

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

To: Governance and Audit Committee – 26 July 2012

Subject: DRAFT STATEMENT OF ACCOUNTS 2011-12

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2011-12.

FOR DECISION AND APPROVAL

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2011-12 follows this report. The Accounts and Audit Regulations 2011 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 The audit is now complete and we therefore recommend that the Accounts are finalised and signed today, as this will free up finance staff to move forward with new year tasks and projects. The Auditors have given an unqualified opinion.

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 Emma Feakins, 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 2011-12 is the second to be prepared on an International Financial Reporting Standards (IFRS) basis. The format of the Accounts has not changed significantly to last year.
- 2.3 This year there are three new notes in the Accounts:
 - i) Heritage Assets – Note 13
 - ii) Exit Packages which are included in Note 32 – Officers Remuneration
 - iii) Trust Funds – Note 46
- 2.4 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-4

- 2.5 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £8.2m 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 9 July.
- 2.6 There has been an increase in the level of general revenue reserves by £5m and these now stand at £31.7m. This increase is reflecting a budgeted contribution approved by County Council in February 2011 in recognition of our increased risk profile. This is deemed to be an acceptable level of general reserves based on the current budget, and the Council's identified risks, by the Corporate Director of Finance and Procurement.
- 2.7 Capital expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £5.159m less than the latest revised cash limits. Of this, £9.774m reflected re-phasing of capital expenditure plans across all services and £4.616m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2012-13 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.8 Schools have revenue reserves of £37.1m and capital reserves of £2m.
- 2.9 The 2011-12 IAS 19 report shows an increase in the Pensions Reserve deficit of £327m. See Paragraph 2.26 for more information.

Statement of Responsibilities Page 5

- 2.10 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 6-17

- 2.11 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 6 to 17 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2011. The Statement confirms that, during the financial year 2011-12, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies three significant governance issues.
- 2.12 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 18-21

- 2.13 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 2011-12 Accounts commenced on the 11th June and ended on the 6th July.
- 2.14 The external audit provides 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 2012 and its income and expenditure for the year ended 31 March 2012. The audit started in May and finished 12th July. Following approval of the Accounts by Members, the external auditor will issue their signed opinion. The Accounts are expected to be formally signed today (26th July), with an unqualified opinion.

Accounting Policies Pages 28-38

- 2.15 Our accounting policies have been amended to reflect Heritage Assets and Carbon Reduction Commitment Allowances and are consistent with the Code. They were approved by this Committee at the meeting on the 18th April 2012.

Financial Statements Pages 22-27

Movement in Reserves Statement (MiRS)

- 2.16 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 £43m in 2011-12. The main increases are:

	£m
General Reserves, to reflect the increased budget risk profile	5
Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding	13
NHS Support for Social Care, reflecting the timing of new projects funded from this grant	13
Rolling Budget Reserve, reflecting the bigger underspend in 2011-12 compared to 2010-11	9
King's Hill Development Reserve, reflecting the distribution to KCC from land disposals at King's Hill. This puts the reserve back into a positive balance	6
Total of major increases in earmarked reserves	46

- 2.17 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

2.18 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.

2.19 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

2.20 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).

- 2.21 Long-term assets have decreased by £69.1m. The majority of this decrease relates to Property, plant and equipment where we have derecognised assets.
- 2.22 Long term liabilities have increased by £293.8m. £327m of this is due to an increase in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the decrease can be found in Note 41 on page 115 of the Accounts.
- 2.23 Our net worth has decreased from £507.7m (restated for adjustments relating to Foundation Schools and a Voluntary Aided school which were shown on our balance sheet but due to technical interpretation of various accounting standards have required the assets to be written off at nil consideration) to £180.4m. This is primarily due to the increased liability of the Pensions Costs, as explained in the paragraph above (and page 115 of the Accounts).

Cash Flow Statement

- 2.24 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents comprise short term deposits with building societies and account for £126m of the £139.4m on the balance sheet.

Significant Notes to the Accounts pages 28-129

Adjustments between accounting basis and funding basis under regulations

- 2.25 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

- 2.26 Details of reserves can be found in the following notes, earmarked reserves in Note 8 on pages 45-49, Usable Reserves in Note 22 which also includes earmarked reserves, and Unusable Reserves in Note 23. Earmarked reserves have increased by £23.2m, the remainder of usable reserves by £19.8m and unusable reserves by £370.3m (£327m of which relates to the Pensions Reserve). The main reasons for these increases are shown in paragraph 2.16.

Property, Plant and Equipment

2.27 Note 12 on pages 51-59 shows the movements on these assets, which have slightly reduced in value (relatively) from £2.28bn to £2.2bn.

Amounts Reported for Resource Allocation Decisions

2.28 Note 28 on pages 80-83 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. This reconciliation is our final outturn report, although as with much of Local Authority accounting, not in an immediately obvious way.

Officers Remuneration

2.29 Note 32 on pages 87-99 provides details of officers' remuneration over £50,000. This year the note provides details on exit packages in bands on £20,000 split between compulsory redundancy and other departures.

Deposits in Icelandic banks

2.30 Note 44 on page 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 £0.6m to the general fund. This was £2.3m of impairment less £1.7m of accrued interest. Under the latest CIPFA LAAP Bulletin on Iceland Accounting our accounts show that of the £50m deposited we are accounting to recover approximately 96%.

Prior Period Adjustment pages 127-129

2.31 This is a detailed note of the changes that were made to the financial statements for 2009-10 and 2010-11 as a result of Foundation Schools and a Voluntary Aided school being written out for nil consideration. These assets were on the balance sheet as they related to PFI contracts but further technical interpretation of related accounting standards has required the assets to be written off (referred to in Section 2.23). The result is that our balance sheet now has the PFI contract on a long-term liability, but no associated asset. We will make representation to the relevant bodies to lodge our concerns over this accounting treatment.

Pension Fund Accounts pages 130-152

2.32 Pages 130-152 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary

2.33 A glossary of some of the terms used within the Accounts is provided on pages 153-154.

Other Issues

2.34 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 Errors, and the report is formally known as the ISA260. This report is provided at agenda item 8 of this Committee.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2011-12.

3.2 Note the recommendations made in the Annual Governance Report.

Emma Feakins
Chief Accountant
Ext: 4634

Andy Wood
Corporate Director of Finance and
Procurement
Ext: 4662