

By: The Director of Finance
To: Governance and Audit Committee – 29 June 2007
Subject: DRAFT STATEMENT OF ACCOUNTS 2006-07
Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2006-07.

FOR DECISION

1. INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2006-07 is attached. These need to be approved by Members by 30 June 2007, prior to the issue of the external auditor's report and publication of the Statement of Accounts (Accounts).
- 1.2 Members are encouraged to scrutinise these Accounts and ask questions.
- 1.3 If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Cath Head, Chief Accountant, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts.

2. STATEMENT OF ACCOUNTS - CONTENTS

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which has approval from the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 2.2 The format of the Accounts has changed significantly to last year's to move towards compliance with UK Generally Accepted Accounting Practice (UK GAAP). The changes are outlined below:
 - The Summary Revenue Account has been replaced by an Income and Expenditure Account with a Statement of Movement on the General Fund Balance and a Reconciling Statement.
 - The County Fund Balance Sheet has been renamed the Balance Sheet.
 - The Statement of Total Movement in Reserves has been replaced by a Statement of Total Recognised Gains and Losses (STRGL).

- The order of the accounts has also changed. For the 2006-07 Accounts the core financial statements are grouped together followed by the notes.

There have also been some substantive accounting changes in the 2006 SORP. These include:

- The removal of the requirement to make a capital financing charge.
- A requirement to note gains and losses made on the disposal of fixed assets.

Within the Accounts are tables on pages 20 and 21 which detail the prior period adjustments that have been made to the 2005-06 accounts.

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

Foreword Pages 1-4

- 2.4 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £7.7m, plus a £3.7m underspend on schools, giving a total underspend in the year of £11.4m. The reasons for these underspends were detailed in the Final Outturn report to Cabinet on 18 June.

- 2.5 The net income figures for the budget and outturn for the Education and School Improvement Portfolio on page 1 of the Accounts are the result of, specific grants, Standards Fund and teachers pay grants being greater than the net budget of the non-delegated service budgets.

- 2.6 There has been no reduction in the level of general revenue reserves and these still stand at £25.8m. This is an acceptable level based on the current budget and the Council's identified risks. Specific reserves and schools' reserves are detailed in paragraphs 2.23 to 2.25 in this report.

- 2.7 The capital expenditure for 2006/07 was £14m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £34.6m will be used to fund the re-profiling of the 2007/08 and future years' capital programme.

- 2.8 Schools have £12.9m of capital reserves.

- 2.9 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12.

Statement of Responsibilities Page 5

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

Statement of Internal Control Pages 6-7

- 2.11 The Accounts and Audit (Amendment) Regulations 2006 (A & A(A)R 2006) require that a Statement of Internal Control (SIC), signed by the Leader and the Chief Executive, is included in the Authority's approved Accounts.
- 2.12 The attached Accounts therefore include such a statement on pages 6 and 7. It confirms that, during the financial year 2006/07, overall Corporate Governance arrangements and internal controls in the Authority were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls need to be developed or improved are known about and are being actioned.

The A & A(A)R 2006 also require all Councils to undertake a self-assessment of the effectiveness of the Internal Audit function that should be considered as part of the SIC. This review is attached at Appendix F to the Internal Audit Annual report which is agenda item 12 of this meeting.

Auditor's Report Pages 8-9

- 2.13 The external auditors will provide an independent opinion as to whether the Statement of Accounts presents fairly the financial position of Kent County Council at 31 March 2007 and its income and expenditure for the year ended 31 March 2007. The audit started in May and is progressing well. A member of the Audit team will provide a verbal update on progress at this meeting. Following approval of the Accounts by Members, the external auditor will issue a report when the audit is completed. The Accounts are expected to be formally signed on 23 July, assuming no material errors are found that remain uncorrected. Pages 8-9 are blank to accommodate this report.

Accounting Policies Pages 10-13

- 2.14 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP). There have been minor changes to these to accommodate the 2006 SORP changes.

Income and Expenditure Account Page 14

- 2.15 The Income and Expenditure Account is accompanied by a set of explanatory notes. The account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year 2006-07. The revenue budget underspend in 2006/07 is transferred into the rolling budget reserve and is included in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund as part of the net transfer to/from earmarked reserves.
- 2.16 The Accounting Code of Practice states that we must reflect the cost of using assets in the provision of services. We do this by including

depreciation within the net expenditure line for each of the service headings shown in the income and expenditure account. The deferred government grant credits are also reflected in the service lines in 2006-07. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund. This means that the revenue account is only charged with the true interest costs from borrowing and the statutory provision for the repayment of debt.

- 2.17 Note 14 on page 28 details the turnover and profit of Kent Top Temps Ltd. We have agreed with our auditors that this is not material enough to warrant the creation of Group Accounts for KCC. The accounts of KTT Ltd are separately audited and are available to Members on request.
- 2.18 Note 17 on page 30 summarises the position on Landfill Allowance Trading Scheme (LATS). The accounting entries for this are embedded in the Income and Expenditure Account and Balance Sheet. The estimated residual allowance of £17.98 per tonne gives a net income of £1.93m, which is represented in the balance sheet by debtors and creditors with the balance of £1.93m in an earmarked reserve. This reserve represents the value of cumulative unsold Landfill Allowance permits and is only realised when and if these permits are actually sold.

Balance Sheet and Notes

- 2.19 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2007, and is accompanied by explanatory notes. The statement shows the balances and reserves at the Authority's disposal, its long term indebtedness, and the fixed and net current assets employed. The principal movements on the balance sheet are described below.
- 2.20 Long-term assets have increased by £368m. This is due to three factors:
- Our significant levels of capital investment
 - The revaluation of our land and buildings. Note 18 details the basis of the valuation
 - Long term investments of £135m.
- 2.21 Current Liabilities are up by £52m, This is due to an increase in overdrawn bank balances, which are more-or-less off-set by the cash and bank balances held within current assets. This is a managed position and is informed by our cash-flow projections. There is also an increase in our level of general creditors as shown in Note 21.
- 2.22 Long-term liabilities have reduced by £13m, which is due to:
- An increase in our long-term borrowing of £69m, due to the borrowing required to fund our capital programme, partially off-set by debt repayment through 2006/07
 - A reduction in our 'pension fund deficit' of £82m. Note 26 provides the information on this movement.

2.23 Our net worth of £696m is made up of the various reserves, accounts and balances shown in the balance sheet on page 18. Each of those is described in more detail in the attached accounts in Note 25. The gains and losses in our net worth is shown in the STRGL on page 16 and reflects the movement in our net worth between 2005-06 and 2006-07.

Total Movements in Reserves

2.24 Earmarked revenue reserves total £81.1m, including £8.1m in the rolling budget reserve. Cabinet will consider the use of this reserve at their meeting in July. Details of each of the earmarked reserves are shown on Pages 41 and 42 of the Statement of Accounts.

2.25 Schools' reserves continue to grow. Schools now hold £63.1m of revenue reserves and £12.9m of capital reserves. In addition, there is £11.3m of unallocated schools' budgets that will be allocated to schools during 2007/08, based upon decisions by the Schools Forum and its sub-groups. The Budget IMG has commissioned a review of schools reserves.

2.26 Capital reserves stand at £34.6m and are needed to fund the re-phasing of the 2006/07 capital programme into future years. In addition to this, we do have funding within the current assets part of the balance sheet, which reflects our treasury management policy of borrowing when it is right to do so, and not specifically when that funding is needed to fund capital expenditure.

Cash Flow Statement Page 19

2.27 This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £28.6m.

Pension Fund Accounts Pages 52-63

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

Glossary Pages 64-65

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

Other Issues

2.30 Each year, our external auditors have to produce a letter 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 letter is the ISA260.

2.31 This year has again proved to be a significant challenge particularly in light of the restructure and the restating of 2005-06 Accounts to reflect this and

the accounting and format changes. However, this challenge has been met and we presented the attached draft of the Accounts to PwC on 8 June. Prior to that, PwC had already audited the Chief Executive's Dept, Commercial Services, Environment and Regeneration and Communities accounts. The audit of Kent Adult Social Services, Children Families and Education began on 18 June. All the paperwork requested by the auditors has been available to them on time, and the professionalism of their audit approach has been exemplary. Inevitably, there will be a number of issues. These will be reflected in the auditors' ISA260, which may also include issues where there is a differing approach recommended by PwC compared to our own plans. 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 the errors, the contents of the ISA260 will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

3. RECOMMENDATION

3.1 Members are asked to:

Consider and approve the Statement of Accounts for 2006-07 subject to The Chairman, Shadow Chairman and Liberal Democrat Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.

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