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

To: Governance and Audit Committee – 30 June 2011

Subject: DRAFT STATEMENT OF ACCOUNTS 2010-11

Classification: Unrestricted

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

FOR DECISION

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1. INTRODUCTION

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

…no later than 30th September in the year immediately following the end of the year to which the statement relates
i) consider either by way of a committee or by the members meeting as a whole the statement of accounts;
ii) following that consideration, approve the statement of accounts by a resolution of that committee or meeting;
iii) following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given;

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

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

1.4 If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Cath Head, Chief Accountant, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts. Alternatively, questions can of course be asked at this meeting.

2. STATEMENT OF ACCOUNTS - CONTENTS

2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.

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

Main changes to the accounts under IFRS

2.3 Apart from the general changes e.g. new names for some of the statements and an increase in the number of notes, there have been some technical accounting changes, the biggest of which are highlighted below:

i) Untaken holiday pay and similar items are accrued at year end.

ii) Capital grants have always been manually credited to the Comprehensive Income and Expenditure Statement at year end. Under IFRS we now have to determine whether capital grants and contributions have conditions attached – if they have, they are put on the balance sheet as a Capital Receipt in Advance.

iii) Property, Plant and Equipment (PPE). There are a number of changes under this heading. Firstly we are required to depreciate our assets over a number of different components based on their individual useful lives. In 2010-11 we had our secondary and PFI schools revalued and set a threshold for componentisation of £8m. There were 37 schools over this threshold which we componentised. We also had to re-categorise our surplus assets into Assets Held For Sale, Investment properties and PPE.

iv) We were required to review all of our leases (over 1900) to determine whether they needed to be re-categorised as finance leases from operating leases or vice versa.

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

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

Foreword Pages 1-5

2.5 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £11.3m against the non-schools budgets. Details of underspends within the portfolios have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which went to Cabinet on 20 June.

2.6 The net income figures for the budget and outturn for the Children, Families & Education Portfolio on page 1 of the Accounts are the result of funding for schools, and the corresponding expenditure is shown in the Delegated Schools budget line.

2.7 There has been an increase in the level of general revenue reserves by £890k and these now stand at £26.7m. This increase is the result of the "closure" of the specific reserve for unspent Asylum costs. This is deemed to be an acceptable level based on the current budget and the Council's identified risks by the Corporate Director of Finance and Procurement.

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

2.9 Schools have £7.3m of capital reserves.

2.10 The 2010-11 IAS 19 report shows a reduction in the Pensions Reserve deficit £571.4m. See Paragraph 2.24 for more information.

Statement of Responsibilities Page 6

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

Annual Governance Statement Pages 7-18

2.12 The Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk. The Accounts include an Annual Governance Statement on pages 7 to 18 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2006. The Statement confirms that, during the financial year 2010-11, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies two significant governance issues.

2.13 CIPFA requires that the content of the Annual Governance Statement be approved by the Governance and Audit Committee. In approving the Statement Members should consider the section headed “Review of Effectiveness”, which summarises the assurances used to assess the effectiveness of the Council’s governance framework. Members should also take into account the work of the Committee over the last year, any other information of which they are aware, as well as the reports included on this agenda, namely:

- the work of Internal Audit, as summarised in the Annual Report;
- the Treasury Management Annual Report;
- The conclusions from the external auditors.

Auditor’s Report Pages 19-22

2.14 Within the Accounts and Audit Regulations 2011 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2010-11 Accounts commenced on the 13th June and ends on the 8th July.

2.15 The external auditors will provide an independent opinion as to whether the Statement of Accounts gives a true and fair view of the financial position of Kent County Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011. The audit started in May and is progressing well, although the additional work required as a result of IFRS means that the Auditor’s written report to this Committee will be despatched later than usual. A member of the Audit team will provide a verbal update on progress at this meeting. Following approval of the Accounts by Members, the external auditor will issue a report when the audit is completed. The Accounts are expected to be formally signed week commencing 25 July, assuming no material errors are found that remain uncorrected. Pages 19-22 are blank to accommodate this report.

Accounting Policies Pages 28-38

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

Financial Statements Pages 23-27

Movement in Reserves Statement (MiRS)

2.17 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have increased by £3.2m in 2010-11.

2.18 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

i) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

ii) The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets.

iii) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

Comprehensive Income and Expenditure Statement

2.19 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority during the financial year. As authorities do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.

2.20 The CIES has two sections:

i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

Balance Sheet

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

i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and

ii) Unusable Reserves, which include:
unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

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

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

- A reduction in long term investments of £24.7m.

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

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

Cash Flow Statement

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

Significant Notes to the Accounts pages 28-123

Adjustments between accounting basis and funding basis under regulations

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

Reserves

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

Property, Plant and Equipment

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

Amounts Reported for Resource Allocation Decisions

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

Officers Remuneration

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

Investments in Icelandic banks

2.31 Note 42 on pages 121-122 sets out the latest schedule of anticipated timings of repayments in relation to the Icelandic banks. Under regulations we have had to write the net impairment charge of £7.6m to the general fund. This was £12.6m of impairment less £5m of accrued interest. Of the £50m deposited we expect to recover approximately 95%.

Prior Period Adjustment pages 124-131

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

Pension Fund Accounts pages 132-146

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

Glossary

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

Other Issues

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

2.36 There have been unprecedented changes to the Accounts this year under IFRS and as a result the Accounts have increased by 50% and have considerably more disclosure notes than in previous years. These have required us to restate previous year's statements. Despite the additional workload involved in meeting these changes, the attached draft of the Accounts were submitted to the Audit Commission on 10 June. Prior to that, the Audit Commission had already commenced their audit work in the directorates and Commercial Services. All the paperwork requested by the auditors has been available to them, and the professionalism of their audit approach has been exemplary, particularly as they have also audited the 2009-10 restated Accounts directly before being presented with the 2010-11 Accounts. This approach has worked well and enabled both ourselves and the Audit Commission to move seamlessly from the restatement to the 2010-11 Accounts. Inevitably, there will be a number of issues. These will be reflected in the auditors' Annual Governance Report, which may also include issues where there is a differing approach recommended by the Audit Commission compared to our own. We will then need to decide whether or not to amend the Accounts to reflect those items. In deciding, we will take into account the time involved in correcting the errors compared to the benefit of making the corrections. The final decision on this will be subject to the approval of the Chairman of this Committee. If we decide not to correct any or some of the errors, the contents of the Annual Governance Report will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2010-11 subject to the Chairman and Liberal Democrat Group Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.

3.2 Note the recommendations made in the Annual Governance Report (which will be despatched after these main papers).

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