue to meet the criteria for authorisation.

7. Cancellations

7.1 The Authorising Officer who granted or last renewed the authorisation or notice must cancel it if s/he is satisfied that the Directed Surveillance or the use or conduct of the Covert Human Intelligence Source no longer meets the criteria for which it was authorised (see annexes 1,2 or 3 for examples of cancellation forms). When the Authorising Officer is no longer available, this duty will fall on the person who has taken over the role of Authorising Officer or the person who is acting as Authorising Officer.

7.2 As soon as the decision is taken that Directed Surveillance should be discontinued or the use or conduct of the CHIS no longer meets the criteria for which it was authorised, the instruction must be given to those involved to stop all surveillance of the subject or use of the CHIS. The authorisation does not 'expire' when the activity has been carried out or is deemed no longer necessary. It must be either cancelled or renewed. The date and time when such an instruction was given should be recorded in the central register of authorisations and the notification of cancellation where relevant.

8. Central Register and Oversight over by Senior Responsible Officer

8.1 A copy of any authorisation (including statements in respect of oral authorisations), any renewal or cancellation (together with any supporting information relevant to such authorisation or cancellation) and any application, notice or authorisation in respect of communications data shall be forwarded to the SRO within 5 working days of the date of the application, authorisation, notice, renewal or cancellation.

8.2 The SRO shall:

(a) keep a register of the documents referred to in paragraph 8.1 above;
(b) monitor the quality of the documents and information forwarded;
(c) monitor the integrity of the process in place within the Council for the management of CHIS;
(d) monitor compliance with Part II of the RIPA and with the Codes;
(e) oversee the reporting of errors to the relevant Oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
(f) engage with the OSC inspectors when they conduct their inspections, where applicable; and
(g) where necessary, oversee the implementation of post-inspection action plans approved by the relevant Oversight Commissioner.

9. Training

9.1 The Authorising Officers, Designated Persons and Single Points of Contact shall be provided with training to ensure awareness of the legislative framework. Single Points of Contact can only be appointed following attendance at a training course accredited by the Home Office and passing a written examination.

10. Planned and Directed Use of Council CCTV Systems

10.1 The Council's CCTV surveillance systems shall not be used for Directed Surveillance, without the SRO or other senior legal officer confirming to the relevant operational staff that a valid authorisation is in place.

11. Special Arrangements

11.1 An alternative process to obtain communications data has been approved using the facilities of National Anti-Fraud Network (NAFN). In these circumstances NAFN act as the SPOC, deal with the Service Provider and maintain the required records. Applications are made using a secure on-line system which is Home Office approved.

11.2 The use of a CHIS can present significant risk to the security and welfare of the person. Each authorisation will have a specific documented risk assessment and the CHIS (and all members of any support team) will be briefed on the details of the assessment. Kent County Council has a Memorandum of Understanding with Kent Police for circumstances where the CHIS are not an employee or other agent working for or on behalf of the authority. In other circumstances such as a member of public, “whistle-blower” or informant then Kent Police will deal and handle the operation of the CHIS. Kent Police will ensure the compliance with the Regulations, codes of practice and all other risks such as the security and welfare of the CHIS (and associated persons). Any necessary and relevant information will be provided following best practise as to not risk identifying CHIS unless this is appropriate and approved by Kent Police. In such cases, Kent Police are responsible for all record and monitoring processes.

12. Oversight

12.1 The SRO shall ensure that this policy is reviewed on an annual basis by presenting a report of activity to the Governance and Audit Committee (or similar Committee). There shall also be brief details of all activity under this policy provided to members on a quarterly basis.

12.2 Every two years the Director of Law and Governance will review the policy, and also contact a senior manager in all other units and services within Kent County Council to inform of any changes or alterations. The communication will also seek to highlight the details of the restrictions imposed by RIPA and Human Rights legislation. Should any unit or service (other than those permitted by this policy) consider that any actions it may have taken (or are considering taking) might infringe this policy, they must be raised with the Director of Governance and Law as soon as practicable.

Appendix 1

Glossary

"Confidential information" consists of matters subject to legal privilege, confidential personal information, or confidential journalistic material.

"Directed Surveillance" is defined in section 26 (2) of RIPA as surveillance which is covert, but not intrusive (i.e. takes place on residential premises or in any private vehicle), and undertaken:

(a) for the purpose of specific investigation or specific operation;
(b) in such a manner is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and
(c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for the carrying out of the surveillance.

"A person is a Covert Human Intelligence Source" if:

- he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything within paragraph (b) or (c);
- he covertly uses such a relationship to obtain information or to provide access to any information to another person; or
- he covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.

(See section 26 (8) of RIPA)

"Communications Data is:- (a) any traffic data comprised in or attached to a communication (whether by the sender or otherwise) for the purposes of any postal service or telecommunication system by means of which it is being or may be transmitted; (NOT AVAILABLE TO LOCAL AUTHORITIES)
(b) any information which includes none of the contents of a communication (apart from any information falling within paragraph (a)) and is about the use made by any person-
(i) of any postal service or telecommunications service; or
(ii) in connection with the provision to or use by any person of any telecommunications service, of any part of a telecommunication system;
(c) any information not falling within paragraph (a) or (b) that is held or obtained, in relation to persons to whom he provides the service, by a person providing a postal service or telecommunications service.

Appendix 1

Annex 1 – Surveillance forms

Application for Authorisation to Carry Out Directed Surveillance

Review of Directed Surveillance Authorisation

Cancellation of a Directed Surveillance Authorisation

Application of Renewal of a Directed Surveillance Authorisation

(Forms available at http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/)

Annex 2 – Covert Human Intelligence forms

Application for Authorisation of the Use or Conduct of a Covert Human Intelligence Source

Review of a Covert Human Intelligence Source Authorisation

Cancellation of an Authorisation for the use of or Conduct of a Covert Human Intelligence Source

Application for renewal of a Covert Human Intelligence Source Authorisation

(Forms available at http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/)

Annex 3 – Access to data forms

Application for access to Communications Data

(Form available at http://www.homeoffice.gov.uk/publications/counter-terrorism/ripa-forms/ripa-section-22-notice-update?view=Binary)

Annex 4 - Guidance on completing surveillance forms

Details of Applicant

Details of requesting officer's work address and contact details should be entered.

Details of Application

1. **Give rank or position of authorising officer in accordance with the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2003; No. 3171**

   Fill in details of Authorising Officer (see paras 3.1 and 3.2 of Policy)

2. **Purpose of the specific operation or investigation**

   Outline what the operation is about and what is hoped to be achieved by the investigation. Indicate whether other methods have already been used to obtain this information. Give sufficient details so that the Authorising Officer has enough information to give the Authority e.g. "Surveillance at Oakwood House and Mr. X".

3. **Describe in detail the surveillance operation to be authorised and expected duration, including any premises, vehicles or equipment (e.g. camera, binoculars, recorder) that may be used**

   Give as much detail as possible of the action to be taken including which other officers may be employed in the surveillance and their roles. If appropriate append any investigation plan to the application and a map of the location at which the surveillance is to be carried out.

4. **The identities, where known, of those to be subject of the directed surveillance**

5. **Explain the information that it is desired to obtain as a result of the directed surveillance**

   This information should only be obtained if it furthers the investigation or informs any future actions

6. **Identify on which grounds the directed surveillance is necessary under section 28(3) of RIPA**

   The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder.

   This can be used in the context of local authority prosecutions, or where an employee is suspected of committing a criminal offence e.g. fraud.

7. **Explain why this directed surveillance is necessary on the grounds you have identified (code chapter 3)**

   Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance.

8. Supply details of any potential collateral intrusion and why the intrusion is unavoidable (code chapter 3) Describe precautions you will take to minimise collateral intrusion

Who else will be affected by the surveillance, what steps have been done to avoid this, and why it is unavoidable?

9. Explain why the directed surveillance is proportionate to what it seeks to achieve. How intrusive might it be on the subject of surveillance or on others? And why is this intrusion outweighed by the need for surveillance in operational terms or can the evidence be obtained by any other means? [Code chapter 3]

If the Directed Surveillance is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

10. Confidential information (Code chapter 4)

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

12. Authorising Officer's Statement

13. Authorising Officer's comments

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary.

Annex 5 - Guidance on completing Covert Human Intelligence forms

Details of Application

1. **Authority Required**
   Fill in details of Authorising Officer (see paras 3.1 and 3.2 of the Policy)

   Where a vulnerable individual or juvenile source is to be used, the authorisation MUST be given by Chief Executive or in her absence the Chief Officer.

2. **Describe the purpose of the specific operation or investigation**

   Sufficient details so that the Authorising Officer has enough information to give Authority. Outline what the operation is about and the other methods used already to obtain this information.

3. **Describe in detail the purpose for which the source will be tasked or used**

   Give as much detail as possible as to what the use of the source is intended to achieve.

4. **Describe in detail the proposed covert conduct of the source or how the source is to be used**

   Describe in detail the role of the source and the circumstances in which the source will be used

5. **Identify on which grounds the conduct or the use of the source is necessary under Section 29(3) of RIPA**

   The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder

6. **Explain why this conduct or use of the source is necessary on the grounds you have identified (Code chapter 3)**

   Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance for the investigation.

7. **Supply details of any potential collateral intrusion and why the intrusion is unavoidable (Code chapter 3)**

   Who else will be affected, what steps have been done to avoid this, and why it is unavoidable?

8. **Are there any particular sensitivities in the local community where the source is to be used? Are similar activities being undertaken by other public authorities that could impact on the deployment of the source? (see Code chapter 3)**

   Ensure that other authorities such as the police or other council departments are not conducting a parallel investigation or other activity which might be disrupted.

9. Provide an assessment of the risk to the source in carrying out the proposed conduct (see Code chapter 6)

A risk assessment will have to be carried out to establish the risks to that particular source, taking into account their strengths and weaknesses. The person who has day to day responsibility for the source and their security (the 'Handler') and the person responsible for general oversight of the use made of the source (the 'Controller') should be involved in the risk assessment.

10. Explain why this conduct or use of the source is proportionate to what it seeks to achieve. How intrusive might it be on the subject(s) of surveillance or on others? How is this intrusion outweighed by the need for a source in operational terms, and could the evidence be obtained by any other means? [Code chapter 3]

If the use of a Covert Human Intelligence Source is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

11. Confidential information (Code chapter 4). Indicate the likelihood of acquiring any confidential information

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

13. Authorising Officer's comments

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary to use the source and that a proper risk assessment has been carried out.

Annex 6 – Guidance on completing access to Communications data forms

1 - 7. Details of Applicant etc

Details of requesting officer's service unit, Grade and contact details should be entered. The unique reference number at 4 would normally be entered by the SPOC.

8. Statutory Purpose

The ONLY grounds for accessing communications data is for the purpose of preventing or detecting crime or of preventing disorder

This can be used in the context of local authority prosecutions, or where an employee is suspected of committing a criminal offence e.g. fraud.

9. Communications Data

Describe the communications data, specifying, where relevant, any historic or future date(s) and, where appropriate, time period(s)

Indicate the time periods within which the data is required. For example subscriber details can change over relatively short periods of time. Also billing data can be expensive to retrieve and should only be requested for times relevant to the investigation. It is therefore important to be specific as to the relevant time otherwise there may be collateral intrusion, the data obtained may not be relevant or the cost may be prohibitive. Times should be specified as GMT or BST. If unsure as to whether the data can be obtained from a CSP the SPOC should be consulted.

10. Necessity

Outline brief details of the investigation, the circumstances leading to the application, the link between the communications data and the subject under investigation, the source of the data and how this data links to the offence or subject under investigation.

11. Proportionality

Explain what you expect to achieve by obtaining the requested data; what will be done with the data; how it will benefit the investigation and how the level of intrusion is justified when taking into consideration the benefit the data will give to the investigation. Also explain why the specific date/timescale has been requested and how this is proportionate to what is trying to be achieved.

12. Collateral Intrusion

Collateral intrusion is intrusion into the privacy of innocent third parties. It is important to detail any plan to minimise collateral intrusion. If the subject has been contacted via the communication service (e.g. telephone number or e-mail) or if it has been used in business correspondence, advertising etc this should be explained as this demonstrates that it is being used by the subject and is therefore unlikely to result in collateral intrusion. Explain how data obtained which refers to third parties will be handled.

13. Timescale

Indicate whether the application is urgent. The Code of Practice requires CSPs to disclose the data within ten working days (The notice served by the SPOC will remain valid for one month).

In most circumstances the form should be completed via the National Anti- fraud Network website at www.nafn.gov.uk. The National Anti-fraud Network SPOC Service (thus acting as SPOC for the County Council), will assess and quality control the application. If it meets the legal threshold for obtaining communications data the SPOC will post it on the website for approval by the appropriate Designated Person.

This procedure necessitates the applicant to be registered with the National Anti-fraud Network prior to making the application. For details on how to do this the applicant should visit www.nafn.gov.uk. You must consult your operational / Area manager in Trading Standards before attempting to register with NAFN.

If rejected, by the Designated Person or the SPOC, the SPOC will retain the application and inform the applicant in writing of the reason(s) for its rejection.

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Appendix 2 : RIPA Use 2011

Month	Type	Purpose
January	Telecomms	Potential loan shark
January	Telecomms	CPRs – Clocked Cars
February	Telecomms	Rogue Trader
March	Telecomms	Doorstep/Rogue Trader
March	Telecomms	Doorstep/Rogue Trader
March	Telecomms	Doorstep/Rogue Trader
April	Telecomms	Doorstep/Rogue Trader
April	Telecomms	Doorstep/Rogue Trader
May	Telecomms	Doorstep/Rogue Trader
May	Telecomms	Rogue MOT station
May	Telecomms	Animal Health
May	Telecomms	Doorstep/Rogue Trader
June	Telecomms	Doorstep/Rogue Trader
June	Telecomms	Counterfeit goods
June	Telecomms	Rogue MOT Station
June	Telecomms	Counterfeit & dangerous goods
June	Telecomms	Doorstep/Rogue Trader
June	Telecomms	Investment scam
June	Telecomms	Rogue MOT station
July	Telecomms	Doorstep/Rogue Trader
July	Telecomms	Counterfeit goods
July	Telecomms	Counterfeit goods
August	Telecomms	Doorstep/Rogue Trader
August	Telecomms	Doorstep/Rogue Trader
September	Telecomms	Kent County Council Act
September	Telecomms	Rogue trader
October	Telecomms	Doorstep/Rogue Trader
October	Telecomms	Doorstep/Rogue Trader
October	Telecomms	Doorstep/Rogue Trader
November	Telecomms	Doorstep/Rogue Trader
November	Telecomms	Doorstep/Rogue Trader
November	Telecomms	Doorstep/Rogue Trader
November	Telecomms	Doorstep/Rogue Trader
November x 4	Telecomms	Doorstep/Rogue Trader
December	Telecomms	Doorstep/Rogue Trader
December	Telecomms	CPRs – Horses
January	Surveillance	False claim of membership
January	Surveillance	Fly tipping
February	Surveillance	Under age sales
February	Surveillance	Under age sales
February	Surveillance	Under age sales

Month	Type	Purpose
March	Surveillance	Under age sales
April	Surveillance	Under age sales
April	Surveillance	Under age sales
May	Surveillance	Fly tipping
May	Surveillance	Under age sales
May	Surveillance	Doorstep/Rogue Trader
May	Surveillance	Under age sales
May	Surveillance	Counterfeit goods
June	Surveillance	False claim of membership
June	Surveillance	Under age sales
June	Surveillance	Under age sales
July	Surveillance	Under age sales
July	Surveillance	Under age sales
August	Surveillance	Under age sales
August	Surveillance	Under age sales
August	Surveillance	Under age sales
October	Surveillance	Under age sales
October	Surveillance	Under age sales
November	Surveillance	Under age sales
December	Surveillance	Under age sales
December	Surveillance	Under age sales
May	CHIS	Car servicing
May	CHIS	Car servicing
May	CHIS	Car servicing
September	CHIS	Illegal tobacco
September	CHIS	Counterfeit goods
October	CHIS	Charity bag fraud

RIPA Use – first three months of 2012

Month	Type	Purpose
January	Telecomms	Lottery scam
January	Telecomms	Doorstep/Rogue Trader
January	Telecomms	Counterfeiting
January	Telecomms	Counterfeit goods
February	Telecomms	Doorstep/Rogue Trader
February	Telecomms	Kent County Council Act
February	Telecomms	Rogue Trader/Scam
February	Telecomms	Doorstep/Rogue Trader
February	Telecomms	Counterfeiting
February	Telecomms	Counterfeiting
February	Telecomms	Doorstep/Rogue Trader
February	Telecomms	Counterfeit goods
March	Telecomms	Counterfeiting
March	Telecomms	Counterfeit goods
January	Surveillance	Under age sales
January	Surveillance	Under age sales
February	Surveillance	Under age sales
February	Surveillance	Under age sales
February	Surveillance	Counterfeit goods
February	Surveillance	Counterfeit goods
February	Surveillance	Counterfeit goods
March	Surveillance	Under age sales
March	Surveillance	Counterfeit goods
March	Surveillance	Misleading claims of membership
March	Surveillance	Under age sales
February	CHIS	Misdescribed horses
February	CHIS	Counterfeit goods

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By: Neeta Major, Interim Head of Internal Audit

To: Governance and Audit Committee – 26 July 2012

Subject: **INTERNAL AUDIT ANNUAL & PROGRESS REPORT**

Classification: Unrestricted

Summary: The Annual Report summarises the output of the Internal Audit annual plan, provides the opinion on the Council's system of internal control and provides commentary on the performance of the Internal Audit Section.

FOR ASSURANCE (One item for decision)

Introduction and background

1. CiPFA's[1] 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 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 Annual Governance Statement;
- 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 Code of Practice and communicate the results of the Internal Audit quality assurance programme.

Head of Audit Annual Report

2. The Annual Report (attached at Appendix 1) 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.

3. For the year 2011/12 the opinion is:

   Substantial in relation to the internal control environment and corporate governance arrangements i.e. controls are generally well designed and applied consistently but there are some weaknesses that require management attention.

   Limited in relation to risk management processes due to the evolving organisational structure and resulting changes to the Council's Risk Management framework. In the latter part of the year many improvements have been made e.g. a refresh of the Corporate Risk Register. Further work is progressing in 2012/2013 to embed risk management across the Council.

[1] Chartered Institute of Public Finance and Accountancy

Audit Opinions and Recommendations

4. On 16 March 2011 G&A Committee approved changes in the audit opinions and recommendation priorities for the 2011/12 audit programme. As part of the review of Internal Audit's work for 2011-12, feedback has been obtained in relation to opinions provided. Having reviewed the feedback it is proposed to make changes to reflect current best practice and the feedback obtained. The proposed revised definitions for audit opinions and recommendation priorities are included in Appendix 2 to this report.

5. The key proposed changes include:

- Revising the highest level of assurance from "full" assurance to "high" assurance. This reflects best practice which states that an audit function can never provide full or absolute assurance due to certain inherent risks associated with all systems of controls e.g. the risk of fraud due to collusion. Also as Internal Audit don't review 100% of transactions there is always a risk that there are errors in the transactions not tested. Hence Internal Audit can never provide full assurance.
- The introduction of an additional level of assurance - "**adequate**" assurance to reflect a system of control that adequately protects a system or service from key risks, but where there are several areas of control enhancements required.
- Refinement of assurance level definitions to distinguish between controls being assessed as **adequate** (i.e. the right controls are in place) and those that are assessed as **effective** (i.e. the controls are working correctly).
- Simplification of recommendation priority definitions to reflect priority of implementation for the particular system or service being audited.
- Application of the same assurance levels and definitions to both routine audits and compliance audits.
- No changes are proposed to the follow up process.

Recommendations

6. Members are asked to:

- Note for assurance the internal audit annual report for 2011/2012 ***(Appendix 1)***.
- Approve the amendments to assurance levels and definitions for audit opinions and recommendation priorities ***(Appendix 2)***.

Neeta Major
Interim Head of Internal Audit
Ext: 4664

Appendix 1

Kent County Council

Internal Audit Annual Report 2011/12

Contents

I. Introduction

Purpose of this report

Internal Audit is an assurance function that provides an independent and objective opinion on the adequacy of the Council's control environment.

The CiPFA Code of Practice for Internal Audit in Local Government in the UK requires the Head of Internal Audit to provide an annual written report to those charged with governance (i.e. the Audit Committee) presenting an opinion on internal controls, risk management processes and governance arrangements.

This report summarises the work that the Council's Internal Audit and anti-fraud service has undertaken during 2011/12. It also highlights the key issues with respect to internal control, risk and governance arising from that work and presents my opinion based on the work performed during the year.

The report builds on the matters reported to the Governance & Audit Committee throughout the year.

Overview of work done

The original Internal Audit Plan for 2011/12 included a total of 46 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.

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 a result of changing priorities 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 2011/12 was 53, excluding advisory work undertaken. At the time of preparing this report most substantive work had been completed and the reporting position was as follows:

- 40 – final report/assurance work completed
- 13 – draft reports issued or in the process of being finalised

Internal Audit also undertook 28 investigations relating to potential fraud by staff or third parties, none of which were significant to the control and risk framework for Kent County Council ("KCC").

Objectives

The majority of reviews internal audit undertake are designed to provide assurance to management on the operation of the Council's internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice.

Other work undertaken includes the provision of 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 plan is 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.

II. Scope, Responsibilities and Assurance

Scope

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.

For 2011/2012 the dynamic external environment of the public sector and the internal responses to these changes meant that the plan was based on ensuring that the foundations of sound internal control were in place throughout the period of change.

However the plan did include contingency time allocated to emerging issues identified based on a variety of key factors including:

- Evaluation of the Council's risks using the corporate risk register.
- 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

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.

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.

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 Corporate 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

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

Limitations on the assurance that Internal Audit can provide

It should be noted that the assurance expressed within this report can never be absolute i.e. we cannot guarantee that all aspects of control are adequate. Internal Audit provides "reasonable assurance" to the Section 151 Officer and the Governance & Audit Committee, based on the work performed.

Assurance (Opinion)

The Head of Internal Audit is required to provide an opinion on the overall adequacy and effectiveness of the Council's:

- Corporate Governance
- Risk Management
- Internal Control.

This is collectively referred to as "the system of internal control".

Basis of our assessment

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.

Opinion

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 and governance 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.

However only **limited** assurance can be provided on the system of risk management processes within KCC over 2011-2012. This is largely due to the organisation's changing structure which has led to the temporary lapse in formalised risk management processes within directorates. This has been acknowledged and we are satisfied that a newly appointed lead officer has agreed the issues and has started work to implement the actions.

Key issues and implications for the Annual Governance Statement

In making its Annual Governance Statement, the Council should consider the Head of Internal Audit's opinion in relation to its corporate governance, risk management processes and internal control environment. For 2011/2012, although the work completed identified a number of improvements to be made, these do not constitute a systematic failure of internal control. In addition, although there have been a number of irregularities reported in year (see anti-fraud below) these have not highlighted a systematic failure of internal controls across KCC. We have summarised the key themes to be developed for each of the three categories of the Council's system of internal control below.

Corporate Governance

The Council's approved and adopted Code of Corporate Governance is consistent with the principles of good governance set out in the CiPFA Good Governance standard for public services (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 are reported to the Governance & Audit Committee.

Since 2007, Internal Audit's governance reviews have focussed on assessing on a rotational basis whether the Council meets the six principles of the CiPFA/SOLACE guidance "Delivering Good Governance in Local Government Framework". The results have been as follows:

Year	Scope of review	Assurance
08/09	Function of Policy Overview and Scrutiny Committees Role of Monitoring Officer Directorate action plans to introduce improvements identified in individual annual governance statements	High
09/10	Engagement with local people and other stakeholders to ensure public accountability	High
10/11	How Members and officers work together to achieve a common purpose	Substantial
11/12	Standards of conduct and behaviour Developing the capacity and capability of Members	Substantial (draft)

Risk Management

In 2011/12 we reviewed Council-wide risk management arrangements through interviews with officers and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

The audit confirmed that a comprehensive risk management strategy was in place, proper determination of roles and responsibilities as well as a system for recording risks and control measures. It also confirmed the existence of a corporate risk management team and a corporate risk register.

However the audit highlighted several areas which required further improvement. In particular the risk registers were not in place at directorate level for all directorates and there were no demonstrable processes in place to escalate risks coupled with little evidence to support risks being monitored and reported at management team meetings.

The responsibility for the Council's Risk Management transferred from the Finance and Procurement function to Business Strategy in October 2011, and a dedicated Risk Management team has been established to ensure that Risk Management is embedded across the Council and to address known issues in the current arrangements.

Internal Controls

Though our work identified instances where controls were not operating as intended, our work has not identified significant weaknesses in the overall internal control environment which would leave the Council exposed to ongoing risks.

Controls are generally in place and operating effectively, however 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:

Control lapses due to organisation changes

Over the period from 2011/12 to 2014/15, KCC will have been required to make savings from 25-40%. This has posed the Council with the challenge of how to bridge the significant gap between reduced revenue and continuing funding pressures. For this reason KCC has had to radically rethink its approach to the design and delivery of services and also has had to adapt its structure so that it is leaner, more focussed on key priorities and yet delivering a structure that supports an organisational culture centred on being a single organisation. Several audits have confirmed that whilst this restructuring process is occurring, there have been lapses in controls. In certain audits, although there was evidence of corporate polices being implemented, it was noted that at directorate level some of these controls were not being implemented. Several actions are already being undertaken to make improvements e.g. corporately led roll out of programmes such as performance management, risk management; improved training to directorate managers to ensure they have the appropriate skills to undertake all aspects of their roles.

Data Quality

During 2011/12 certain application and other audits highlighted concerns in relation to the quality of data held in the Council's systems. We have been requested to perform further work in 2012/2013 to better understand the underlying causes and associated risks so that relevant actions may be taken. Recommendations made during 2011/12 are being followed up in the quarter they fall due.

Commercial Services (KCS)

An independent examination was instigated in relation to the control environment over the energy procurement and contract management service known as LASER in 2011/12 which made several recommendations including those around governance and reporting, contracting, internal audit assurance and pricing and invoice validation. The recommendations were agreed and implemented during the year. This included commissioning a "root and branches" review of all services provided by Kent Commercial Services which is nearing completion. In 2012/2013 a follow up review is being commissioned to follow up recommendations made and to provide assurance that tendering, evaluation and contract monitoring processes are adequate and effective. KCS has now appointed its own Internal Audit Manager and is actively recruiting another member of staff for its Internal Audit team. This team will have a professional reporting line to the Head of Internal Audit. Once in post, the team will provide assurance that the recommendations have been implemented and will also be responsible for providing assurance over all key risks and reporting results to the Governance & Audit Committee.

Summary of Internal Audit work undertaken

Core work

Opinions	No. of audits	% of audits
Full / compliant	3	6%
Substantial	29	55%
Limited/non compliant	13	25%
Minimal	0	0%
Split assurance	3	5%
Opinion not applicable	2	4%
Assurance opinion pending completion of work	3	5%
Total	**53**	**100%**

Limited or Non compliant opinions were given to:

- *Schemes of Delegation and Limits on Approval*
- *Risk Management*
- *Use of Corporate purchase cards*
- *Enterprise (property information database)*
- *Financial controls in schools*
- *CARA Registrations application*
- *Capita One application*
- *Communications*
- *Procurement*
- *Adult's Direct Payments*
- *Children's Direct Payments*
- *AP and iProc – i Proc element (split assurance)*
- *Equalities Act*
- *Performance management framework – data quality aspect; source data (split assurance)*
- *Kent County Council Elections*
- *Health & safety – training records (split assurance)*

Appendix A sets out the summaries of all reports issued since the last report to Governance & Audit Committee in April 2012. Appendix B lists all internal audits and the overall assurance rating for them.

Follow ups

As detailed previously at the end of each audit we make recommendations to improve the control environment. We follow up on all high and medium priority recommendations as they fall due and report progress to Governance and Audit Committee.

	High	Medium
Number of recommendations falling due in 11/12	23	70
Recommendations with revised implementation date	5	17
Number of these recommendations outstanding at time of report	0	0

There were no recommendations that were overdue at the time of writing this report. However 22 recommendations had been rescheduled and will be followed up in 2012-13. Of these five are high priority and all relate to Data Protection. These five recommendations have been included in the Information Governance Action Plan which is due for completion by 31 December 2012. We consider this response to be appropriate and will be following up on this at the revised due date.

Anti Fraud work

There were 28 irregularities reported to Internal Audit. An analysis of the types of irregularities reported is shown below:

Type of Fraud	Number
Fraudulent insurance claims	0
Social care fraud	4
Economic and third sector support fraud	0
Debt fraud	0
Pension fraud	2
Investment fraud	0
Payroll and contract fulfilment fraud	4
Employee expense fraud	9
Abuse of position for financial gain	6
Manipulation of financial or non financial data	0
Disabled parking concessions	2
Recruitment	0
Other	1
Total	**28**

(Categorised in accordance with the Audit Commission's Fraud and Corruption Survey 2011/12).

Two of these irregularities were reported to the Police. Six resulted in disciplinary action and of these three staff were dismissed for gross misconduct. Four staff resigned during the course of the investigation and one Blue Badge was withdrawn.

In August 2011 the Council appointed a Counter Fraud Manager and a Counter Fraud Officer shortly after. This increased Internal Audit's capacity to proactively address fraud. This proactive work undertaken included raising the level of fraud awareness within management and discussing fraud risks and the Council's anti-fraud strategy. Fraud awareness presentations have been delivered through the Financial Management Development Programme and to other services around the Council. Key policies and procedures have been reviewed and recommendations have been made to assist in the interpretation of these policies during investigations, and the Intranet has been updated with useful information about fraud and fraud prevention advice.

The Council is required to take part in the Audit Commission's National Fraud Initiative which is a bi-annual exercise. The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The subsequent 'matches' are made available to the Council to review and consider investigating. It is important to note that a match does not automatically indicate that fraud is taking place and there is usually a reasonable explanation for the match. All high priority matches have been reviewed and the remaining reports remain available for further analysis. No potential frauds have been identified so far.

Liaison with External Audit

We have continued to work very closely with the External Auditors and have developed a very good working relationship with them. This has been reinforced by the creation of an agreed protocol between Internal and External Audit. They have, as appropriate, relied upon our audit work as part of their external audit of the Council.

III. Internal Audit Performance

Internal audit performance

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%	96%
Efficiency		
% of plan delivered	95%	99%
% of available time spent on direct audit work	85%	86%
% of draft reports completed within 10 days of finishing fieldwork	90%	43%
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	90%	88%

During 2011/12 Internal Audit was restructured which reduced capacity for 6 months of the year and the section is still not at full establishment. Despite these changes the section has delivered 99% of the plan enabling the overall audit opinion to be given. We are actively working to improve our turnaround times for producing draft reports after completion of fieldwork, trying to ensure a balance between our essential quality assurance procedures whilst ensuring the draft report is issued whilst still relevant.

Compliance with the Code of Practice for Internal Audit

Each year Internal Audit carries out a self assessment using the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit. The Code is divided into 11 sections and covers the expected standards to which Internal Audit should be working and is mandatory.

The assessment confirmed compliance with the Code of Practice in most material respects. Certain exceptions were highlighted and these are summarised as follows:

- Where services are provided in partnership there is no formal mechanism for identifying how assurances will be sought or for ensuring rights of access.
- The Head of Audit has not sought to establish a dialogue with all regulatory and inspection agencies that interact with the Council. In practice the responsibility for liaison of this nature fell to the Audit Commission in their capacity as Local Government lead regulator. With the abolishment of the Audit Commission and the planned revision of the Code, we will await further guidance in relation to this issue.
- Currently there is no mechanism to ensure that risk registers are updated for the outcome of internal audits.

- Although the Head of Internal Audit has defined a standard for audit documentation and working papers there are no independent quality reviews undertaken to monitor adherence with this standard. However manager review processes on individual assignments and reviews of audit reports by the Head of Internal Audit are designed to ensure a good quality output is achieved.

Other areas where there were compliance gaps have been addressed through changes to the Internal Audit Manual or the Internal Audit Charter.

Compliance with the CiPFA statement on the Role of the Head of Internal Audit in public service organisations

We have 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. During 2011/12 responsibility for the preparation of the Annual Governance Statement was transferred to the Monitoring Officer. This had been highlighted previously as a key area of non compliance with the statement. Remaining gaps include:

- There is no mechanism in place to ensure that the Head of Internal Audit is consulted on all 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 Internal Audit
- The basis on which the Head of Internal Audit can give assurances to other organisations and the basis on which the Head of Internal Audit can place reliance on assurances from others has not been documented or agreed.
- The Head of Internal Audit's responsibilities relating to partners including joint ventures and outsourced and shared services have not been documented or agreed.

We do not consider these areas of non compliance to be significant and will develop as appropriate.

Internal Audit Charter

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 has been amended to ensure compliance with the CiPFA Code of Practice for Internal Audit in Local Government. A revised version can be found at Appendix C.

Changes made were minor and related to the following clarifications:

- Internal audit activity extends to all remote establishments, subsidiary companies and trading activities.
- Internal Audit ensures that all records or information received is treated confidentially.
- Internal Audit will annually review the Charter to ensure it is still relevant.
- Updating of the charter to reflect the appointment of the Counter Fraud Manager.
- Internal audit work includes requests for advice on controls and risks.

2011/12 Acknowledgements

We are grateful for the assistance and cooperation provided by the Council's staff during the course of our work. This has been much appreciated, in particular, the ongoing challenge and support of the Governance and Audit Committee.

Appendix A - Summary of individual internal audit projects issued since April 2012

Corporate Governance

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating in the Authority to promote values, ensure high standards of conduct and behaviour and to develop the capacity and capability of Members to be effective.

Overall Assessment (Draft) – Substantial

The 'Substantial' assurance is based on a review of the guidance and processes in place and the effectiveness of Member development opportunities. There is guidance in place which is communicated to Officers and Members through different media. There was evidence of comprehensive Member development and induction programmes which are frequently updated and relevant to the needs of the users.

We have made four recommendations to further improve controls, none of which are high priority. These include the introduction of KPIs relating to Member development, conduct or complaints.

Schemes of delegation and limits on approval

Scope

The overall objective of this audit was to provide assurance that responsibilities are delegated in line with the Constitution, including the Executive Scheme of Officer Delegations and Financial Regulations, through documented Directorate level Schemes of Delegation.

Overall Assessment (Final) – Limited

The 'Limited' assurance is based on key issues that require prompt management attention. Particular attention should be paid to identifying an up to date Directorate Scheme of Delegation (local scheme) and relevant owner for each directorate. In addition recommendations were made to improve consistency across local schemes and procedures to ensure regular review including review of linkages to the Constitution and Financial Regulations. Recommendations were also made to improve awareness of local schemes amongst staff including budget managers.

We have made nine recommendations to improve the existing controls, two of which are high priority.

Performance Management Framework

Scope

The overall objective of this audit was to provide assurance on progress to date on implementation and development of the Performance Management Framework, the underlying systems and the information reported.

Overall Assessment (Draft) –

Performance Management Framework – Substantial

Source Data Quality - Limited

The 'Substantial' assurance is based on the performance management framework being in place with regular review of the Key Performance Indicators (KPIs). In particular we confirmed proper approval of the corporate suite of the KPIs, integration of data collection into normal business process and assignment of KPIs to named owners accountable for their performance.

The key recommendations in the report relate to data quality which was given a limited assurance as several issues require timely management attention. In particular recommendations were made in relation to ensuring the completion of data definition forms for all KPIs, ensuring that KPIs characteristics are compared to best practice standards contained within the Data Quality policy and developing and issuing a single Council Data Quality Framework.

These issues will be explored further in the Data Quality audit which is planned for 2012/2013.

Risk Management

Scope

The overall objective of the audit was to provide assurance that the Council has adequate, robust risk management arrangements in place to support the Annual Governance Statement.

Overall Assessment (Final) – Limited

The audit confirmed that the Council does have a comprehensive risk management strategy in place, roles and responsibilities have been determined and a system for recording risks and their control measures is in operation. In addition the newly established corporate risk team has been instrumental in establishing an up to date corporate risk register.

However the 'Limited' assurance is based on several key issues that require timely management attention. In particular we recommended that

- The roles and responsibilities detailed within the current risk management policy be amended to reflect the changes to the Council's structure or governance arrangements.
- Directorate level risk registers be introduced for all directorates, with processes in place to escalate risks.
- Improvements be made to ensure consistency in the format and detail of the risk registers
- Management team meetings include reporting and monitoring of risks

We made eleven recommendations to further improve controls, four of which are high priority.

Oracle general ledger

Scope

The overall objective of this audit was to provide assurance on the adequacy and effectiveness of the systems and controls operating over the Oracle General Ledger System.

Overall Assessment (Final) – Substantial

The 'Substantial' assurance is based on the audit confirmed several areas where controls were operating effectively as follows:

- Access controls
- Interface controls
- Controls over journal transfers
- Bank reconciliations

The audit also highlighted a few areas for improvement including the chasing of responses to establish the appropriateness of access levels; correction of isolated instances where incorrect categories were assigned to journal transfers and ensuring all suspense accounts had easily identifiable owners and were cleared on a regular basis.

Oracle Accounts payable and iProc

Scope

The overall objective of the audit was to provide an assurance on the Oracle Accounts Payable and Oracle iProc modules which are part of the Council's key financial and information systems.

Overall Assessment (Draft) – AP - Substantial; iProc – Limited

The 'Limited' assurance given for the iProc module is based on several issues that require immediate management attention. In particular iProc financial procedures require updating, controls over supplier set ups need enhancing and improvements should be made around exception reporting.

Four high priority recommendations have been made.

'Substantial' assurance was given for the Accounts Payable module as controls were found to be operating effectively in relation to payment runs, the identification of duplicate payments and access controls. Some recommendations were made to improve exception reporting and to improve the timeliness of invoices being received from budget managers.

Communications

Scope

The overall objective of the audit was to provide assurance on the application of and compliance with the Council's policies and procedures on Communications.

Overall Assessment (Final) – Limited

The Communications team was restructured and was established in its new form in September 2011. Since then processes and controls have been put in place to ensure that Communications within the Council comply with the 'One Council' approach. At the time of the audit, the Director of Communications was new in post. Hence, during the audit we performed a baseline assessment of the adequacy and effectiveness of controls that are currently in place. We plan to re-audit Communications in the 2012/13 audit plan, when the new structure is fully embedded.

The 'Limited' assurance is based on the significant issues identified with Communications across with Council which needs urgent attention. In particular, actions need to be taken to address the lack of awareness of the role of the centralised Communications team and the need for performance indicators to be implemented to measure the performance of both the Communications team and the Council in relation to Communications. Recommendations were also raised to improve procedures within the Communications team including guidance and procedures for the team to use and enhancement of record keeping relating to work completed.

Treasury Management

Scope

The overall objective of this work was to provide assurance on the adequacy and effectiveness of the Treasury Management function to ensure that all borrowing and investments are undertaken and authorised in accordance with organisational policy.

Overall Assessment (Final) – Substantial

The 'Substantial' assurance is based on evidence that controls were in place and operating as intended including:

- up to date policies and procedures and an approved annual Treasury strategy (agreed by Cabinet prior to the start of the financial year)
- the existence of a Treasury Management Scheme of Delegation setting out groups or individuals that have responsibilities over key treasury management processes.
- a cash-flow forecasting spreadsheet to monitor forecast income and expenditure
- requirement for investment approval to place funds based on the scheme of delegation.
- regular reporting of performance and prudential indicators to the Governance and Audit Committee

We have made two recommendations to improve on existing controls that management have accepted. None of the recommendations made were high priority.

Cash and Bank

Scope

The overall objective of the audit was to provide an assurance that adequate and effective controls are operating over the management and administration of cash and banking.

Overall Assessment (Final) – Substantial

Income is received by the Council on a daily basis through a number of different payment methods including cash, cheques and card payments. Exchequer Services are responsible for receiving, banking, allocating and reconciling all income to the authority.

The audit confirmed several areas where controls were operating adequately and effectively:

- established processes for cashiering and banking
- a number of experienced and knowledgeable members of staff who are all aware of their day to day responsibilities.
- processes to receive, bank and reconcile cash and cheques, ensuring division of responsibility for invoiced income.
- identification and clearing of items posted as miscellaneous
- regular banking of Income and accurate coding and allocation.
- daily procedures for credit/debit cards are completed which include reconciliation of total amounts collected and coding of income.

We have made recommendations to improve on existing controls that management have accepted. None of the recommendations made were high priority.

Pensions contributions

Scope

The overall objective of this audit was to provide assurance that contributions for pensions are being correctly deducted and paid over to the Pension Fund.

Overall Assessment (Final) – Substantial

The ‘Substantial’ assurance is based on pensions contributions being correctly deducted and paid over to the Pension Fund. In addition:

- updated procedures notes for the ‘Local Government Pension Scheme contribution income’ were in place;
- monthly checks of employers’ contributions and associated raising of journals were undertaken;
- accurate calculation of employees’ contributions within Oracle was identified; and
- there were controls in place over the annual reconciliation process.

We have made two recommendations to improve on existing controls that management have accepted. None of the recommendations made were high priority.

Pensions investment income

Scope

The overall objective of this audit was to provide assurance on the adequacy and effectiveness of controls in ensuring income derived from Pension Fund investments is correctly accounted for.

Overall Assessment – (Final) Full.

The 'Full' assurance was based on evidence from sample testing that in all key areas, controls were in place and operating as intended, including:

- up to date policies and procedures
- the KCC Superannuation Fund Statement of Investment Principles including a self evaluation against CIPFA principles
- monthly reports for larger funds were obtained, software updated and reconciliations conducted
- quarterly reports were obtained and reconciliations undertaken for smaller funds
- journals were raised to update the Oracle Financial Ledger with summary movements of the transaction information provided by fund managers
- annual reconciliations between Shareholder (the Council's investment management software) and Oracle.

We have made one low priority recommendation to improve on existing controls that management have accepted. None of the recommendations made were high priority.

Enterprise (Property information database)

Scope

The overall objective of the audit was to provide assurance on the effective and efficient operation of the Enterprise system, including the quality of underlying data, and its fitness for purpose to support the achievement of effective estate management.

Overall Assessment – (Draft) Limited

'Limited' assurance was given as the audit highlighted several key areas where controls were not in place or were not being applied effectively. In particular recommendations were made to :

- improve reconciliation processes around data held outside the system in various forms
- introduce an interface between Enterprise and Oracle
- enhance paperwork around changes to the property database
- improve compliance with documented procedures
- introduce formal documentations for data ownership
- transfer "ownership" of data within Enterprise from ICT to Property
- ensure regular clearing of errors highlighted by review of core data validation reports
- start providing comprehensive management information to senior management

Ten recommendations have been made, five of which are high priority.

Routewise

Scope

The overall objective of the audit was to provide an assurance that adequate and effective controls are operating around the use of the Routewise^{tm} system.

Overall Assessment (Draft) – Substantial

Routewise^{tm} is used to maintain service user and contractor details relating to mainstream applications for transport. The allocation of pupils to contracts with transport companies is co-ordinated via the Routewise^{tm} system. Invoices received from the transport providers are checked against the details of contracts held on Routewise^{tm} and are processed for payment.

The 'Substantial' assurance is based on sample testing that in all the key areas controls are in place and operating as intended. There were effective controls in place to ensure that payments made are accurate and contracts for transport suppliers are inputted accurately and changes appropriately authorised.

We have made six recommendations to further improve controls, none of which are high priority, which include implementing data quality checks and the use of exception reporting to highlight improper access to the system or changes to records and user accounts.

Financial control in schools

Scope

The overall objective of this work was to provide assurance that the system of compliance visits and supporting processes on financial control in schools is adequate and effective to allow Internal Audit to place reliance on the work undertaken.

Overall Assessment (Draft) – Limited

In 2011/12 a new self-assessment process was introduced for schools, the Schools Financial Value Standard (SFVS). This requires the Corporate Director of Finance and Procurement to sign a statement asserting that there is an adequate system of audit over schools financial management and propriety of spending.

In order to sign this statement Internal Audit needed to provide assurance in relation to the reviews of schools undertaken so that from 2012/2013 reliance can be placed on the work done by the SFS Compliance Team within ELS. This audit therefore differed from the approach taken previously and provided a position statement on the content of the compliance visits performed in 2011/12 and required actions to ensure this reliance can be placed in future.

The 'Limited' assurance was based on several issues identified by the audit which require prompt action such that reliance can be placed from 2012/2013. In particular recommendations have been made to improve the detail of the workbooks used and the testing undertaken, to further develop the follow up process for all recommendations based on risk and to use risk as a basis for compliance visits.

Appropriate actions have been agreed to address all recommendations made and Internal Audit and Schools Financial Services will be working closely together to take this forward in 2012/2013.

We have made eight recommendations to further improve controls, five of which are high priority.

BSS Sharepoint

Scope

The overall objective of this work was to provide assurance on the adequacy and effectiveness of the key controls being applied over the Council's SharePoint and SharePoint implementation.

Overall Assessment (Final) – Substantial

The technology and infrastructure required to roll out the SharePoint solution across the Council has been developed, but key governance decisions had not been made to manage this process. A Governance Plan is in place and a Governance Board has been established with responsibility for ensuring that SharePoint meets the objectives of the Council. The objectives and scope of the Board are yet to be formally defined in a terms of reference.

The 'Substantial' assurance is based on the assurance from ICT Division that there will be no wide-scale roll out of SharePoint until key decisions have been made by the SharePoint Governance Group, and the timescale for roll-out is likely to be over several years

We have made three recommendations to improve on existing controls that management have accepted. None of the recommendations made were high priority.

ELS Capita one application

Scope

The overall objective of this work was to provide assurance on the adequacy and effectiveness of the key controls being applied over the management and administration of the Council's CapitaOne application.

Overall Assessment (Final) – Limited

Capita's 'One' product is the application used for the Council's Children and Education Services. Schools provide data for input but this data needs to be cleansed before loading onto the system. A key role for this system is to provide robust management information to help the Council meet their statutory obligations for government returns and provide the Council with good information on which to base decisions around schools.

The 'Limited' assurance is based on the significant issues with the CapitaOne application that require immediate management attention to help ensure that the application is able to meet the objectives of the Council and maintain security. Particular attention should be paid to the current access controls to help prevent unused accounts being exploited. In addition, the multiple versions and delays in patches and upgrades are affecting the business processes and require attention.

We have made fifteen recommendations to improve on existing controls (Four high priority, six medium priority and five low priority recommendations) that management have accepted. The high priority recommendations included a full review of user and system accounts, strengthening of password controls, and preparation of a plan to clear and maintain suspense files using summary reports to identify "quick wins".

Health & safety

Scope

The overall objective of the audit was to provide assurance that the Council has adequate and appropriate policies, procedures and processes in place to ensure that employees are aware of their responsibilities, are properly protected and that the Council complies with the requirements of relevant Health and Safety legislation.

Overall Assessment (Draft) – H&S management - Substantial
H&S training records - Limited

The assurance is based on a review of the policies, procedures and processes in place. Procedures and guidance are readily available to all staff to help them manage health and safety appropriately. Accidents and near misses are monitored and analysed effectively to identify trends which are then used to inform the Health and Safety plan for the following year. Specific needs risk assessments were completed where required.

We have made 6 recommendations to further improve controls, 2 of which are high priority. These include reminding staff about the regulations for reporting accidents to the HSE and ensuring that a central record of health and safety training received by staff is maintained and staff who have not attended and successfully passed mandatory training are identified.

Direct payments - children

Scope

The overall objective of this audit was to provide assurance that the Council has adequate and appropriate policies, procedures and processes in place for making direct payments to parents/carers of disabled children and disabled young people aged 16 to 17 years to allow them to meet their assessed needs.

Overall Assessment (Draft) – Limited

A direct payment is one of the means through which a person can receive their personal budget and is usually paid into a bank account in lieu of services to individuals who have been assessed as having eligible needs. The aim of a direct payment is to give the individual the maximum degree of choice, freedom, flexibility and control to the user.

In KCC Disabled Children’s Service all advice and support surrounding Direct Payments has been contracted out to a third party provider, which is a charitable company providing services to families, schools, hospitals, children’s homes and other organisations who need support.

The ‘Limited’ assurance is based on significant issues that require immediate management attention to help ensure that service objectives are achieved. Particular attention should be paid to improving the clarity in relation to roles and responsibilities of the Council and the third party provider and ensuring that the contract is up to date and contains agreed targets/performance measures. In addition recommendations were made to improve the security of data and to ensure that signed direct payment agreements were retained on files.

We have made six recommendations to improve the existing controls, two of which are high priority.

Direct payments - adults

Scope

The overall objective of this audit was to provide assurance on the effectiveness and efficiency of the Direct Payments process within Adult Social Services.

Overall Assessment (Final) – Limited

A direct payment (DP) is one of the means through which a person can receive their personal budget. It is usually paid into a bank account in lieu of services to individuals who have been assessed as having eligible needs. The aim of a direct payment is to give the individual the maximum degree of choice, freedom, flexibility and control to the user.

The 'Limited' assurance is based on several issues which need immediate attention. In particular the audit recommended improvements in relation to retaining evidence of client agreement to terms and conditions, retention if evidence to support that direct payment risk assessments are completed in line with policy and ensuring that financial reviews of direct payments were completed consistently across client groups and areas.

We have made six recommendations to improve the current process. Two of these are high priority.

Equalities Act

Scope

The overall objective of the audit was to provide assurance that the Council has adequate and appropriate policies, procedures and processes in place to ensure that it is complying with the Equality Act and the Public Sector Equality Duties. The audit assessed organisational compliance with the Act (excluding staffing or procurement compliance which are within the scope of other audits).

Overall Assessment (Draft) – Limited

The Council has a core Equality and Diversity team who provide advice and guidance to staff as well as ensuring policies and procedures are up to date and in place for staff to follow. The Equality and Diversity team was restructured and established in its new form in 2011/12 but was not fully resourced till November 2011. Since then, the team have started to introduce processes and controls to ensure that the Council complies with the Equality Act and the Public Sector Equality Duties.

The 'Limited' assurance was due to several issues that either require or are already receiving timely management attention. In particular we recommended progression of the publishing of the Equality objectives, ensuring Directorates perform equality impact assessments before implementing key decisions or policies, and reporting more regularly to senior management and Members.

We have made 7 recommendations to improve procedures. 2 of these are high priority.

Blue Book job evaluation

Scope

The overall objective of this work was to provide assurance on the application of and compliance with the Council's policies and procedures on Job Evaluation, as detailed in the Blue Book to ensure consistency of gradings across the Council.

Overall Assessment (Final) – Substantial

Job Evaluation is the technique used to match jobs to grades to maintain consistent grading levels across a wide variety of jobs within the Council. An evaluation process has been developed using job profiles and covers all directorates. Due to the timing of our fieldwork the audit focused only on job evaluations requested as part of the recent restructure which took place across relevant directorates during 2011/12.

The Substantial assurance is based the availability of guidance for managers, support by HR Business Support if required, the introduction of a single 'Establishment Panel' to assist workforce monitoring and planning across the Directorate. Records of union involvement in all completed job evaluations and notification to Employee services of pay increases resulting from job evaluation.

We have made five recommendations to improve on existing controls that management have accepted. None of the recommendations made were high priority.

Equalities/Fairness at work

Scope

The overall objective of the audit was to provide an assurance on the application and compliance with the Council's policies and procedures contained in the Blue Book on Fairness at Work. These policies are designed to ensure equality and diversity is valued and promoted, to combat unfair treatment and ensure that staff reach their full potential.

Overall Assessment (Final) – Substantial

The 'Substantial' assurance is based on sample testing that in all the key areas controls are in place and operating as intended. There were effective controls in place to ensure that the Blue Book is updated on a regular basis and is accessible to all employees and all new employees are aware of its existence and their roles and responsibilities via the induction process.

We have made 3 recommendations to further improve controls, none of which are high priority.

Procurement

Scope

The overall objective of the audit was to provide an assurance on the application of and compliance with policies and procedures in place in relation to procurement.

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Overall Assessment (Final) – Limited

The Procurement team was restructured and established in its new form in 2011/12. Since then processes and controls have been put in place to ensure that procurement within the Council complies with the 'One Council' approach. At the time of the audit, the Head of Procurement was relatively new in post. Hence, during the audit we performed a baseline assessment of the adequacy and effectiveness of controls that are currently in place. We plan to re-audit procurement in the 2012/13 audit plan, when the new structure is fully embedded.

The 'Limited' assurance is based on the significant issues identified with procurement across the Council, which the new Head of Procurement is now actively addressing. In particular actions are required to improve records held to demonstrate compliance with EU legislation and Council policy, improving awareness of the role of the centralised Strategic Sourcing and Procurement team, introducing performance indicators to measure the performance of the team or Council in relation to procurement and a need for procurement documentation to be updated and communicated throughout the Council.

We have made 9 recommendations of which 2 were high priority. We plan to re-audit procurement in 2012-2013 alongside key actions that the Head of Procurement is implementing during the course of the year.

Managing Change

Scope

The overall objective of this audit was to provide assurance that restructure processes are undertaken in accordance with organisational policy contained in the Kent Scheme Terms and Conditions of Service (Blue Book) – Managing Change (Section J) and the Council's Redundancy and Redeployment Policy.

Overall Assessment (Draft) – Substantial

The 'Substantial' assurance was based on the audit findings which confirmed that controls are being managed effectively. The key findings noted:

- a secure environment to ensure that legal and organisational processes around restructures are correctly and fairly applied.
- assignment of individual HR personnel to each restructure project to provide expertise in dealing with the difficult and complex process of organisational change.
- retention of required documentation on restructure proposals and staffing decisions
- secure internal control arrangements in place to ensure that the calculation of redundancy and other payments is accurate and authorised.

One medium priority recommendation was made in relation to the formal approval process and a number of low priority recommendations covering details such as the content of policy documents. However these did not detract from the overall compliance with processes and procedures defined in the Kent Scheme of Terms and Conditions (Blue Book), particularly when viewed against the number of restructures currently being considered or complete.

Exchange server and email

Scope

The overall objective of this work was to provide assurance that the management and configuration of the Exchange server and Email is adequately maintained.

Overall Assessment (Final) – Substantial

The 'Substantial' assurance is based on the controls implemented on the Council's email system which is deemed to be adequately managed. These controls include email filtering, Anti virus to prevent the introduction of a virus, blocking certain types of attachments, logging incoming mail, limiting mailbox sizes, adequate backup arrangements and regular updating of security updates and review of the server configuration to ensure they are in line with best practice. There are, however, some weaknesses in the policy and procedures of the email service to be addressed.

We have made recommendations to improve on existing controls that management have accepted. None of the recommendations made were high priority.

IT support arrangements

Scope

The overall objective of this review was to perform a benchmarking analysis of the current IT Service Delivery and Management arrangements against best practice and the Local Government Sector.

Overall Assessment (Final) – Not applicable

The best practice ITIL framework became the IT Service Management standard (ISO:20000) that defines how service management arrangements should be applied or adapted for use in any organisation that relies on IT Services to meet its objectives.

The gap analysis did not provide an assurance opinion on the adequacy of detailed policy content or its effective enforcement, but instead provided a clear baseline assessment to benchmark the existing IT Service Management arrangements against both the best practice service management framework and the Local Government Sector.

Overall, ICT arrangements and processes meet or exceed the benchmarking criteria for the majority of evaluation criteria. Whilst it is recognised that the Council is not meeting all the Benchmarks under ITIL, it is also recognised that until January 2012 this was never their strategic aim. The gap analysis shows that there is a clear foundation on which to build the IT Service, however, specific focus is required around the Service Delivery processes to help manage the underlying demands on IT which support the delivery of IT across the Council.

One recommendation has been raised for ICT Division to determine to what extent they would like to comply with ITIL, and then implement a plan to bridge the gap.

FSC - Business Objects

Scope

The overall objective of this work was to provide assurance that the use of the Business Objects report writing tool within the FSC Directorate is secure, that the data available to people with access to this powerful reporting tool is appropriate to their roles and responsibilities and that data confidentiality and security are maintained.

Overall Assessment (Final) – Substantial

The 'Substantial' assurance is based on the underlying control framework which has, and is continuing to be implemented. Good progress has been made in defining user groups and the reports users can view; as well as the reports that they can develop when self-service is implemented.

Control improvements have been recommended to further strengthen the existing controls. The implementation of the recommendations raised will help to ensure that the risk of failure to achieve overall objectives is minimised.

None of the recommendations made were high priority.

Appendix B - Detailed Analysis of internal audit projects in 2011/2012

Project – Directorate	Progress at June 2012	Date to G&A	Overall Assessment	Project – Directorate	Progress at June 2012	Date to G&A	Overall Assessment
Authority Wide				**Core systems (cont)**			
Kent County Council Elections	Completed	Nov 2011	Non compliant	Use of Corporate Purchase Cards	Completed	Sept 2011	Limited
Corporate Governance	Draft issued	July 2012	Substantial	Payroll	Completed	April 2012	Substantial
Schemes of delegation and limits on approval	Completed	July 2012	Limited	East Kent Payroll follow up	Completed	April 2012	Substantial
Annual Governance Statement	Completed	April 2012	Substantial (Limitation in scope)	Treasury Management	Completed	July 2012	Substantial
Performance Management Framework	Draft issued	July 2012	Substantial – Framework Limited – source data quality	Cash and Bank	Completed	July 2012	Substantial
Risk Management	Completed	July 2012	Limited	Medium term planning	Completed	April 2012	Substantial
Business Continuity Planning	Completed	April 2012	Substantial	Revenue Budget monitoring	Completed	April 2012	Substantial
Core systems				Pensions contributions	Completed	July 2012	Substantial
Commercial services – services tender costing	Completed	Nov 2011	Substantial	Pensions investment income	Completed	July 2012	Full
Transaction data matching	Completed	Nov 2011	Substantial	Enterprise (property information database)	Draft issued	July 2012	Limited
Quality assurance of care homes	Completed	Nov 2011	Substantial	Routewise	Draft issued	July 2012	Substantial
Oracle – general ledger	Completed	July 2012	Substantial	Financial control in schools	Draft issued	July 2012	Limited
Oracle – accounts payable and i Proc	Draft issued	July 2012	Substantial – AP Limited – iProc				
Oracle – accounts receivable	Completed	April 2012	Substantial				

Project – Directorate	Progress at June 2012	Date to G&A	Overall Assessment	Project – Directorate	Progress at June 2012	Date to G&A	Overall Assessment
IT audit				**Policies**			
Firewalls and firewall management	Completed	April 2012	Substantial	Data protection act and Freedom of Information	Work in progress		
Exchange server and email	Completed	July 2012	Substantial	Equalities Act	Draft issued	July 2012	Limited
IT support arrangements (ITIL)	Completed	July 2012	N/A	Blue Book – job evaluation	Completed	July 2012	Substantial
IT Policy and policy framework	Completed	April 2012	Substantial	Blue Book – recruitment and selection	Work in progress		
BSS Sharepoint	Completed	July 2012	Substantial	Blue Book – Total contribution	Completed	April 2012	Substantial
EE Freedom Pass application	Completed	April 2012	Substantial	Blue Book – employment contracts	Completed	April 2012	Substantial
FSC Business objects	Completed	July 2012	Substantial	Blue Book – Equalities Act/Fairness at work	Completed	July 2012	Substantial
CC – CARA Registrations application	Completed	April 2012	Limited	Blue Book – Health & Safety Act	Draft issued	July 2012	Substantial – H&S management; Limited - H&S training records
ELS Capita one application	Completed	July 2012	Limited	Blue Book – Performance & Conduct	Completed	Nov 2011	Substantial
FSC – ICS implementation	Completed	N/A	Ongoing advice and information	Communications	Completed	July 2012	Limited
Other				Procurement	Completed	July 2012	Limited
Carbon reduction commitment	Completed	Nov 2011	Compliant	Managing Change	Draft issued	July 2012	Substantial
Implementation of English National Travel Concessionary Scheme	Completed	Sept 2011	Full	Members expenses	Completed	April 2012	Substantial
Unaccompanied asylum seeking children – grant fund data quality	Work in progress						
Direct Payments – children	Draft issued	July 2012	Limited				
Direct payments - adults	Completed	July 2012	Limited				

Key	
Full	The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.
Substantial	The controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively, but weaknesses have been identified that require management attention. These issues increase the possibility that objectives may not be achieved.
Limited	Some controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues identified, if unresolved, mean that objectives may not be achieved.
No assurance	Expected controls are absent, or where evaluated are flawed in design, scope or application. The auditor is unable to form a view as to whether objectives will be achieved.
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 Corporate Director of Finance & Procurement.

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.

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 and corruption awareness
- Investigating allegations of fraud and corruption
- Providing advice (consultancy) in relation to areas of concern raised by Directorates

Internal Audit's activities extend to all remote establishments, subsidiary companies and trading activities.

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.

The Head of Internal Audit 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 Annual Governance Statement.

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 or the Counter Fraud Manager who will determine if an investigation needs to take place. 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 will ensure that all information received as part of their work is treated confidentially at all times.

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Internal Audit 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. Internal Audit will review the charter annually and attach a revised document to the annual internal audit report.

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 Internal Audit 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 Internal Audit will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee. The Head of Internal Audit will review the Charter annually and attach a revised document to the annual internal audit report.

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Assurance Level	Definition
High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non compliance were noted during the audit that may put a system/service objective at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No Assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

Recommendation priorities

Priority Rating		Definition
● ● ●	High	Immediate management action is required to remedy a gap or failure of internal control that has led, or may lead, to non achievement of service or system objectives.
● ●	Medium	Timely management action is required to remedy weaknesses in internal control that could lead to non achievement of service or system objectives.
●	Low	Management action is suggested to improve the quality and/or efficiency of the control environment of the system or service.

Implementation date

All recommendations made will include an indicative implementation date. The date will be agreed through discussion between the auditor and the auditee.

No timescales for implementation will be specified but it is expected that most High priority recommendations will be acted upon within one month of the final report being issued and Medium priority recommendations within six months.

The Head of Audit will have the final sanction where implementation dates relating to High priority recommendations are considered too far in the future and in all cases where any alternative suggested action does not meet the control deficiency.

Follow ups

High and medium priority recommendations will be subject to rigorous follow up and reporting to Governance and Audit Committee. These recommendations will require detailed management responses and potential attendance at committee by those officers identified as responsible for implementing high priority recommendations if deadlines for implementation have been missed.

By:	Neeta Major – Interim Head of Internal Audit
To:	Governance and Audit Committee – 26 July 2012
Subject:	**ANTI-FRAUD AND CORRUPTION PROGRESS REPORT**
Classification:	Unrestricted

Summary: This paper provides a summary of progress of anti-fraud and corruption activity since the last Governance and Audit Committee meeting in April 2012.

FOR ASSURANCE

Introduction and Background

1. Within Kent County Council the responsibility for anti-fraud and corruption activity is set out within the Council's Financial Regulations and the Terms of Reference for the Governance and Audit Committee. The work of the Committee is to ensure that the Council has a robust counter-fraud culture backed by well-designed and implemented controls and procedures. This paper supports the Committee in meeting this outcome.

Managing the Risk of Fraud

2. We have carried out a self assessment of the Council's anti-fraud and corruption arrangements against the CIPFA Red Book 'Managing the Risk of Fraud - Actions to Counter Fraud and Corruption'. The Red Book is divided into five key areas of activity covering the strategic approach to anti-fraud and corruption, measuring fraud and corruption losses, the necessary authority and support for anti-fraud and corruption work, the range of actions taken to tackle problems (e.g. deterrence, prevention, detection, investigation, sanctions and redress), and ensuring that there are clear outcomes for anti-fraud and corruption work.
3. This assessment identified that further work is required to complete CIPFA's recommended actions. Key themes include:
   - Fraud risk assessment
   - Measuring potential fraud losses
   - Stakeholder engagement
   - Measuring fraud awareness
4. A copy of the assessment is attached at Appendix A. The assessment identifies required actions and details the associated target dates as well as progress made to date.

Irregularities

5. Since the last Governance and Audit Committee eight irregularities remain open and eight have been concluded. In addition there are a number of ongoing preliminary and supportive enquires that may reveal further fraud/irregularities. A summary of the concluded cases is set out in appendix B.

6. In terms of emerging themes in these allegations, two relate to staff in satellite units who have acted outside KCC financial procedures. In response we have instigated a programme of financial compliance inspections across remote sites which will highlight any concerns and provide an opportunity to improve standards. In addition, we have completed two investigations in relation to direct payments. The 12/13 Internal Audit plan already includes proactive work to review controls in relation to Personal Budgets (which includes Direct Payments) and specifically consider the fraud risks.

Recommendations

7. Members are asked to note:
   - the self assessment against CIPFA's Red Book "Managing the Risk of Fraud" ***(Appendix A)***
   - summaries of concluded cases ***(Appendix B).***

Paul Rock
Counter Fraud Manager
Ext: 4694

Self Assessment against CIPFA Red Book

Adopting the Right Strategy				
Ref	**Key Areas identified by CIPFA**	**Arrangements Currently in Place**	**Identified Task(s)**	**Target date**
1	Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the organisation's overall strategic objectives?	Yes. An Anti-Fraud and Corruption Strategy adopted in April 2011.	Anti-Fraud and Corruption to be reviewed in June 2012 for presentation to the Governance and Sudit Committee in July 2012.	31/07/2012
2	Is there a clear remit 'to reduce losses to fraud and corruption to an absolute minimum' covering all areas of fraud and corruption affecting the organisation	As above.	As above.	31/07/2012
3	Are there effective links between 'policy' work (to develop an anti-fraud and corruption and 'zero tolerance' culture, create a strong deterrent effect and prevent fraud and corruption by designing and redesigning policies and systems) and 'operational' work (to detect and investigate fraud and corruption and seek to apply sanctions and recover losses where it is found)?	Yes. The Counter Fraud Manager actively reviews policies and has recommended changes where appropriate to reduce the risk of fraud or enhance detection and support investigations.	N/A	N/A
4	Is a full range of action (anti-fraud culture, deterrence, prevention, detection, investigation, sanction and redress) being taken forward or does the organisation 'pick and choose'?	Yes a full range of actions is taken forward. The Internal Audit 2012/13 plan includes proactive and reactive fraud work in key risk areas.	Deliver the Internal Audit plan.	31/03/2013
5	Does the organisation focus on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations. prosecutions, etc.)?	Yes the Internal Audit 2012/13 plan includes work designed to identify and reduce the Council's risk to fraud as well as investigate suspected fraud.	Deliver the Internal Audit plan.	31/03/2013

6	Has the strategy been directly agreed by those with political and executive authority for the organisation?	Yes. The current Anti-Fraud and Corruption Strategy is owned by the Corporate Director of Finance and Procurement and was agreed at the Governance and Audit Committee in April 2011.	N/A	N/A
Accurately Identifying the Risks				
7	Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements?	Yes KCC does consider fraud risks at a strategic level however the arrangements need to be formalised.	Annual fraud risk assessment to be completed by the Counter Fraud Manager. In addition, the Counter Fraud Manager will promote the inclusion of fraud risks in the organisation's risk management arrangements.	31/03/2013
8	Is the organisation seeking to identify accurately the nature and scale of losses to fraud and corruption?	Yes. KCC accurately identifies losses to fraud on an individual basis but needs to develop arrangments to measure authority wide fraud risks.	A fraud loss measurement exercise to be conducted by the Counter Fraud Manager. This work will be targeted in areas identified most at risk to fraud.	31/03/2013
9	Does the organisation use accurate estimates of losses to make informed judgements about levels of budgetary investment in work to counter fraud and corruption?	Yes KCC does target its resources at areas likely to susceptible to fraud based on the analysis of previous referrals and wider knowledge/research.	Future activity will be based on the fraud risk analysis and loss measurement exercises identified above (7 & 8). These will be focussed in the areas identified as most at risk.	31/03/2013
Creating and Maintaining a Strong Structure				
10	Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's anti fraud and corruption strategy?	Yes the internal audit function and therefore counter fraud staff have delegated authority within the Financial Regulations. However, outside of the authority the counter fraud staff powers are limited.	Support the National Fraud Authority in encouraging government to extend the authority and powers of local government corporate fraud officers.	Ongoing
11	Is there strong political and executive support for work to anti fraud and corruption?	Yes the Anti-Fraud and Corruption Strategy is owned by the Corporate Director of Finance and Procurement and was agreed at the Governance and Audit Committee in April 2011.	N/A	N/A

12	Is there a level of financial investment in work for anti fraud and corruption that is proportionate to the risk that has been identified?	Yes KCC has recruited a Counter Fraud Manager and is currently recruiting a Senior Counter Fraud Officer. In addition, Internal Audit are able to provide additional resources when required.	Recruit a suitable qualified and experienced Senior Counter Fraud Officer.	31/08/2012
13	Are all those working to anti fraud and corruption professionally trained and accredited for their role?	Yes the Counter Fraud Manager is a Certified Counter Fraud Specialist. A similar qualification will be required for the Counter Fraud Officer.	As above.	31/08/2012
14	Do those employees who are trained and accredited formally review their skills base and attend regular refresher courses to ensure they are abreast of new developments and legislation?	Yes KCC has a personal development process that assists individuals in identify skills gaps and is supportive of continuing professional development.	N/A	N/A
15	Are all those working in anti fraud and corruption undertaking this work in accordance with a clear ethical framework and standards of personal conduct?	Yes Counter fraud staff are covered by KCC standards of conduct.	N/A	N/A
16	Is an effective propriety checking process: (a) implemented by appropriately trained staff? (b) in place that includes appropriate action where individuals fail the check?	Partial. Internal Audit have completed an audit of proprietary checking and given limited assurance. Recommendations have been made to encourage improvements.	Internal audit to follow up recommendations and report progress to the Governance and Audit Committee.	30/11/2012
17	Does the organisation regularly review its propriety checking and are random checks carried out to ensure that it is implemented?	Partial. Internal Audit have completed an audit of proprietary checking and given limited assurance. Recommendations have been made to ensure improvements.	As above.	30/11/2012
18	Are there framework agreements in place to work with other organisations and agencies?	Partially. Informal agreements are in place to work with other local authorities, the NHS and Kent Police.	The Counter Fraud Manager will identify and contact key stakeholders and enter into appropriate framework agreements, memoranda of understanding and/or service level agreements.	31/03/2013
19	Are the framework agreements focused on the practicalities of common work?	As above.	As above.	31/03/2013
20	Are there regular meetings to implement and update these arrangements?	As above.	As above.	31/03/2013

Taking Action to Tackle the Problem - Culture				
21	Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption and zero tolerance culture (including strong arrangements to facilitate whistleblowing)?	Yes the 2012/13 Internal Audit plan includes fraud awareness work which will include fraud awareness presentations, intranet and extranet information, newsletter articles and online training. The council has a Whistleblowing Procedure in place.	Deliver the Internal Audit Plan.	31/03/2013
22	Are there clear goals for this work (to maximize the percentage of staff and public who recognise their responsibilities to protect the organisation and its resources)?	Partial. The Anti Fraud and Corruption strategy includes a clear remit to promote a strong anti-fraud culture but no specific targets have been set in relation to percentages of staff.	A baseline staff survey will be undertaken to assess the current level of fraud awareness and strength of culture. This will be repeated at least every two years. After the baseline has been identified a percentage increase target could be set. The results will be reported to the Governance and Audit Committee.	31/03/2013
23	Is this programme of work being effectively implemented?	Partial. Progress and the effectiveness of counter fraud work is regularly monitored and findings are presented to the Governance and Audit Committee annually	As above.	31/03/2013
24	Are there arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation?	As above (22).	As at (22) a staff survey will be undertaken to assess the level of awareness. The results will be reported to the Governance and Audit Committee.	31/03/2013
25	Are agreements in place with stakeholder representatives to work together to counter fraud and corruption?	As above (18).	As above (18).	30/06/2012
26	Have arrangements been made to ensure that stakeholder representatives benefit from successful counter fraud and corruption work?	as above (18).	When appropriate, the Counter Fraud Manager will work with stakeholders to ensure they maximise the benefit of partnership working with KCC.	N/A
27	Does the organisation have a clear programme of work attempting to create a strong deterrent effect?	as above (21).	As above (21).	31/03/2013

Tacking Action to Tackle the Problem - Deterrence				
28	Does the organisation have a clear programme of work to publicise the hostility of the honest majority to fraud and corruption; effectiveness of preventative arrangements; sophistication of arrangements to detect fraud and corruption; professionalism of those investigating fraud and corruption and their ability to uncover evidence; likelihood of proportionate sanctions being applied; and the likelihood of losses being recovered?	As above (21).	As above (21).	31/03/2013
29	Has the organisation successfully publicised work in this area?	Yes counter fraud work has been publicised internally and in the general media.	N/A	
30	Has the publicity been targeted at the areas of greatest fraud losses?	No. The publicity has been authority wide or in the public domain.	Whenever possible publicity will be targeted at the areas of greatest loss.	Ongoing
Tacking Action to Tackle the Problem - Prevention				
31	Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?	Yes both proactively and at the conclusion of investigations the Counter Fraud Manager reviews policies and procedures and recommends amendments to remove any identified weaknesses, promote detection and support investigation. Any recommendations made are reported to the Governance and Audit Committee.	N/A	Ongoing
32	Do concluding reports on investigations include a specific section on identified policy and systems weaknesses that allowed the fraud and corruption to take place?	As above (31).	As above (31).	31/03/2013

33	Is there a system for considering and prioritising action to remove these identified weaknesses?	Yes. As part of Internal Audit all recommendations arising from fraud investigations will adopt the same priority and monitoring process as for other recommendations.	N/A	N/A
Taking Action to Tackle the Problem - Detection				
34	Are there effective 'whistleblowing' arrangements in place?	Yes. The whistleblowing procedure has been reviewed and HR are incorporating recommendations made by the Counter Fraud Manager.	Follow up recommendations and report progress to the Governance and Audit Committee.	31/03/2013
35	Are analytical intelligence techniques used to identify potential fraud and corruption?	Yes KCC takes an active part in the Audit Commission's National Fraud Initiative. In addition, the Counter Fraud Manager has analysed the fraud referrals received in the last two years. The results were used to inform the 2012/13 Internal Audit plan.	N/A	N/A
36	Are there effective arrangements for collating, sharing and analysing intelligence?	Partial. Referral information is recorded and provides some opportunity for analysis.	The current records need to be enhanced with greater detail to provide more opportunities for analysis.	31/03/2013
37	Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?	All staff are required to report fraud and irregularities to the Head of Internal Audit.	N/A	N/A
38	Are arrangements in place to ensure that identified potential cases are promptly and appropriately investigated?	Yes KCC has recruited a Counter Fraud Manager and is currently recruiting a Senior Counter Fraud Officer. In addition, Internal Audit are able to provide additional resources when required.	Recruit a suitably qualified and experienced Senior Counter Fraud Officer.	31/08/2012
39	Are proactive exercises undertaken in key areas of fraud risk or known systems weaknesses?	Yes the 2012/13 Internal Audit plan includes proactive exercises in key areas of risk.	Deliver the Internal Audit Plan.	31/03/2013

Tacking Action to Tackle the Problem - Investigation				
40	Is the organisation's investigation work effective?	Yes. Investigations are completed in a timely fashion and adhere to KCC policy and procedures.	Once fully implemented the Quality Assurance process within Internal Audit will include investigations which will be evaluated for their timeliness, adherence to policy and legislation as well as outcomes. This will include seeking feedback from witnesses and management involved in the investigation.	31/03/2013
41	Is it carried out in accordance with clear guidance?	As above.	The Counter Fraud Manager will draft an investigation section for the Internal Audit Manual, which will provide clear guidance and set appropriate standards that will subsequently be subject to quality and assurance processes.	31/03/2013
42	Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?	Partial. Counter fraud officers have sufficient powers within the organisation, however, their powers are limited by law outside of KCC.	Support the National Fraud Authority in encouraging government to extend the authority and powers of local government corporate fraud officers.	31/03/2013
43	Are referrals handled and investigations undertaken in a timely manner?	Yes. Investigations are completed in a timely fashion and adhere to KCC policy and procedures.	Once fully implemented the Quality Assurance process within Internal Audit will include investigations which will be evaluated for their timeliness, adherence to policy and legislation as well as outcomes. This will include seeking feedback from witnesses and management involved in the investigation.	31/03/2013
44	Does the organisation have arrangements in place for assessing the effectiveness of investigations?	No.	Once fully implemented the Quality Assurance process within Internal Audit will include investigations which will be evaluated for their timeliness, adherence to policy and legislation as well as outcomes. This will include seeking feedback from witnesses and management involved in the investigation.	31/03/2013

Taking Action to Tackle the Problem - Sanctions				
45	Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?	Partial. There is a clear and consistent policy for the application of disciplinary sanctions, but there is limited policy in relation to criminal sanctions.	The Counter Fraud Manager will amend the Anti-Fraud and Corruption strategy and agree a policy on the application of sanctions for proven cases of fraud that will include criminal, civil, disciplinary and professional sanctions.	31/07/2012
46	Are all possible sanctions – disciplinary / regulatory, civil and criminal - considered?	Yes. However, criminal sanctions are limited to referral to the police.	As above (45).	31/03/2013
47	Does the consideration of appropriate sanctions take place at the end of the investigation when all the evidence is available?	Yes.	As above (45 & 41) the sanctions policy and investigation manual will make it clear that all available sanctions will be considered throughout the course of an investigation.	31/03/2013
48	Does the organisation monitor the extent to which the application of sanctions is successful?	Yes. The outcomes of cases are reported to the Governance and Audit Committee.	As above (45 & 15) the sanctions policy and investigation manual will include a requirement to monitor the application of sanctions to ensure they are consistent. The results of this monitoring will be reported at least annually to the Governance and Audit Committee.	31/03/2013
49	Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?	Yes the anti-Fraud and Corruption Strategy stipulates that KCC will recover losses incurred by fraud and corruption.	N/A	N/A
Taking Action to Tackle the Problem - Redress				
50	Is the organisation effective in recovering any losses incurred by fraud and corruption?	Yes. KCC has recovered losses to fraud and corruption.	As at (41) the investigation manual will include a requirement for the recovery of losses to be monitored. The results of this monitoring will be reported at least annually to the Governance and Audit Committee. In addition, the Internal Audit Quality Assurance process will evaluate the effectiveness of recovery.	31/03/2013

51	Does the organisation use the criminal and civil law to the full in recovering losses?	Yes KCC will use criminal and civil law to recover its losses when the opportunity arises.	N/A	
52	Does the organisation monitor proceedings for the recovery of losses?	As above.	As at (50).	31/03/2013
53	What is the organisation's successful recovery rate?	As above.	As at (50).	31/03/2013
Defining Success				
54	Are there clear outcomes described for work to counter fraud and corruption?	No.	The Counter Fraud Manager will agree key performance indicators with the Head of Internal Audit and the Governance and Audit Committee.	31/03/2013
55	Do the desired outcomes relate to the actual sums lost to and harm caused by fraud and corruption?	No.	As above (54).	31/03/2013

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Ref	Directorate	Allegation	Outcome	Recommendations
834	FSC	**Abuse of position** A member of staff alleged that her line manager (the manager of a children's centre) had been setting aside KCC funds in a separate bank account which had been opened without the knowledge of KCC. It was further alleged that the manager had refused to allow the staff member to bank money received into the centres. Additionally, the manager had allegedly made advance payments to service providers in an attempt to secure services without proper tendering or authorising procedures being in place.	• Investigation substantiated evidence in support of the allegations. The manager had opened a separate account and had accrued large credits with suppliers to protect an under-spend of the budget. • The manager was disciplined and dismissed for gross misconduct (subject to appeal). • We recovered the majority of the diverted funds of £12,973. The remaining funds were used for legitimate goods/services.	• Internal Audit have instigated a programme of establishment visits including children's centres which will check compliance with key financial standards and make recommendations for strengthening compliance as required.
835	ELS	**Abuse of position** A head teacher of a special school was suspected of claiming 100% refunds for free school meals from KCC for all children in the school when not all children were entitled to receive free school meals. The value of these refunds was £26,840. Additionally there were concerns raised regarding the invoicing arrangements for the refurbishment of the head teacher's tied accommodation.	• We carried out further enquiries and found that although the post April 2011 claim was an error there had been other claims for 100% of pupils since 2003/04. • The Head Teacher has now resigned from his employment. • Our investigation did not identify any evidence of fraud.	• We are working with ELS to explore and minimise this risk in the future.
839	FSC	**Direct Payments.** KCC staff were suspicious that a	• Investigation identified some evidence including false invoices	• We have recommended that future care needs be met via a Kent Card

Ref	Directorate	Allegation	Outcome	Recommendations
		member of the public in receipt of a direct payment award (DPA) from KCC had provided forged invoices in support of her DPA application.	during a particular period. • The client's DPA has been withheld for that period preventing any loss to the Council.	or a managed care package.
828	FSC	**Direct Payments** It was suspected that a member of the public in receipt of a direct payment award (DPA) from KCC had failed to declare ownership of a number of properties.	• Enquiries revealed that the client did own four additional properties and received a rental income from each. • The DPA was reviewed taking into account the new information which resulted in a minor reduction in the award due to the insignificant level of equity in the properties.	• We have recommended that future care needs be met via a Kent Card or a managed care package.
842	ELS	**Procurement** A letter was received (via an MP) from a member of the public. The letter alleged that a member of schools staff had used her position to influence the outcome of a number of tender processes at local schools.	• The investigation did not identify any supporting evidence. The schools in question had followed correct procurement procedures.	• There were no recommendations in this case.
816	BSS	**Procurement** A whistleblower alleged that the Council had failed to adhere to its procurement procedures.	• The investigation identified some supporting evidence. • We were unable to pursue this matter further because the key member of staff responsible has left KCC employment.	• We recommended improvements to the processes for the opening of late tenders and the selection of contractors for frameworks. • Internal controls have now been strengthened.
837	ELS	**Working while sick.** Following a restructure a line manager raised concerns that a member of staff was working whilst off sick. The member of staff was a manager	• Investigation substantiated evidence in support of the allegations as well as the misappropriation of KCC funds for her own company. • The member of staff was disciplined	• We have made recommendations to prohibit the use of third party services to manage budgets on our behalf.

Ref	Directorate	Allegation	Outcome	Recommendations
		responsible for the delivery of a key service. Concern was raised that the staff member was actually carrying out work for her own company in direct competition with KCC.	and dismissed for gross misconduct (subject to appeal). • The total value of monies lost was £12,722.50. • We have been unable to recover the majority of the funds as the member of staff and her company have no income/capital. • We are considering referring the case to the Police.	
838	C & C	**Blue Badges** Ashford Borough Council identified a vehicle contravening parking regulations and their enquiries revealed that the blue badge being used on the vehicle had been altered to reflect a later expiry date (a potential offence of forgery).	• The Blue Badge holder had already notified the loss of the badge some months before. • Investigation substantiated misuse of the Blue Badge by a third party for which Ashford Borough Council issued a Penalty Charge Notice. • We are unable to pursue a forgery offence without further evidence.	• We recommended that Ashford Borough Council contact KCC or the police if they discover this badge being displayed again.

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By: Neeta Major – Interim Head of Internal Audit

To: Governance and Audit Committee – 26 July 2012

Subject: **ANTI-FRAUD AND CORRUPTION STRATEGY**

Classification: Unrestricted

Summary: This paper provides a summary of proposed amendments to the Council's Anti-Fraud and Corruption Strategy.

FOR DECISION

Introduction and Background

1. In April 2012 the Government launched "Fighting Fraud Locally: The Local Government Fraud Strategy". The strategy calls for a tougher approach to tackling fraud against local authorities and is organised around three themes of Acknowledge, Prevent and Pursue. A copy of the document is available on KNet on the counter fraud pages.
2. We have reviewed the Council's Anti-Fraud and Corruption Strategy in line with the themes and principles of the government strategy. The proposed revised Anti-Fraud and Corruption Strategy is attached at Appendix A for the Committee's review and agreement.
3. In summary the amendments include:
   - Commitment to the Fighting Fraud Locally strategy *(paragraph 1 of the strategy).*
   - The opportunity for KCC to instigate its own criminal proceedings *(paragraphs 17-29 of the fraud response plan- Annex 1 of the strategy).*

Recommendations

4. Members are asked to approve:
   - The revised Anti-Fraud and Corruption Strategy ***(Appendix A)***.

Paul Rock
Counter Fraud Manager
Ext: 4694

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Anti Fraud and Corruption Strategy

Introduction

1. Kent County Council is committed to the Local Government Fraud Strategy: Fighting Fraud Locally which means the Council will:

    - Acknowledge the threat of fraud and the opportunities for savings that exist.
    - Prevent and detect all forms of fraud.
    - Pursue appropriate sanctions and recover any losses.

2. The Council is committed to the highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets.

    This strategy promotes:

    - A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
    - The prevention of fraud and the promotion of an anti-fraud culture.
    - The investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties and the recovery of funds and assets lost through fraud.

Culture

3. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption. It will ensure probity in local administration and governance and expects:

    - Members and staff to lead through example by acting with integrity at all times and ensuring adherence to legal requirements, policies and procedures, rules and good practice.
    - All individuals and organisations (eg suppliers, contactors and service providers) with whom it comes into contact will act with integrity in all dealings with the Council.
    - Members, staff, bodies and organisations external to the Council, to report suspected fraud, corruption or other irregularity to the Head of Internal Audit in accordance with the Council's Financial Regulations, and Fraud Response Plan for Managers **(Annex 1).**
    - Senior managers to deal promptly and firmly with those who defraud, or seek to defraud the Council, or who are corrupt. The Council will always be robust in dealing with financial malpractice or those who breach statutory and legal obligations and its code of conduct.

Roles and Responsibilities

The Role of Elected Members

4. As elected representatives, all Members of Kent County Council have a duty to act in the public interest and to do whatever they can to ensure that the Council uses its resources in accordance with statute.
5. This is achieved through members operating within the Constitution which includes the Code of Member Conduct, Financial Regulations and Spending the Council's Money.

The Role of Employees

6. Kent County Council expects its employees to be alert to the possibility of fraud and corruption and to report any suspected fraud or other irregularities to the Head of Internal Audit.
7. Employees are expected to comply with the appropriate Code of Conduct and the Council's policies and procedures.
8. Employees are responsible for complying with Kent County Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.
9. Employees should follow instructions given to them by management. They are under a duty to properly account for and safeguard the money and assets under their control/charge.
10. Employees are required to provide a written declaration of any financial and nonfinancial interests or commitments, which may conflict with KCC's interests. KCC Financial Regulations specify that employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.
11. Failure to disclose an interest or the acceptance of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosures of gifts and hospitality.
12. Managers at all levels are responsible for familiarising themselves with the types of fraud that might occur within their directorates and the communication and implementation of this strategy.
13. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

Kent County Council's Commitment

14. Fraud and corruption are serious offences and employees and Members will face disciplinary action if there is evidence that they have been involved in these activities. Where criminal offences are suspected consideration will be given to pursuing criminal sanctions which may involve referring the matter to the police.

15. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss.
16. In order to make employees, Members, the public and other organisations aware of the Council's continued commitment for taking action on fraud and corruption, details of completed investigations, including sanctions made will be publicised where it is deemed appropriate.

Prevention

Recruitment checks

17. A key measure to preventing fraud and corruption is to carry out rigorous pre employment checks to establish the previous record and history of potential employees in terms of their integrity and propriety. This includes:-
    - obtaining suitable and relevant references;
    - checking gaps in employment history,
    - checking qualifications;
    - checks by the Criminal Records Bureau.
18. The recruitment of temporary, permanent employees and agency staff is treated the same.

Responsibilities of management

19. The primary responsibility for the prevention and detection of fraud is with management. They must ensure that they have the appropriate internal controls in place, that they are operating as expected and being complied with. They must ensure that adequate levels of internal checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

Internal Audit

20. Internal Audit is responsible for the independent appraisal of controls and for assisting managers in the investigations of fraud and corruption.
21. Internal Audit includes pro active fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.

Working with others

22. The Council is committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible the Council will assist and exchange information with other appropriate bodies to facilitate the investigation of and to combat fraud. Kent County Council's Internal Audit Section will facilitate the exchange of information.

National Fraud Initiative

23. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (currently to the Audit Commission) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by other public bodies. Any positive matches (eg an employee on the payroll in receipt of housing benefit) are investigated.

Whistleblowing Procedure

24. The Council's Whistleblowing Procedure is intended to encourage and enable staff and organisations or individuals to raise serious concerns. Whilst employees are afforded certain rights and protection through legislation enacted under the Public Interest Disclosure Act 1998, the Council will do its best but cannot guarantee to protect the identity of an individual who raises a concern but does not want their name to be disclosed.
25. Employees (including managers) wishing to raise concerns should obtain a copy of the Whistleblowing Procedure on KNet.

Training and awareness

26. The success of the Anti Fraud and Corruption Strategy is dependent on risk awareness, the effectiveness of training, including induction and the responsiveness of staff throughout the Council.
27. The Council will provide induction and ongoing training to staff, particularly those involved in financial processes and systems to ensure that their duties and responsibilities are regularly highlighted and reinforced.
28. Internal Audit will provide fraud awareness training on request and will publish its successes to raise awareness.

Detection and Investigation

29. Any suspected fraud, corruption or other irregularity should be reported to the Head of Internal Audit. The Head of Internal Audit will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with best practice and to ensure that any investigation does not jeopardise any potential disciplinary action or criminal investigation.

    Action could include:-

    - Investigation carried out by Internal Audit staff;
    - Joint investigation with Internal Audit and relevant directorate management;
    - Directorate staff carry out investigation and Internal Audit provide advice and guidance;
    - Police referral.

30. The responsibility of investigating potential fraud, corruption and other irregularities within KCC lies mainly (although not exclusively) with the Internal Audit Section. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

Raising Concerns

31. Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing Procedure.

32. Suspected or apparent fraud and irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.

33. If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also contact the Council's External Auditor, who may be contacted in confidence via the Council's main telephone switchboard.

34. The Council's Internal Audit Section can be contacted by telephone on 01622 694694 or by mail to internal.audit@kent.gov.uk.

Conclusion

35. Kent County Council will maintain systems and procedures to assist in the prevention, detection and investigation of fraud. This strategy will be reviewed annually and is available on the Council's Intranet (KNet).

Fraud Response Plan

Introduction

1. This Fraud Response Plan forms part of the Council's overall Anti-Fraud Strategy and covers the Council's response to suspected or apparent irregularities affecting resources belonging to or administered by the Council, or fraud perpetrated by contractors and suppliers against the Council.
2. It is important that Managers know what to do in the event of fraud, so that they can act without delay. The Fraud Response Plan for Managers provides such guidance to ensure effective and timely action is taken. Other documents that should be referred to when reading the Plan include:
    - Officers' Code of Conduct
    - Disciplinary procedure
    - Financial Regulations

Objective of the Fraud Response Plan

3. To ensure that prompt and effective action can be taken to:
    - Prevent losses of funds or other assets where fraud has occurred and to maximise recovery of losses
    - Identify the perpetrator and maximise the success of any disciplinary or legal action taken
    - Reduce adverse impacts on the business of the Council
    - Minimise the occurrence of fraud by taking prompt action at the first sign of a problem
    - Minimise any adverse publicity for the organisation suffered as a result of fraud
    - Identify any lessons which can be acted upon in managing fraud in the future

How to Respond to an Allegation of Fraud

Management

4. Where it is appropriate to do so (where this can be done without alerting the perpetrator to the investigation, or staff involved have sufficient experience to do so without compromising any potential disciplinary or criminal investigation) initial enquiries may be made to determine if there actually does appear to be an issue of fraud or other irregularity.
5. The purpose of the initial enquiry is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated.

6. During the initial enquiry, managers should:
    - Determine the factors that gave rise to the suspicion
    - Examine factors to determine whether a genuine mistake has been made or whether a fraud or irregularity has occurred (i.e. any incident or action that is not part of normal operation of the system or the expected course of events)
    - Where necessary, carry out discreet enquiries with staff and / or review documents.
7. If the results of the initial inquiry indicate that a more detailed investigation should be undertaken, managers should contact the Internal Audit Section.
8. Internal Audit should be informed as soon as possible of all suspected or discovered fraud or corruption, in order that they may offer advice on any specific course of action that may be necessary. Managers must inform Internal Audit of:
    - All the evidence that they have gathered.
    - The actions they have taken with regard to the employee (e.g. suspension or redeployment) or any other action taken to prevent further loss.

Internal Audit

9. Depending on the size of the fraud or the circumstances of its perpetration, the Head of Internal Audit will consider whether Internal Audit staff should undertake the investigation. If appropriate, advice and guidance will be provided to enable an investigation to be undertaken by the manager’s own staff.
10. Internal Audit will review the outcome of the investigation (irrespective of whether undertaken by its own staff or directorate staff), to ensure that appropriate action is taken to help disclose similar frauds and make recommendations to strengthen control systems.

Investigating Officer

11. The respective Investigating Officer (either from the directorate or from Internal Audit) will:
    - Deal promptly with the matter
    - Record all evidence that has been received
    - Ensure that evidence is sound and adequately supported
    - Secure all of the evidence that has been collected
    - Where appropriate, contact other agencies
    - When appropriate, arrange for the notification of the Council's insurers

- Report to senior management, and where appropriate, recommend that management take disciplinary/criminal action in accordance with this strategy and the Council's Disciplinary Procedures.

12. Where circumstances merit, close liaison will take place between the Investigating Officer, the respective Directorate and Human Resources as appropriate.

Evidence

13. The best form of evidence is original documentation. Where it is not possible to obtain originals, for whatever reason, a copy will normally suffice. The copy should be clearly endorsed as a copy and if possible certified as a true copy of the original. This should preferably be certified by the person who took the copy from the original source document.

Interviews

14. Managers should not conduct any interviews with any suspect or potential witness without seeking advice beforehand from Internal Audit.
15. The matters under investigation may constitute criminal acts, and consequently any interview of potential suspects must be conducted and recorded under specific guidelines as detailed in the Police and Criminal Evidence Act 1984 (PACE). Criminal proceedings may be compromised by conducting interviews outside of the scope of PACE.
16. Normal practice will be that Internal Audit staff conduct and/or control any interview related to suspected criminal offences.

If Evidence of a Criminal Offence is Discovered

17. At the conclusion of an investigation it may be appropriate to pursue a criminal prosecution. This can be achieved by referring the evidence to the police or alternatively KCC could instigate its own criminal proceedings.
18. Section 222 of the Local Government Act 1972 empowers local authorities, where they consider it “expedient for the promotion or protection of the interests of the inhabitants of their area to:
    - prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name, and
    - in their own name, make representations in the interests of the inhabitants at any public inquiry held by or on behalf of any Minister or public body under any enactment”.

Police referral

19. Where there is evidence that a criminal act has taken place and referral to the police is considered appropriate by the Head of Internal Audit, any necessary Police liaison will be undertaken by Internal Audit staff.
20. Once referred to the police the decision whether to charge, caution or discontinue any case will rest solely with the police and the Crown Prosecution Service and their decision is final.

Instigating Criminal Proceedings and the Decision to Prosecute

21. This section is not intended to be prescriptive and each case will be considered on its individual merits. This section describes criteria relating to the alleged offence, alleged offender and value of the fraud that will be taken into account.
22. When the Council is considering instigating criminal proceedings the case will be objectively assessed by the Head of Internal Audit who will separately assess the circumstances and the evidence in relation to each potential defendant and each alleged offence.
23. The Head of Internal Audit will give due regard to aggravating and mitigating factors; any evidence pointing towards a statutory (or other) defence; and the Code for Crown Prosecutors. In relation to the Code for Crown Prosecutions consideration will be given to:
    - whether there is sufficient admissible evidence that a criminal offence has been committed and there is a realistic prospect of conviction; and
    - whether the prosecution is in the public interest.
24. The following are some specific criteria which will be taken into account (when relevant) whenever a prosecution is contemplated. This will ensure that a prosecution is brought only where it is appropriate to do so and promote consistency in the decision making process.

Aggravating Factors

- The impact or potential impact of the offence is so serious that prosecution is the only suitable method for disposal.
- There has been long term or recurring offending.
- Age or vulnerability of the victim(s).
- Amount of gain for the offender or the amount of loss to the victim relative to the victim's status.
- Impact of the crime on the victim.
- Prevalence of the offence and its impact on the community.
- Any attempt by the offender to conceal his/her identity, whether directly or indirectly, such that the victim, and or investigating agencies, cannot easily identify or trace the person.

Mitigating Factors

- Prompt acknowledgement of guilt.
- Making timely and appropriate compensation to the victim(s).
- Previous good character.
- Age of the defendant.
- Degree of culpability.
- Other strong mitigation.

- Lack of remorse.
- The offender's history including previous advice, warnings, cautions and convictions.
- There is evidence of significant and/or continuing consumer or public detriment.
- There is risk to public health and safety, the environment, animal health and welfare, or a potential impact on disease control and/or traceability.
- The offender has acted fraudulently or is reckless or negligent in their activities.
- The offer of a simple or conditional caution has been rejected.
- An officer was obstructed.

25. If during the course of the prosecution process new information becomes available, or the defendant's circumstances alter, a re-assessment of the course of action will be made and, if necessary, a prosecution withdrawn or a different allegation substituted.

After the Decision

26. Once the Head of Internal Audit has decided whether a criminal prosecution should be pursued, the appropriate Corporate Director will be consulted. If a prosecution is to be pursued the case will be referred to Legal Services who will review the case and if appropriate instigate criminal proceedings on behalf of the Council.
27. It should be noted that the final decision regarding whether or not a case is presented in court rests with the prosecuting solicitor. Where the prosecuting solicitor is the Council's Legal Services, a decision not to proceed with a case will only be taken after discussion in the first instance with the instructing officer.

Simple and Conditional Cautions

28. Where a prosecution could succeed and the offender admits their guilt, but the individual circumstances of the case suggest that a more lenient approach may be appropriate, consideration will be given to referring the matter to the police requesting they deal with the case by way of a simple or conditional caution.

Monitoring

29. The Head of Internal Audit will report annually on the number of cases referred for prosecution and their outcomes to the Governance and Audit Committee.

Glossary of Terms

Fraud

The term ‘fraud’ is commonly used to describe the use of deception to deprive, disadvantage or cause loss to another person or party. This can include theft, the misuse of funds or other resources or more complicated crimes such as false accounting and the supply of false information.

The legal definition of fraud contained within the Fraud Act 2006 includes; fraud by false representation; fraud by failing to disclose information and fraud by abuse of position. Fraud is typically associated with financial loss however the strategy relates to acts of dishonesty whether or not financial loss is incurred.

Corruption

Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward that may influence the action of any person.

The main law relating to corruption in public bodies is contained in the Public Bodies Corrupt Practices Act 1889 and the Prevention of Corruption Act 1906 as supplemented by the Prevention of Corruption Act 1916, Local Government Act 1972 and the Anti-Terrorism Crime and Security Act 2001. The law specifies that it is sufficient to prove that money or other consideration has been given or received and will presume that the money or consideration has been given or received corruptly unless the contrary is proved. This represents a reversal of the usual legal presumption of guilt and innocence.

Corruption occurs if a person offers gifts or consideration as an inducement or acts in collusion with others (two or more persons acting together). This could involve elected Members or officers of the Council, members of the public or other third parties.

Bribery

New UK anti bribery legislation also came into force on 1 July 2010. The Bribery Act 2010 made it an offence to;

- Offer, promise or give a bribe (section1).
- Request, agree to receive, or accept a bribe (section 2).
- Bribe a foreign public official in order to obtain or retain business (Section 6).
- The Act also introduced a new corporate offence (section 7) of failure by a commercial organisation to prevent bribery in the course of its business.

The Council’s anti-bribery policy and procedures can be accessed on KNet.

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By: John Simmonds, Cabinet Member for Finance & Business Support
Andy Wood, Corporate Director of Finance & Procurement

To: Governance and Audit Committee - 26 July 2012

Subject: Protocol relating to companies in which KCC has an interest (the 'Protocol')

Classification: Unrestricted

Summary: The Committee is invited to approve a number of proposed minor amendments to the Protocol, following an officer review and subsequent consideration by the Governance and Audit Committee Trading Activities Sub Group on 4 July 2012.

FOR DECISION

INTRODUCTION

1. Enclosed at **Appendix 1** is the Report (and Appendix) on the Protocol considered by the Governance and Audit Committee Trading Activities Sub Group on 4 July 2012.

2. The proposed minor amendments considered and supported by the Governance and Audit Committee Trading Activities Sub Group are set down in paragraphs 4, 5, 6 and 7 below.

3. An updated version of the Protocol incorporating the proposed minor amendments is enclosed at **Appendix 2**.

PROPOSED MINOR AMENDMENTS TO THE PROTOCOL

4. Paragraph 7 of the Protocol states that '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'. It then makes it clear that when seeking such a decision any report to the Cabinet or relevant Cabinet Member shall include statements about a number of specific matters. One such specific matter, in paragraph 7(d), concerns 'what Council policies (if any) are to apply to the company'. It is recommended that a minor amendment and improvement is made to paragraph 7(d) so that instead it reads:

   'what Council policies (if any) are to apply to the company. If no policies have been stated in the Member decision and the company directors do not formally set their own, the policies adopted should default automatically to KCC policies'

5. In paragraph 12 of the Protocol, Members and officers of the Council running KCC companies are advised they must seek appropriate advice (from KCC Legal Services

and KCC Finance) from time to time to ensure that they and the company are operating within the law, specifically where they intend to change or expand the business activities of the company. Although not a fundamental amendment, for completeness, it is recommended that the first sentence of paragraph 12 is updated to read:

'Members and officers of the Council who are running KCC companies must pass a resolution of the company to provide Internal Audit with all information and explanations required to perform internal audits of the companies from time to time. In addition, they must seek appropriate advice from time to time to ensure that:'

6. Following the establishment of a company, the Protocol sets down the company directors' duties, as codified in the Companies Act 2006; more detail is provided in the more detailed accompanying 'Guidance on Local Authority Companies' document on KNET (the 'Guidance'). It should be noted that a minor update to paragraph 18 (which lists company directors' duties) of the Protocol is required. All seven duties are listed and discussed in the Guidance, however the sixth duty (namely, 'Duty not to accept benefits from third parties') has been omitted in the Protocol. The Protocol will be updated to include this sixth duty.

7. Paragraph 20 of the Protocol makes it clear that the directors and company officers are responsible for keeping accounts and making relevant returns to the Registrar of Companies. It is recommended that a minor amendment is made to this paragraph so that it reads:

   'Directors and company officers are responsible for keeping accounts and making relevant returns to the Registrar of Companies, and in addition are required to lodge a copy of the Companies House Annual Return (showing directors and ownership) with KCC Legal Services and KCC Finance.'

RECOMMENDATION

8. The Committee is invited to approve the proposed minor amendments to the 'Protocol relating to companies in which KCC has an interest' as set out in paragraphs 4, 5, 6 and 7 above, and incorporated in the updated version of the Protocol attached at **Appendix 2**.

Guy Record, BSS, Finance & Procurement, July 2012

By: John Simmonds, Cabinet Member for Finance & Business Support
Andy Wood, Corporate Director of Finance & Procurement

To: Governance and Audit Committee Trading Activities Sub Group - 4 July 2012

Subject: Protocol relating to companies in which KCC has an interest

Classification**:** Unrestricted

Summary: To report on a review of the existing 'Protocol relating to companies in which KCC has an interest' (the Protocol) and the more detailed accompanying 'Guidance on Local Authority Companies' (the Guidance).

FOR ASSURANCE

INTRODUCTION

1. This report sets down the observations, views and conclusions resulting from a review of the existing 'Protocol relating to companies in which KCC has an interest' (the Protocol) - attached for information at Appendix A - and the more detailed accompanying 'Guidance on Local Authority Companies' document on KNET (the Guidance).

2. This review has been undertaken to determine whether substantive updates and amendments are required to the Protocol and Guidance to ensure there is the requisite controls and governance framework in place in relation to how KCC companies are established and operated.

3. The report groups the observations and views under the following sections:

   - Establishing a company
   - Operating a company
   - Personal liability, indemnities, insurance and conflicts of interest
   - Monitoring the extent of KCC's interests in Local Authority Companies

   Finally, a conclusion is provided.

4. Any comments about this review made by the Governance and Audit Committee Trading Activities Sub Group Members at the meeting on 4th July will be incorporated in the report to the main Committee on 26th July 2012.

ESTABLISHING A COMPANY

5. The Protocol is succinct and complete, and cross refers to the more detailed and comprehensive Guidance.

6. The Protocol directs that companies are incorporated only if it is appropriate to do so, and only following the approval of a robust business case (including a cost benefit analysis, assessment of accounting and tax implications for KCC, and risks assessment) by the KCC Cabinet or relevant Cabinet Member.

7. The types of companies that fall within scope, and the specific provisions that must appear in the company's Articles are set down clearly. Furthermore, the Protocol stipulates that certain rules must apply, even if not included in a company's Articles. These rules concern the appointment of company directors, the conduct of those authorised to represent the Council at meetings of the company or of the board, decision making, and expenses incurred; and they must be in accordance with procedures set out in the Council's Constitution, the company's Articles, and Council policies that are to apply to the company.

8. Paragraph 7 of the Protocol states that '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'. It then makes it clear that when seeking such a decision any report to the Cabinet or relevant Cabinet Member shall include statements about a number of specific matters. One such specific matter, in paragraph 7(d), concerns 'what Council policies (if any) are to apply to the company'. It is recommended that a minor amendment and improvement is made to paragraph 7(d) so that instead it reads:

   'what Council policies (if any) are to apply to the company. If no policies have been stated in the Member decision and the company directors do not formally set their own, the policies adopted should default automatically to KCC policies'

9. To avoid the proliferation of unnecessary companies, helpful guidance is provided on when and why it might be appropriate to establish a company.

OPERATING A COMPANY

10. Following the establishment of a company, the Protocol sets down the company directors' duties, as codified in the Companies Act 2006; more detail is provided in the Guidance. It should be noted that a minor update to paragraph 18 (which lists company directors' duties) of the Protocol is required. All seven duties are listed and discussed in the Guidance, however the sixth duty (namely, 'Duty not

to accept benefits from third parties') has been omitted in the Protocol. The Protocol will be updated to include this sixth duty.

11. Paragraph 20 of the Protocol makes it clear that the directors and company officers are responsible for keeping accounts and making relevant returns to the Registrar of Companies. It is recommended that a minor amendment is made to this paragraph so that it reads:

    'Directors and company officers are responsible for keeping accounts and making relevant returns to the Registrar of Companies, and in addition are required to lodge a copy of the Companies House Annual Return (showing directors and ownership) with KCC Legal Services and KCC Finance.'

12. In paragraph 12 of the Protocol, Members and officers of the Council running KCC companies are advised they must seek appropriate advice (from KCC Legal Services and KCC Finance) from time to time to ensure that they and the company are operating within the law, specifically where they intend to change or expand the business activities of the company. Although not a fundamental amendment, for completeness, it is recommended that the first sentence of paragraph 12 is updated to read:

    'Members and officers of the Council who are running KCC companies must pass a resolution of the company to provide Internal Audit with all information and explanations required to perform internal audits of the companies from time to time. In addition, they must seek appropriate advice from time to time to ensure that:'

<u>PERSONAL LIABILITY, INDEMNITIES, INSURANCE AND CONFLICTS OF INTEREST</u>

13. The Protocol and Guidance provide comprehensive coverage of the issues to be aware of, risks to be mitigated against, actions to be undertaken, and guidance available in respect of personal liability, indemnities, insurance and conflicts of interest.

<u>MONITORING THE EXTENT OF KCC'S INTERESTS IN LOCAL AUTHOTITY COMPANIES</u>

14. To ensure that Members and officers of the Council can be aware at all times of the extent of KCC's interests in Local Authority Companies, and its exposure to potential legal, financial, and reputational risks, the Protocol states that the Corporate Director of Finance and Procurement shall maintain an accurate, complete and up-to-date record of all companies (identifying those that are trading) in which KCC has an interest; Members and officers of the Council are required to supply timely information to enable this.

CONCLUSION

15. The Protocol and the more detailed Guidance taken together provide comprehensive information and advice and a sound and complete framework of rules and controls governing when and how 'KCC companies' should be established, and how they should be operated.

16. If adhered to, the Protocol should ensure, importantly, that:

    (i) Companies are set up only if appropriate to do so, and only following the prior mandated approval by Cabinet or the relevant Cabinet Member, with a robust Business Case informing the approval;
    (ii) Companies are run as they should be, within the law, keeping accounts, in line with their Articles, and submitting the relevant returns to the Registrar of Companies;
    (iii) Members and officers of the Council involved in the running of companies are adequately protected and advised in respect of personal liability, indemnities, insurance, and conflicts of interest; and
    (iv) Members and officers of the Council are aware at all times of the extent of KCC's interests in Local Authority Companies, and its exposure to potential legal, financial, and reputational risks.

17. On the basis of the Review above, it is concluded that no substantive updates and amendments are required to the Protocol and Guidance. It is proposed, however, that they be reviewed bi-annually to ensure they remain up-to-date in light of, for example, legislative changes; they would of course need to be updated if fundamental changes required this during the intervening period.

RECOMMENDATION

18. Members are recommended to note the contents of this report for assurance, and to note that the Protocol and Guidance will be reviewed bi-annually hereafter, unless fundamental changes (for example, legislative changes) necessitate a review during the intervening period.

Guy Record, BSS, Finance & Procurement, June 2012

APPENDIX A

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:

APPENDIX 2

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 Committee Trading Activities 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. If no policies have been stated in the Member decision and the company directors do not formally set their own, the policies adopted should default automatically to KCC policies

(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 pass a resolution of the company to provide Internal Audit with all information and explanations required to perform internal audits of the companies from time to time. In addition, they 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) <u>not</u> to accept benefits from third parties
    (g) 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, and in addition are

required to lodge a copy of the Companies House Annual Return (showing directors and ownership) with KCC Legal Services and KCC Finance.

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) 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: