

By: The Director of Finance
To: Governance and Audit Committee – 30 June 2006
Subject: DRAFT STATEMENT OF ACCOUNTS 2005-06
Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2005-06.

FOR DECISION

1 INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2005-06 is attached. These need to be approved by Members by 30 June 2006, 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 on the contents therein.
- 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 Andy Wood, Head of Financial Management, 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). The format is very similar to last year, although a few of the notes to the accounts have changed to reflect the 2005 SORP
- 2.2 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-4

- 2.3 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £9m, plus a £7.8m underspend on schools, giving a total underspend in the year of £16.8m. The reasons for these underspends were detailed in the Final Outturn report to Cabinet on 19

June. Since this report there has been an additional £332k underspend relating to the Landfill Allowance Trading Scheme (LATS), detailed in paragraph 2.17.

- 2.4 The net income figures for the budget and outturn for the Education Standards & Pupil Services Portfolio on page 1 of the Accounts are the result of specific grant income, LSC post-16 funding and teachers pay grants being greater than the net budget of the non-delegated service budgets.
- 2.5 The general revenue reserves now stand at £25.8m, a reduction of £2.5m from the 2004/05 level. 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.
- 2.6 The capital expenditure for 2005/06 was £24m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £32.4m will be used to fund the re-profiling of the 2006/07 and future years' capital programme.
- 2.7 Schools have £11.4m of capital reserves
- 2.8 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12.

Statement of Responsibilities Page 5

- 2.9 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 on the System of Internal Control Pages 6-7

- 2.10 The Accounts and Audit Regulations 2003 require that a Statement of Internal Control, signed by the Leader and the Chief Executive, is included in the Authority's approved Accounts.
- 2.11 The attached Accounts therefore include such a statement on pages 6 and 7. It confirms that, during the financial year 2005/06, 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.

Auditor's Report Pages 8-9

- 2.12 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 2006 and its income and expenditure for the year ended 31 March 2006. 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 21 July, assuming no material errors are found that remain uncorrected. Pages 8-9 are blank to accommodate this report.

Accounting Policies Pages 10-13

- 2.13 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP) and have no change from the previous year

Summary Revenue Account and Notes Pages 14-23

- 2.14 The Summary Revenue Account is accompanied by a set of explanatory notes. The revenue account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year which resulted in a net General Fund deficit of £2.5m (third line from the bottom of page 14). This amount represents the writing-out of the capital account the previous years' spend on Turner Contemporary. In writing out the spend, we also release an equivalent level of capital funding, and this capital funding was used to replace budgeted revenue contributions to capital, thereby mitigating the impact on the revenue reserve. The revenue budget underspend in 2005/06 is transferred into the rolling budget reserve and is therefore included in the third block of the Summary Revenue Account.
- 2.15 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 capital charges (depreciation and a notional interest charge) within the net expenditure line for each of the service headings shown in the summary revenue account. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Asset Management Revenue Account and the Reconciling amount for provision for loan repayment. 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. The notes on page 17, relating to the Asset Management Revenue Account and Provision for Loan Repayments, provide the figures for the adjustments made.
- 2.16 Note 14 on page 22 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.
- 2.17 Note 17 on page 23 summarises the position on Landfill Allowance Trading Scheme (LATS). The accounting entries for this are embedded in the Summary Revenue Account and Balance Sheet. The estimated residual allowance of £20.20 per tonne gives a net income of £332k, which is represented in the balance sheet by stock and creditors with the balance of £332k in the rolling budget reserve.

Balance Sheet and Notes Pages 24-37

- 2.18 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2006, 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.
- 2.19 Long-term assets have increased by £176m. This is due to three factors:
- Our significant levels of capital investment
 - The revaluation of our land and buildings. The notes on page 27 detail the basis of the valuation
 - Long term investments of £66m.
- 2.20 Current Liabilities are up by £22m, 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.
- 2.21 Long-term liabilities are up by £91m, which is due to:
- An increase in our long-term borrowing of £60m, due to the borrowing required to fund our capital programme, partially off-set by debt repayment through 2005/06
 - An increase in our 'pension fund deficit' of £33m. Note 8 on page 35 provides the information on this movement
- 2.22 Our net worth of £659m is made up of the various reserves, accounts and balances shown in the balance sheet on page 25. Each of those is described in more detail in the attached accounts on pages 38 to 45, and is summarised in the following paragraphs.

Total Movements in Reserves Pages 38-45

- 2.23 Earmarked revenue reserves total £74.1m, including £10.3m 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 40 and 41 of the Statement of Accounts.
- 2.24 Schools' reserves continue to grow. Schools now hold £62.5m of revenue reserves and £11.4m of capital reserves. In addition, there is £8.1m of unallocated schools' budgets that will be allocated to schools during 2006/07, based upon decisions by the Schools Forum and its sub-groups.
- 2.25 Capital reserves stand at £32.4m and are needed to fund the re-phasing of the 2005/06 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. As a consequence, we transfer any surplus interest received into the Prudential Equalisation Reserve to ensure that our medium term financial strategy on the revenue budget isn't affected by re-phasing of capital expenditure.

Cash Flow Statement and Notes Pages 46-49

- 2.26 This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £5m.

Pension Fund Accounts Pages 50-61

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

Glossary Pages 62-63

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

Other Issues

- 2.29 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, regardless of the size of the error. The list is known as the Statement of Unadjusted Differences (SUD), and the letter that was known as the SAS610 is now the ISA260.
- 2.30 Last year, members of this Committee were informed of the new, tighter deadlines for approving the Accounts this year, and of the potential implications of that. An extract of that is reproduced below:

'For the 2005/06 Accounts, Members must have approved them by 30 June, for publishing by 30 September. This represents a very significant challenge for the Authority.'

We have already reduced the end-to-end process within Finance by over 3 months in the past 2 years, but we are now in a position where only fundamental changes to our year-end processes will produce a set of Accounts by mid June.

We have been working closely with our external auditors to explore ways of meeting next year's deadline, and we will continue to do so. A meeting is being scheduled for September to bring together ideas from service directorates, the Corporate Finance teams and our external auditors. Almost inevitably, any new processes, allied to the shorter time available to close the accounts, is going to reduce the degree of accuracy of the final results, although not to a material degree. This is also likely to reflect in our SAS610 and SUD report next year.'

2.31 It has indeed proved to be a significant challenge, but one that has been met. We presented the attached draft of the Accounts to PwC on 5 June. Prior to that, PwC had already audited the Chief Executive's Dept, Commercial Services and Strategic Planning accounts. The audit of Social Services and Education & Libraries began on 12 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, the statement made last year and reproduced above will indeed lead to a number of relatively minor 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.

4 RECOMMENDATION

4.1 Members are asked to:

- (a) Consider and approve the Statement of Accounts for 2005-06 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.

Andy Wood
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