

Foreword

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

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

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

The Accounts consist of:

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

Revenue Budget and Outturn

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

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

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

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

Schools

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

Revenue Reserves

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

Investments in Iceland

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

Collection Fund Account

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

Capital

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

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

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

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

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

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

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

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

PFI

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

Capital Reserves

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

Insurance Fund

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

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

Pension Fund

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

FRS 17

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

Current Borrowing & Capital Resources

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

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

East Kent Opportunities

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

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

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

The Authority's Responsibilities

The Authority is required:

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

Councillor Richard Long
Chairman of the Governance and Audit Committee

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the SORP), and is required to give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

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

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

The Director of Finance has also:

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

Certificate of the Director of Finance

Lynda McMullan
Director of Finance

Scope of Responsibility

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

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

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The code is contained within the Council's constitution, a copy of which is available on our website, or can be obtained from the Director of Law and Governance.

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

The Purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of KCC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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

The Governance Framework

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of effectiveness

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

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

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

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

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

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

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

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

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

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

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

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

Significant governance issues

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

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

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

Leader & Interim Chief Executive on behalf of Kent County Council

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

General

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

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

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

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

Provisions and Reserves

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

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

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

Fixed Assets

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

Valuation of Fixed Assets

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

Accounting Policies

Assets are valued as follows: -

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

Gains and Losses on Disposal of Fixed Assets

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

Depreciation

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

The periods over which assets are depreciated are as follows:

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

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

Capital receipts

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

Accounting for financial assets and liabilities

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

Accounting Policies

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

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

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

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

Support service and central department costs

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

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

Stocks and stores

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

Revenue expenditure funded from capital under statute

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

Intangible Assets

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

Accounting for Value Added Tax

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

Government grants

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

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

Leasing

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

Pensions

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

- Teachers

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

- Other employees

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

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

Accounting Policies

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

Investments

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

PFI Accounting Policy

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

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

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

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

Collection Fund Accounting Policy

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

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

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

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

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

Income and Expenditure Account

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

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

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

Statement of Movement on the General Fund Balance

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

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

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

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

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

Reconciling Items for the Statement of Movement on the General Fund

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

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

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

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

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

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

Statement of Total Recognised Gains and Losses

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

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

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

Balance Sheet

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

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

Balance Sheet

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

Cash Flow Statement

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

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

Notes to the Core Financial Statements

Financing

Cash outflows

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

Cash inflows

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

Net decrease/increase(-) in cash

31

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

Notes to the Core Financial Statements

1. Prior period adjustment

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

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

Income and Expenditure Account	Net Expenditure in Income and Expenditure Account in 2008-09 Statement of Accounts	Removal of elements within the unitary change that relate to leasing rental payments and finance costs	Depreciation on lifecycle costs and removal of previous year PFI transactions	Finance costs relating to PFI	2008-09 comparatives in Income and Expenditure account in 2009-10 Statement of Accounts
	£000's	£000's	£000's	£000's	£000's
Children's and Education Services	187,148	-10,517	5,028		181,659
Adult Social Care	330,910	-2,661	318		328,567
Revised Net Cost of Services	518,058	-13,178	5,346		510,226
Interest Payable and Similar Charges	56,316			10,322	66,638
Revised Net Operating Expenditure	574,374	-13,178	5,346	10,322	576,864
Demand on Collection Fund	-536,572				-538,502
Movement in Net General Fund Surplus (-)/Deficit	-5,995				-5,435
Statement of Movement on the General Fund Balance (SMOGFB)	In 2008-09 SMOGFB	Depreciation of Lifecycle costs and PFI assets	Changes to MRP to reflect movement in PFI lease liability	Collection Fund change	2008-09 comparatives in SMOGFB in 2009-10
	£000's	£000's	£000's	£000's	£000's
Depreciation and Impairment of Fixed assets	-138,450	-1,765			-140,215
Transfer to Collection Fund Adjustment Account	0			1,930	1,930
Provision for the payment of external loans	42,032		2,856		44,888
Movement in SMOGFB	5,995	-1,765	2,856	1,930	5,435

Notes to the Core Financial Statements

Statement of Total Recognised gains and Losses

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

The following are prior period adjustments to the Balance Sheet

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

2. Net Cost of Services

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

3. Precepts

The following precepts were paid:

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

Notes to the Core Financial Statements

4. Trading Operations

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

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

5. Pension Costs

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

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

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

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

Teachers

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

Other Employees

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

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

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

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

Other Notes to the Income and Expenditure Account

6. Dedicated Schools Grant

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

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

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

Notes

*

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

7. Members Allowances

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

8. Leases

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

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

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

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

9. Related Party Transactions

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

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

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

Notes to the Core Financial Statements

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

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

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

Remuneration includes:-

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

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

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

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

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

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

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

Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Audit Costs

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

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

12. Subsidiary Undertakings

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

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

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

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

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

Notes to the Core Financial Statements

13. NHS Act 2006 - Section 75

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

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

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

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

14. Long Term Contracts

PFI

Westbrook and West View

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

Gravesham Place

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

Swan Valley and Craylands and 6 new schools

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

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

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

Better Homes Active Lives PFI

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

Notes to the Balance Sheet

15. Movement on Fixed Assets

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

Notes to the Core Financial Statements

Balance Sheet amount at 1 April 2009	1,595,645	28,811	606,431	8,505	327,734	106,494	2,673,620
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Nature of asset holding

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

Valuations of Fixed Assets carried at current value

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

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

Basis of valuation

All valuations of land and buildings were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. In 2009-10 Primary Schools land and buildings have been valued as well as those properties with a life more than 50 years and non operational assets requiring a new market valuation. For each operational asset an Existing Use Value (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 was provided.

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

16. Assets held under finance leases including PFI

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

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

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

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

Notes to the Core Financial Statements

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

PFI

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

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

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

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

Details of payments to be made under PFI contracts

6 schools

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

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

Notes to the Core Financial Statements

Swanscombe Schools

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

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

Westview/Westbrook

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

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

Better Homes, Active Lives

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

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

Notes to the Core Financial Statements

TOTAL for all PFI Contracts

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

Notes to the Core Financial Statements

17. Capital Expenditure and Financing

Capital expenditure was financed as follows:

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

Notes to the Core Financial Statements

Capital expenditure 2009-10

The main items of capital expenditure during the year were:

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

Notes to the Core Financial Statements

Future capital expenditure commitments

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

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

Analysis of major operational asset holdings

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

18. Movement in intangible assets

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

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

19. Amounts owed to the Council by debtors

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

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

20. Amounts owed by the Council to creditors

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

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

21. Net Assets Employed

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

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

22. Provisions

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

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

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

Notes to the Core Financial Statements

23. Reserves

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

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

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

Earmarked Reserves

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

Vehicles, plant and equipment

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

Special funds

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

School Maintenance Indemnity Schemes

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

Kings Hill development smoothing reserve

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

Swanscombe School PFI equalisation reserve

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

Six Schools PFI Reserve

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

Westview and Westbrook PFI equalisation reserve

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

Better Homes Active Lives PFI equalisation reserve

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

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

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

Supporting People reserve

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

Every Child Matters Contact Point reserve

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

Environmental Initiatives reserve

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

Rolling budget reserve

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

Economic Downturn Reserve

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

Asylum reserve

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

Emergency Conditions reserve

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

Elections reserve

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

Dilapidations reserve

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

Workforce reduction reserve

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

South East Improvement and Efficiency Partnership reserve

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

IT Asset Maintenance reserve

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

Performance Reward Grant (PRG) reserve

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

Earmarked Reserve to support next years budget

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

Prudential Equalisation Reserve

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

Dedicated Schools Grant (Central Expenditure) Reserve

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

Turner Contemporary Investment Reserve

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

Insurance reserve

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

Other

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

Notes to the Core Financial Statements

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

School Reserves

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

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

24. Assets and Liabilities in relation to retirement benefits

Reconciliation of fair value of the scheme assets:

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

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

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

Reconciliation of present value of the scheme liabilities:

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

Notes to the Core Financial Statements

Scheme History

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

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

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

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

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

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

Notes to the Core Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liability has been assessed by Barnett Waddingham.

The principal assumptions used by the actuary have been:

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

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

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

Notes to the Core Financial Statements

History of experience gains and losses

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

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

DSO Pensions

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

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

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

25. Surplus on Trading Accounts

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

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

Other Notes

26. Pension Fund

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

27. The Euro

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

28. Contingent Liabilities

Land, Planning & Highways

This relates to a claim for compensation for the compulsory acquisition of land in The Ebbsfleet Valley North Kent by KCC pursuant to KCC's STDR 4 CPO 1996. The initial claim was for £11 million but will attract interest to date of payment. This element does not include a potential similar claim by Blue Circle. Although no accurate figures are available or possible the total claim could now have risen to between £11 million and £20 million. Legal costs to date are approximately £800,000 and increasing. It is possible that some compensation may be payable, but the amount is not ascertainable without a full determination by the Land's Tribunal.

Government Funding

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

Education

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

Employment

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

Childcare case

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

Litigation

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

Asylum & Judicial review

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

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

29. Cash flow Grant analysis

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

30. Reconciliation of revenue surplus to revenue cashflow

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

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

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

32. Definition of Liquid Resources

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

Trust Funds

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

Balance Sheet at 31 March

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

33. Financial Instruments

Financial Instrument Balances

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

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

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

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

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

Notes to the Core Financial Statements

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

Notes to the Core Financial Statements

Financial Instruments Gains / Losses

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

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

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

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

Notes to the Core Financial Statements

The fair values calculated are as follows:

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

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

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

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

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

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

Key Risks

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

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

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

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

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Notes to the Core Financial Statements

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is managed through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

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

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

Deposits with banks and financial institutions

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

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

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

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

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Our Medium Term Plan also sets targets for liquidity ratios, which are approved as part of the annual budget setting process.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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

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

The maturity analysis of financial liabilities is as follows:

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

The maturity analysis of financial assets is as follows:

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

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

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

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

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

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

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

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Treasury Management Strategy

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

Debt Management

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

Investment strategy

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

34. Investments in Icelandic banks

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements

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

Heritable Bank

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

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

Landsbanki

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

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

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

Glitnir Bank hf

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

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

Pension Fund Accounts

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

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

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

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

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

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

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

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

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

Pension Fund Accounts

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

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

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

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

Summary of Main Accounting Policies:

1. Statement of Recommended Practice

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

2. Investments

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

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

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

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

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

3. Currency Transactions

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

4. Contributions, Benefits and Transfer Values

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

5. Investment Income

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

6. Expenditure

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

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

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

Pension Fund Accounts

Fund Account for the year ended 31 March

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

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

Pension Fund Accounts

Net Assets Statement as at 31 March 2010

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

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

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

Notes to the Pension Fund Account

1. Contributions Receivable

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

2. Transfers In

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

Notes to the Pension Fund Account

3. Benefits Payable

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

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

4. Transfers Out

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

5. Administrative and other Expenses borne by the Scheme

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

6. Summary of Income from Investments

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

7. Analysis of Change in Market Value of Investments

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

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

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

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

Notes to the Pension Fund Account

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

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

The investment manager totals exclude investment debtors and creditors.

8. Current Assets and Liabilities

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

9. Loss on Icelandic Investment

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

Other notes to the Accounts

10. Additional Voluntary Contributions

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

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

11. Related Party Transactions

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

In respect of interest received on cash deposits

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

	2010 £'000	2009 £'000
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,647	2,536
In respect of interest received on cash deposits	1,259	6,429
Outstanding transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable by 19 April 2010.	993	143

Included within the employer related investment figure of £993,377 are balances due at the year end from the following related parties: Gravesham Borough Council £301,227, Tonbridge & Malling Borough Council £267,265, Canterbury College £86,821, Ashford Leisure Trust £46,532, Maidstone Housing Trust £42,230, Town & Country Housing Group £36,488, Folkestone Academy £30,307, Robert Napier School £23,232, Astor College for the Arts £22,537, Angley School £21,466, Wilmington Hall School £17,657, Swanley Town Council £12,768, Fort Pitt Grammar School £11,274, Thanet Leisure Force £10,099.

Notes to the Pension Fund Account

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £993,377 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

There were no related party transactions with members or senior officers.

12. Investment Commitments

As at 31 March 2010 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Total Commitment	Invested	Outstanding
YFM Private Equity	£4m	£3m	£1m
Aurora European Property Fund	£31.2m (35m euros)	£31m (34.76m euros)	£203k (227k euros)
Quercus	£8m	£2.7m	£5.3m

13. Stock Lending

In March 2008, the Pension Fund suspended the stock lending programme with the fund's Custodian JP Morgan. No new loans have been made since this date. The remaining open loans continued to be serviced by JP Morgan until their natural closure. At the year end 31 March 2010, there were no open loans.

14. Derivative Contracts

Futures

Contract	Manager	Expiration	Fair Value £'000's	Margin £000's	Total £000's
UK					
FTSE 100 IDX	Alliance Bernstein	June 2010	224	-11	213
US					
S&P 500 Future	Alliance Bernstein	June 2010	768	40	808
S&P 500 EMINI Future	Alliance Bernstein	June 2010	1114	83	1,197
JAPAN					
TOPIX INDX FUTR	Alliance Bernstein	June 2010	276	-3	273
EUROPE					
DJ EURO STOXX 50	Alliance Bernstein	June 2010	509	42	551
			2,891	151	3,042

The Alliance Bernstein future is held to maturity as a hedge against their general shareholding positions.

All futures are exchange traded.

Forward FX

Contract	Manager	Expiration	Loss on contract £'000's
Euro Forward Currency	Alliance Bernstein	June 2010	-61

Notes to the Pension Fund Account

Scheduled Bodies

Local Authority and District Councils

Ashford Borough Council
Canterbury City Council
Dartford Borough Council
Dover District Council
Gravesham Borough Council
Kent County Council
Maidstone Borough Council

Medway Council
Sevenoaks District Council
Shepway District Council
Swale Borough Council
Thanet District Council
Tonbridge and Malling Borough Council
Tunbridge Wells Borough Council

Schools

Allington Primary School
All Souls County Primary School
Angley School
Archbishops CE School
Aylesford School
Barton Court Grammar School
Bennett Memorial School
Borough Green Primary School
Bradbourne School
Brockhill Park School
Canterbury Campus
Charles Dickens High School
Chatham Grammar School for Girls
Chatham House Grammar School for Boys
Chaucer Technology School
Cheyne Middle School
Cranbrook School
Dane Court Grammar School
Dartford Grammar School for Boys
Dartford Grammar School for Girls
Ditton Infant School
Ditton CE Junior School
Dover Grammar School for Boys
Folkestone School for Girls
Fulston Manor School, Sittingbourne
Gravesend Grammar School for Boys
Gravesend Grammar School for Girls
Greatstone County Primary School
Halfway Houses County Primary School
Harcourt County Primary School
Hayesbrook High School for Boys
Herne Bay High School
Herne Bay Junior School
Hillview School for Girls
Holy Family RC Primary
Holy Trinity County Primary School, Dartford
Holy Trinity County Primary School, Gravesend
Homewood School, Tenterden
Horton Kirby County Primary School
Howard School

Meopham School
Minster College
New Brompton College
Newington Junior School
Northfleet School for Boys
Oakwood Park Grammar School
Our Lady of Hartley RC Primary School
Park Farm County Primary School
Pent Valley Secondary School
Queen Elizabeth's Grammar School
Rainham Mark Grammar School
Robert Napier School
Rochester Grammar School for Girls
Roseacre Junior School
Sandwich High School
Simon Langton Grammar School for Boys
Sir Roger Manwood School
Skinners School
Snodland County Primary School
St Anselm's RC Comprehensive School
St Bartholomew County Primary School
St Botolphs County Primary School
St Edmund of Canterbury Comprehensive
St Francis County Primary School
St George's School, Broadstairs
St George's School, Gravesend
St Gregory's Catholic Comprehensive
St John Fisher RC School
St John RC Comprehensive
St Joseph RC Primary School
St Simon Stock School
Stella Maris RC Primary School
Sutton at Hone County Primary School
Thamesview School
Thomas Aveling School
Tonbridge Grammar School for Girls
Tunbridge Wells High School
Westlands School
Wilderness School
Willesborough County Primary Junior School

Notes to the Pension Fund Account

Hugh Christie School
Larkfield Brookfield Junior School
Malling School
Maplesden Noakes School, Maidstone
Mascalls School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
Mid Kent College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Chestfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
East Malling and Larkfield Parish Council
Eastry Parish Council
Edenbridge Town Council
Eynsford Parish Council
Eythorne Parish Council
Farningham Parish Council
Faversham Town Council
Folkestone Town Council
Great Mongeham Parish Council
Hartley Parish Council
Hawkhurst Parish Council
Hawkinge Parish Council
Herne & Broomfield Parish Council
Horton Kirby and South Darenth Parish Council
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Towns Fire Authority
Kent Police Authority
Kent Probation and After Care Committee

Academies

Cornwallis Academy
Folkestone Academy
Isle of Sheppey Academy
Leigh Technology Academy
The Marlowe Academy

Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Grammar School for Girls
Wincheap County Primary School
Wrotham School

North West Kent College
South Kent College
Thanet College
West Kent College

Kent Top Temps Limited
Kent Valuation Tribunal
Kings Hill Parish Council
Leigh Parish Council
Longfield and New Barn Parish Council
Lower Medway Internal Drainage Board
Margate Charter Trustees
Minster on Sea Parish Council
Minster Parish Council
Otford Parish Council
Pembury Parish Council
Ramsgate Charter Trustees
River Stour Internal Drainage Board
Romney Marsh Levels Internal Drainage Board
Sandwich Town Council
Seal Parish Council
Sevenoaks Town Council
Snodland Town Council
Southborough Town Council
Staplehurst Parish Council
Stone Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Temple Ewell Parish Council
Tenterden Town Council
Upper Medway Internal Drainage Board
West Kingsdown Parish Council
Westerham Parish Council
Woodnesborough Parish Council
Yalding Parish Council

Longfield Academy
Marsh Academy
New Line Learning Academy
Skinners Academy
Spires Academy
Strood academy

Agency

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

Accounting

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The Best Value Accounting Code of Practice provides guidance on the content and presentation of costs of service activities.

Budget

A statement defining the Council's policy over a specified period and expressed in financial or other terms.

Capital expenditure

Expenditure on the provision and improvement of permanent assets such as land, buildings and roads.

Capital receipts

Money obtained on the sale of a capital asset.

Credit arrangements

An arrangement other than borrowing where the use of a capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

Capital expenditure funded from revenue under statute

Capital expenditure funded from revenue under statute includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

Employee expenditure

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

Government grants

Part of the cost of local government's services is paid for by central government from its own tax income. These grants are of two main types. Some (specific grants and supplementary grants) are for particular services such as Highways and Transportation. Others are in aid of local services generally.

Intangible Assets

Capital spend on items such as software licences and patents.

Long-term debtors

Amounts due to Kent County Council where payment is to be made over a period of time in excess of one year.

Minimum Revenue Provision

The amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

Glossary of terms

Net operating expenditure

This comprises all expenditure minus all income, other than the precept and transfers from reserves.

Non Delegated

Spend on Education Services which is not delegated to schools.

Precept

The levying of a rate by one authority which is collected by another. Kent County Council precepts upon the district councils collection funds for its income but some bodies, e.g. the Environment Agency, precept upon Kent County Council.

Public Works Loans Board

A government controlled agency that provides a source of borrowing for public authorities.

Related party transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Revenue expenditure

Expenditure to meet the continuing cost of services including salaries, purchase of materials and capital financing charges.

Specific grants

See 'government grants'.

Support service costs

The 'overhead' cost to Service Directorates of support services, such as architects, accountants and solicitors.

Usable capital receipts

The proportion of the proceeds arising from the sale of fixed assets that can be used to finance capital expenditure.