

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

To: Governance and Audit Committee – 30 June 2010

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

Classification: Unrestricted

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

FOR DECISION

1. INTRODUCTION

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

2. STATEMENT OF ACCOUNTS - CONTENTS

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

Foreword Pages 1-5

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

Statement of Responsibilities Page 6

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

Annual Governance Statement Pages 7-13

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

Auditor's Report Pages 14-17

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

Accounting Policies Pages 18-22

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

Financial Statements Pages 23-29

Income and Expenditure Statement

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

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

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

Balance Sheet

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

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

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

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

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

Cash Flow Statement

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

Significant Notes to the Accounts pages 30-85

Prior Period Adjustment

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

Remuneration

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

Reserves

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

Investments in Icelandic banks Pages 84-85

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

Pension Fund Accounts Pages 86-98

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

Glossary Pages 99-100

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

Other Issues

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

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

3. RECOMMENDATION

Members are asked to:

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

3.2 Note the recommendations made in the Annual Governance Report.

Cath Head
Chief Accountant
Ext: 1135

Lynda McMullan
Director of Finance
Ext: 4550