

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2011-12 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 Statement of Accounts for 2011-12 is prepared on an International Financial Reporting Standards (IFRS) basis.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Advisory Board and the UK 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 153 and 154.

The Accounts consist of:

- A Movement in Reserves Statement on pages 22 and 23.
- A Comprehensive Income and Expenditure Statement on pages 24 and 25.
- The Balance Sheet on page 26 which sets out the financial position of Kent County Council as at 31 March 2012.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 27.
- Notes to support the above primary statements, pages 28 to 129.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 130 to 152.

Revenue Budget and Outturn

In February 2011 the Council approved a net revenue budget for 2011-12 of £909.054m. In addition £11.349m of 2010-11 underspending was rolled forward and added to the budget and we have also received a further allocation of Local Services Support Grant during 2011-12 of £1.527m. 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
Education, Learning & Skills	38,720	35,916	-2,804
Specialist Children's Services	111,326	126,839	15,513
Adult Social Care & Public Health	308,266	302,684	-5,582
Environment, Highways & Waste	149,162	141,897	-7,265
Customer & Communities	91,704	89,807	-1,897
Regeneration & Enterprise	4,730	4,731	1
Finance & Business Support	159,145	155,662	-3,483
Business Strategy, Performance & Health Reform	51,581	49,264	-2,317
Democracy & Partnerships	7,296	6,886	-410
	921,930	913,686	-8,244
Delegated Schools Budgets	0	-3,898	-3,898
	921,930	909,788	-12,142

FUNDED BY:-	Budget £000's	Outturn £000's	Variance £000's
Reserves (rolling budget reserve)	-11,349	-11,349	0
Formula Grant	-315,987	-315,987	0
Council Tax	-575,679	-575,680	-1
Council Tax Freeze Grant	-14,325	-14,342	-17

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New Homes Bonus Grant	-1,400	-1,379	21
Local Services Support Grant	-3,190	-3,191	-1
Total Funding	-921,930	-921,928	2
NET OUTTURN POSITION	0	-12,140	-12,140

The net underspending within the portfolios of £8.242m (excluding £3.898m delegated schools underspend) has been carried forward and will be added to the 2012-13 budget to support the re-scheduling of projects and to fund recent County Council and Cabinet decisions affecting the 2012-13 budget.

Schools

In total, schools underspent against their delegated budgets by £3.898m, which has been transferred to school reserves. This includes a £4.361m drawdown from school reserves as a result of 41 schools converting to new style academy status which allows them to take their reserves with them, and a £6.874m underspend against delegated budgets for the remaining Kent schools. In addition, there was £1.385m of underspending on the unallocated schools budget, largely in respect of a £1.3m increase in DSG after the schools budgets were set which has yet to be allocated by the Schools Funding Forum, and an underspend on early years placements of £0.184m together with other minor variances of +£0.099m. In addition, 4 schools closed during 2011-12 and as a result £0.262m has been transferred from the delegated schools revenue budget reserves to the unallocated schools budget reserve. Schools now have some £37.098m of revenue reserves and there is £21.990m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2012 is £31.725m, which is an increase of £5m from the position as at 31 March 2011 reflecting a budgeted contribution approved by County Council in February 2011 in recognition of our increased risk profile.

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 Council 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. The £50.35m represented 10.9% of the total deposits of the Council of £462.8m. In 2011-12 we recovered our full principal investment in Glitnir and there were repayments from both Heritable and Landsbanki. Latest indications suggest that we will recover 100% from Landsbanki and 88% from Heritable as outlined in LAAP82 Update 6. In real terms this means a recovery of 96% of the original deposit plus interest to the respective claim dates.

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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 £265.8m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education, Learning and Skills	100,796	96,897	-3,899
Adult Social Care and Public Health	3,664	3,292	-372
Environment, Highways & Waste	96,654	96,795	141
Customer and Communities	16,863	16,490	-373
Regeneration & Enterprise	2,483	2,450	-33
Business Strategy, Performance and Health Reform	7,556	6,202	-1,354
Specialist Children's Services	14,408	15,139	731
	<hr/>	<hr/>	<hr/>
	242,424	237,265	-5,159
Devolved Capital to Schools	30,300	28,300	-2,000
	<hr/>	<hr/>	<hr/>
	272,724	265,565	-7,159
Property Enterprise Fund 1		37	37
Property Enterprise Fund 2		159	159
	<hr/>	<hr/>	<hr/>
TOTAL	272,724	265,761	-6,963

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £5.158m less than 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.

Capital expenditure incurred directly by schools in 2011-12 was £28.300m and at 31 March 2012 schools have in hand some £2.000m of devolved capital funding, a decrease of £5.254m on 2010-11, which will be carried forward to 2012-13 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 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 economic 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 Council to take a longer term view on achieving the best value from our assets.

PEF2 was earmarked to provide funding support to the capital programme of £2.654m. There was £4.147m capital receipts realised through the fund, giving a surplus after costs and interest of £1.334m. When this is added to the £20.463m deficit brought forward from 2010-11, the deficit on PEF2 at the end of 2011-12 was £19.129m.

Details of the financing of capital expenditure are on page 104.

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Capital Reserves

At 31 March 2012 the Council has earmarked and other capital reserves of £88.9m as shown on page 70.

Insurance Fund

IAS 37 Provisions, Contingent Liabilities and Contingent Assets 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 2012 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 IAS 37. Details can be found on page 69.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of IAS 19 - Employee Benefits. Under IAS 19, the Council 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. IAS 19 is based upon 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 Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

IAS 19

The 2011-12 IAS 19 report shows that the Pension Fund now has a deficit of £866m. This is an increase in the deficit of £327m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2011-12, earlier years and for future years. The balance currently stands at £1,103.6m 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 (EKO) is a "Joint Arrangement which is Not an Entity" (JANE) and in 2011-12 the transactions and balances of EKO have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

Prior Period Adjustments

We have made an adjustment to the 2010-11 Statement of Accounts in relation to PFI contracts for Foundation Schools and a Voluntary Aided school. These schools were shown on the authority's balance sheet. However, further technical interpretation of the various accounting standards states that as we do not own the schools or receive economic benefits from the schools the assets should be written off at nil consideration. This resulted in disposals of £161m. The impact of the prior period adjustment is shown on pages 127 to 129.

Further information about the Accounts can be obtained from Emma Feakins, Chief Accountant.

Telephone Maidstone (01622) 694634 or e-mail emma.feakins@kent.gov.uk.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council 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 Council, that officer is the Corporate Director of Finance and Procurement;
- 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.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 26 July 2012 on behalf of Kent County Council and have been re-signed as authorisation to issue.

Councillor Richard Long
Chairman of the Governance and Audit Committee

The Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance & Procurement is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing this Statement of Accounts, the Corporate Director of Finance and Procurement 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 Corporate Director of Finance and Procurement 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.

I confirm that these accounts give a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31 March 2012.

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
17 July 2012

Scope of Responsibility

Kent County Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, 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, the Council 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 of Corporate Governance is contained within the Council's constitution, a copy of which is available on our website, or can be obtained from the Director of Governance and Law.

This statement explains how the Council 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 the Council'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 2012 and up to the date of approval of the annual report and Statement of Accounts.

The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described below:

The Council's vision of its purpose.

Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users. 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. A new Sustainable Communities Strategy (the Vision for Kent 2011-2021) was developed in 2010-11 and approved by County Council in December 2011. The Vision for Kent also acts as the Kent Forum's partnership strategy for the Kent community. It is developed in partnership between the public, private and voluntary sectors across Kent and sets out the shared priorities of partners to make Kent a better place to live and work. The first version of the Vision for Kent was published in 2002 and refreshed in 2006.

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This refresh has resulted in a very different document to previous versions. Instead of being focused around service specific themes, the Vision for Kent is centred on three countywide ambitions shared with the County Council's medium term plan (see below) supporting a focus on the strategic, long term goals for improving the County. This approach encourages greater partnership working and a more innovative approach to service delivery. The Vision for Kent 2011-2021 underwent a 10 week consultation exercise between June and August 2011. Nearly 800 responses were received, of which 75% were from individual members of the public. The consultation exercise showed that there was strong identification and support for the three County Ambitions and the more strategic, long-term approach adopted by the revised Vision for Kent.

The Kent Forum, the high-level strategic group bringing together the family of local government in Kent, owns the Vision for Kent. It was formed in 2010, following the development of the Kent Recommitment between Kent's 13 District and County Councils. It comprises the democratic leaders of Kent's local authorities and has overall responsibility for co-ordinating and agreeing shared priorities and progress, encouraging community leadership and supporting new initiatives. These responsibilities include owning the Vision for Kent 2011-2021, which it approved in February 2012 and supporting the development of Local Boards across the county. The Kent Forum is chaired by the Leader of the County Council. Three Ambition Boards have been created underneath the Kent Forum that support the three shared priorities between the Vision for Kent and Bold Steps for Kent (see below). The creation of Locality Boards emphasises a new way for County and District Councils to work together. Locality Boards aim to support greater democratic accountability through locality partnerships and stimulate more effective joint working between local partners to deliver locality and county priorities. 11 Locality Boards have been established across Kent to date.

Following public and partner consultation in October - November 2010, the Council's medium term plan, Bold Steps for Kent, was approved by County Council on 16 December 2010 and sets out its ambitions over the next four years. These are:

- To help the Kent economy to grow.
- To put the citizen in control.
- To tackle disadvantage.

Bolds Steps for Kent not only sets out the Council's ambitions and priorities until 2014-15, but also its determination of transform how the Council works and engages with the communities it serves and its partners in the public, private and voluntary sectors, in order to continue to deliver services within a challenging financial climate. At the heart of Bold Steps for Kent is an ambition to see a greater variety of providers from the public, private and the social and voluntary sectors play an increasing role in service delivery for the County Council through the transformation agenda that focuses on demand management, service integration and localism. In July 2011, County Council approved Delivering Bold Steps, the overarching delivery framework for Bold Steps for Kent. This identifies 16 priorities central to delivering Bold Steps for Kent. These are:

- Priority 1: Improve how we procure and commission services
- Priority 2: Support the transformation of health and social care in Kent
- Priority 3: Ensure all pupils meet their full potential
- Priority 4: Shape education and skills provision around the needs of the Kent economy
- Priority 5: Deliver the Kent Environment Strategy
- Priority 6: Promote Kent and enhance its cultural and sporting offer for residents
- Priority 7: Build a strong relationship with key business sectors across Kent
- Priority 8: Respond to key regeneration challenges, working with our partners
- Priority 9: Support new housing growth that is affordable, sustainable and with the appropriate infrastructure
- Priority 10: Deliver 'Growth without Gridlock'
- Priority 11: Improve access to public services and move towards a single initial assessment process
- Priority 12: Empower social service users through increased use of personal budgets
- Priority 13: Establish a Big Society Fund to support new social enterprise in Kent
- Priority 14: Ensure the most robust and effective public protection arrangements
- Priority 15: Improve services for the most vulnerable people in Kent
- Priority 16: Support families with complex needs and increase the use of community budgets

Delivery of these 16 priorities is through the Council's core business planning and performance management arrangements

The Equality Act 2010

The Public Sector Equality Duty (Section 149 of the Equality Act 2010) came into force in April 2011. It requires public bodies to have due regard to:

- Eliminating unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act;
- Advancing equality of opportunity between people who share a protected characteristic and those who do not; and
- Fostering good relations between people who share a protected characteristic and those who do not

Further specific duties require public bodies to publish equality objectives, with subsequent objectives published at least every four years and to produce an annual report on those objectives.

One of the key challenges for KCC and other public sector organisations has been the approach that the courts have taken to the interpretation of “due regard” of the Public Sector Equality Duty. A number of judicial reviews have held local authorities to account in relation to key decisions that have been taken without the due regard to equality considerations.

In response to legislative changes and judicial rulings, KCC has reviewed internal controls and continues to consider internal governance processes in order to ensure that not only is it able to expedite the duties, but also that this agenda supports and enables good and efficient commissioning, delivery, people management and decision making.

KCC has published its Annual Report which demonstrates progress on the previous equality strategy for the authority and it is consulting on new equality priorities with final agreement due in September 2012.

Engaging with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Good governance means engaging stakeholders and making accountability real.

All service plans declare what consultation, communication and marketing activity is to be done in order that this activity can be better planned, costed and corporately co-ordinated as a major campaign if appropriate.

In 2011-12 the Council has provided a number of different opportunities for residents, service users and other interested groups to influence decision making and service delivery. The main ones used and examples of activities during the year are:

- Surveys and questionnaires (e.g. The Highways Tracker Survey, the Children & Young People of Kent Survey and the Country Parks Visitor Survey)
- User groups and forums (e.g. East Kent Adult Social Care Focus Group)
- Special interest networks, groups and forums (e.g. The Kent Reference Panel and the Kent Countryside Access Forum)
- Workshops and focus groups (e.g. Annual Budget & Council Tax Consultation, The Coastal Action Network workshop)
- Feedback cards (e.g. comment cards in Country Parks and Libraries)
- Complaints, Compliments and Comments (all units)
- Formal consultation documents (e.g. Learning Disabilities Day Opportunities Consultation)
- Stakeholder events (e.g. ‘Growth without Gridlock’)
- Collaborative working and partnerships (e.g. Kent Children’s Trust)
- Participation (e.g. Youth Service interview panel)
- Civic engagement (e.g. Neighbourhood Forums and Kent Youth County Council)
- Delegated decision making (e.g. Youth Opportunities / Capital Funds)
- The use of online social media (e.g. Explore Kent’s use of Twitter and Facebook)
- Market research (e.g. Libraries).

The *Have Your Say* area of the Council website has continued to develop as a key way of improving the awareness of the wide range of consultations and engagement activity carried out by the Council and making it easier to take part in them. The site now includes:

The Consultation Directory - A new online register is available showing the Council's current, past and future consultations. Relevant officers have undertaken training in how to use the register, and all services are required to update their entries in the database regularly to ensure that the public are accessing the most up to date and complete record of information on our consultations. Local people and community groups can sign up to be automatically notified by email when a new consultation is added to the register.

Petitions - The Council welcomes petitions and recognises that petitions are one way in which people can let us know their concerns. A scheme for e-petitions was agreed by the County Council in July 2010 which now allows the community to petition the Council on-line on issues of concern.

Get involved - This scheme encourages local people to join local community meetings at which the Council's team of Community Engagement Officers provides a key link between local people, local organisations and decision makers in Kent. One of the roles of the team is working with elected Members to arrange public meetings in each of the districts in Kent. The meetings are an opportunity for the Council to engage with the local community and understand their views. The form of these meetings varies from district to district, and can be varied to suit the issues being raised. These meetings are an opportunity for local leaders to listen to the views of their communities and for local people to have their say.

Community and Seldom Heard Groups can sign up to be involved in KCC's engagement activities, and the Community Engagement Team is developing new ways to engage with them more effectively (i.e. online fora, linking with Gypsy and Traveller sites).

The Kent Youth Service working with the Public Health team and other partners has continued to develop the successful and innovative 'House' model which went live in December 2008. 'House' is a space aimed at young people aged 13 to 19 years old, giving them somewhere to 'chill out', where they can get informal lifestyle information to suit them in a relaxed and unthreatening environment. The results have been phenomenal, the project has made contact with more than 11,000 young people, including many young people who are currently unknown to and do not access existing services. 'House' is now continuing and engagement with young people produced the design brief for a mobile facility that is able to reach into local communities themselves, rather than town centres. 'House' activities can therefore be taken directly into the estates and communities that can most benefit.

Roles and responsibilities of the executive, non-executive, scrutiny and officer functions

Good governance means performing effectively in clearly defined functions and roles. In Kent this is primarily achieved through the mechanisms set out in our constitution.

The County Council consists of 84 Members, elected by eligible Kent residents every four years. The Constitution of the Council is determined in accordance with legislation and periodically reviewed and amended by the Council as necessary. The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed. The Constitution is divided into 15 Articles, which form the basic rules governing the Council's business; more detailed procedures and codes of operating are included in the appendices. It seeks to provide effective decision making procedures, ensuring that the Cabinet is accountable to the body of the Council, while providing a role for non executive Members in quasi-judicial committees, in policy formation, overview and scrutiny.

The Council elects a Leader at the beginning of each four year term. The Leader, as the head of the Executive, appoints a Cabinet and allocates accountabilities, responsibilities and delegates powers.

The Leader with the Cabinet has executive authority over all the Council's functions and activities except those that are reserved to the Council and its committees by statute. The Council has the power to dismiss the Leader through a vote of no confidence.

The Council, advised by the Corporate Board (i.e. Cabinet and Corporate Directors), determines the overall officer structure to deliver the Council's responsibilities, under the management of Corporate Directors and officers. The Council appoints the Head of Paid Service and designates appropriate senior officers as Monitoring Officer and Chief Finance Officer, who are responsible for resolving constitutional disputes and other matters laid down in the Constitution. It also agrees financial, employment and procurement procedures, together with terms and conditions of employment for staff.

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The Council has in place policies and procedures to ensure that, as far as possible, its elected Members and officers understand their respective responsibilities. New Members and employees receive induction and continued training on key policies and procedures as these are developed within the Council.

All Directors and Heads of Service have responsibility for maintaining a sound system of internal controls and management processes within their area of responsibility.

Standards of conduct and behaviour

Good governance means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour.

The Council takes the lead in establishing and promoting values for the organisation and its staff. These values are over and above legal requirements (for example, anti-discrimination, equal opportunities and freedom of information legislation) and build on the Good Governance principles. They reflect public expectations about the conduct and behaviour of individuals and groups who control public services:

The Members' Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and ten general principles governing Members' conduct. All Members receive training 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 promoting high standards of ethical conduct among elected councillors, independent and co-opted members. Although the Localism Act 2011 allows for the removal of local standards committees, the Council may seek to retain this mechanism to help ensure that high standards of conduct and behaviour are maintained.

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.

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 has a Whistleblowing Policy and an Anti Fraud and Corruption Policy in place, the latter of which was revised and approved by the Governance and Audit Committee in March 2011.

The Director of Governance and Law is the Monitoring Officer. This role has responsibility for maintaining the Constitution and supports a Standards Committee. The Council's Governance and Law 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 Constitution contains a statement on Resource Management Responsibilities which includes the Council's Financial Regulations. These are prepared and maintained by the Corporate Director of Finance & Procurement and endorsed by the Leader and the Governance and Audit Committee.

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The Corporate Director of Finance & Procurement, as the Section 151 Officer, is also responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control.

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 has a centrally managed corporate complaints team although individual directorates and business units will remain responsible for compiling detailed responses, they will do so in accordance with the Council's Complaints, Comments and Compliments policy. 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.

Decision making, scrutiny and risk management

Good governance means taking informed, transparent decisions and managing risk. Within its Constitution, the Council has formally stated the types of decisions that are delegated to the Executive and those that are reserved for the full Council.

The Leader, with the Cabinet comprise the Executive and are responsible for all of the Council's functions that are not the responsibility of any other part of the Council, whether by law or under the Constitution. Operational matters requiring a decision are delegated to council officers as outlined in Appendix 2 Part 4 of the Constitution.

Forthcoming key and other decisions to be taken by the Cabinet or one of its portfolio holders are published in the Council's Forward Plan in so far as they can be anticipated. The Forward Plan is published under the name of the Leader of the Council and covers a six month period; two months more than is required by statute.

Under section 21 of the Local Government Act 2000, the Council has appointed a Cabinet Scrutiny Committee and also a Health Overview and Scrutiny Committee each with membership from among the non-executive Members. Their terms of reference cover all the main services of the Council and the Council's duty under the Health and Social Care Act 2001 to scrutinise the health services in Kent. The Council's Scrutiny Committee also discharges the functions of Section 19 of the Police and Justice Act 2006.

On 29 March 2012 the County Council established, with effect from 1 April 2012, six Cabinet Committees whose remit includes considering and endorsing or making recommendations on key or significant Cabinet or Cabinet Member Decisions.

The Council maintains an Internal Audit Unit that operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom. The Head of Internal Audit reports to the Corporate Director of Finance & Procurement and had direct access to both the Corporate Management Team and the Head of Paid Service, elected Members and the Chairman of Governance and Audit Committee.

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 a large proportion of audits that review and report on the Council'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 Governance and Audit Committee comprises of 13 Members and its Terms of Reference were extensively revised during 2011-12 and now exceed the requirements of the CIPFA guide for Audit Committees in local authorities. Its responsibilities are set out in the Constitution and its overarching purpose is described as:

- ensuring that the Council's financial affairs are properly and efficiently conducted, and;
- reviewing assurance as to the adequacy of the risk management and governance framework and the associated control environment.

The Council has an open data and transparency programme. Open data means making the non-personal information the Council holds freely available to everyone in a format that can be reused. Open data currently available on the Council's website includes:

- Corporate Directors salaries and expenses
- Corporate Directors register of gifts and hospitality
- Council Spending
- Councillors' allowances and expenses
- Education Budget and Outturn Statements
- Invoices over £500
- Kent area profiles

The Council's programme meets and in some cases exceeds the expectations of central government.

Developing capacity and capability of Members and officers

Good governance means developing the capacity and capability of the governing body to be effective.

Member development is delivered under the Member Development Charter, which was achieved in 2010, and the Member Development Charter Plus, which was achieved in 2011. 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). In addition to this, generic leadership and personal development programmes are part of the offering, which is revised on a yearly basis. The Member development programme is shaped by the Member Development Steering Group which has representation from all of the main political parties. All Members have been asked which courses provided by the Council (both Member specific and those accessed by officers) would be of benefit to them. This takes place during their annual personal development planning meeting with a dedicated officer. In addition to the courses on offer, Members can access a range of personal development tools including an online 360 tool which maps skills against the national Political Skills Framework.

All officers of the Council, including Corporate Directors, are subject to a consistent Total Contribution appraisal and personal development process, which provides a tailored action and development plan that meets the needs of the individual officer and delivery of objectives in support of their service unit. The personal plans are supported by a comprehensive range of development programmes.

The 'Change to Keep Succeeding' transformation programme has over the year reinforced the clear expectation that all staff will have an appreciation of our shared values and of the behaviours expected to continue to provide excellent customer service. The new Organisation and People Plan includes a Training Strategy which covers professional and generic skills development across the Authority. A management standard for KCC, the Kent Manager Standard was introduced in September 2011 with accreditation from Edexcel. Managers taking part need to develop and demonstrate evidence of their knowledge, skills, attitude and behaviour against a specified set of criteria

Annual Governance Statement

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

The Corporate Director of Finance and Procurement (as Chief Financial Officer) has reviewed the Council's compliance against 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. The gaps that do exist will be considered and addressed over the next financial year if appropriate.

Compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government (2011)

The Interim Head of Audit (as the Council's senior audit professional) has reviewed the Council's compliance against the CIPFA statement on the Role of the Head of Internal Audit in Local Government (2010). As will be reported to the Governance and Audit Committee, the Council's arrangements comply in all significant respects with the principles set out in the CIPFA statement.

Organisational design principles

The Decision Making Accountability (DMA) model has been applied to all restructures since December 2011. In order to meet the commitment within 'Bold Steps for Kent' to develop a structure that is as flat as possible and to create effective spans of control, the intention is to monitor changes in the organisation as restructuring takes place. The aim is to move from an organisation which in December 2011 was 11 layers deep with an average span of control of 5.2 FTE to an organisation with 6 layers from Corporate Director to the front line and an average span of 7 FTEs. Any new structures that fall outside this framework are reported as exceptions to the Corporate Management Team.

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 Interim Head of Audit'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 previously described, and supplemented by specific sources of evidence described below.

Planning

The Council's planning process is fundamentally driven by the strategic direction set out in *Bold Steps for Kent*, its Medium-Term Plan until 2014-15 and *Delivering Bold Steps*, the overarching delivery framework for Bold Steps for Kent

The financial framework within which our plans are delivered is articulated in the Medium Term Financial Plan and the Budget Book, both of which were approved by the County Council in February 2012, despite the incredibly difficult financial pressures facing the Council.

Each business unit has its own annual Business Plan which sets out how it will contribute towards our medium term plans, and identifies the key planned activities, performance measures and priorities at a service level within this overarching framework. Business Plans for 2011-12 were considered and approved by Cabinet in April 2012.

Annual Governance Statement

Following the restructure of KCC on 4 April 2011, business planning arrangements for 2012-13 were reviewed with the aim to better align the business planning process with the new organisational structure set out through the *Change to Keep Succeeding* report approved by County Council in December 2011, and provide consistency with the new corporate “one-council” approach. Changes were made to the business planning template to make it more action and accountability focussed, but due to the number of ongoing restructures throughout the business planning period, Cabinet agreed that the granularity of business plans should be at ‘divisional’ level for 2012-13, as this represented the most stable tier of the organisation.

Business planning arrangements are kept under review, and further consideration will be given by Cabinet to the arrangements for 2013-14 to further improve the process and consider the impact of new governance arrangements, such as the development of Cabinet Committees.

Performance Management

Performance within the Council is monitored through the Core Monitoring Report, which contains a range of data on actual performance against target indicator levels. This report is considered by the Corporate Management Team, Cabinet and the Policy, Overview and Scrutiny Committees.

Progress against our budget, major projects, risks, staffing matters and Health and Safety performance data are all reviewed by various Committees of the Council, although Cabinet, in delivering its executive role, receives all relevant performance data.

There was also a performance management process operating within all Directorates of the organisation, and this is underpinned by the management of personal performance through the Total Contribution Pay process.

Cabinet

During the year Cabinet have received and reviewed regular reports relating to the performance of the Council’s system of internal control, including the Strategic Risk Register, Revenue & Capital Budget Monitoring, Treasury Management and Core Monitoring (Performance and Business plans). Cabinet has also considered the outcomes of the work of our external regulators and also considered the draft Budget and Medium Term Plan prior to their submission for approval to the County Council in February of this year. Cabinet also approves the Directorate Business plans.

Policy Overview and Scrutiny Committees

During 2011-12 the Cabinet Scrutiny Committee has met 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 Corporate Director. Local taxpayers and stakeholders are able to 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.

There were eight Policy Overview and Scrutiny Committees operating during 2011-12 reviewing the key issues and risks managed by the Council’s directorates.

The Standards Committee

During the year, the Standards Committee was responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavoured to address any concerns regarding Members' conduct and dealt with any reports from the Standards Board of England. Dealing with alleged breaches of the Code of Conduct by elected and co-opted Members of the Council continued to be the core work of the Committee, and the number of complaints has remained low, none of which was upheld.

Annual Governance Statement

The Governance and Audit Committee

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. Members of the Committee can also commission reports on any risk area that they feel they need greater assurance on.

Statutory Officers

The statutory functions undertaken by the Head of Paid Service, Monitoring Officer, S151 Officer, and Corporate Director of Families and Social Care were effectively fulfilled during 2011-12.

Management

Corporate Directors and Directors of Services have provided assurance, through their signing of a Statement on Internal Controls, Governance and Risk Management Processes, that:

- They fully understand their roles and responsibilities.
- They have made an assessment of the significant risks to the successful discharge of the Council's key priorities.
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.
- They have confirmed which improvements have already been made to controls in certain areas during the year.
- They have identified certain areas where key internal controls still need to be enhanced.

In relation to the last point, areas where internal control still needs to be developed that are considered significant are listed under the section significant governance issues below.

Internal Audit

The Council receives assurance about the effectiveness of the governance environment from the work of Internal Audit, which provides independent and objective assurance across the whole range of the Council's activities.

It is a professional requirement for the Head of Internal Audit to provide an opinion in the Annual Audit report on the overall adequacy and effectiveness of the Council's:

- Risk management.
- Internal Control.
- Governance processes.

This is collectively referred to as "the system of internal control". This opinion is used to inform the Annual Governance Statement.

Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, substantial assurance can be provided on the adequacy of overall governance processes and internal controls across the Council. However, there are some specific concerns that will need to be addressed over the next year if the level of assurance is to be maintained. During 2011-12 only limited assurance was able to be given in relation to formal risk management processes due to the evolving organisational structure and resulting changes to the Council's Risk Management Framework. In the latter part of the year, many improvements were made, e.g. a refresh of the Corporate Risk Register. Further work is proposed in 2012-13 to embed risk management across the Council.

During 2011-12 seventeen Internal Audit reports have been issued with "Limited" assurance. Common themes within these reports relate to certain information systems not being set up and utilised appropriately and certain central policies that have not been applied consistently across directorates. This is to be expected in a large organisation which has been undertaking significant structural changes, as described earlier. Steps are being taken to address the issues highlighted and Internal Audit will follow up these recommendations to ensure implementation.

Annual Governance Statement

In common with most large organisations the Council is subject to fraud. During 2011-12, 28 irregularities were reported to Internal Audit. The Council adopts a zero tolerance approach to irregularities. Accordingly, all reported irregularities were investigated. Two of these were reported to the police, six resulted in disciplinary action and, of these, three staff were dismissed for gross misconduct. In August 2011, the Council appointed a Counter Fraud Manager and a Counter Fraud Officer shortly after. This increased Internal Audit's capacity to proactively address fraud. This proactive work included raising the level of fraud awareness within the Council, assessing fraud risks and promoting the Council's anti-fraud strategy. This approach has led to an increase in the level of reported suspicions of irregularity to Internal Audit compared with previous years.

The results of all Internal Audit reviews have been reported to the Governance and Audit Committee and distributed to a wide number of senior officers and Cabinet Members. This ensures that senior managers consider any issues arising from Internal Audit's work and agree how to progress and implement recommendations particularly for authority wide and cross cutting audits.

Review of Internal Audit

The Annual Audit Report includes a review of the effectiveness of the system of internal audit for 2011-12, 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.

External Audit and other regulators

During the year, the Audit Commission was the Council's appointed External Auditor. Each year the District Audit issues an opinion on the Councils' financial statements and arrangements for value for money. The opinion for 2010-11 was unqualified, and it is expected that a similar opinion will be issued for 2011-12.

Ofsted's 2011 Annual Assessment of the council, published on 8 Nov 2011, was that Kent's Children's Services were performing poorly. Ofsted based this assessment on their reports which were then in the public domain, notably their Oct 2010 inspection of Safeguarding and Services to Looked After Children. The requirements from that inspection had led to the significant work of the Children's Service Improvement Programme, which reports to the Department for Education and to elected members.

Subsequently, on the 9 Nov 2011, Ofsted published the results of their Oct 2011 unannounced inspection of Contact, Referral and Assessment within Children's Services. This found that all the areas identified in the previous inspection as needing improvement had been tackled. In particular, Children in Need were receiving timely assessments and all Child Protection cases were appropriately allocated. The outcome of this inspection will inform Ofsted 2012 annual assessment of the council's Children Services.

Of the Ofsted inspections of individual services provided by the Council, the inspection of the Adoption Service should also be noted. The inspection was undertaken in November 2011 and reported in February 2012 that the service was unsatisfactory. The inspection looked at four areas. Of these, Protecting children from harm, Helping children to achieve well and Helping children to make a positive contribution were all found to be satisfactory. The fourth area, Organisation, was found to be unsatisfactory and a number of recommendations were made.

As noted by Ofsted in their report, earlier in 2011 the Council had already identified a number of ways in which the Adoption Service needed improving. They noted that elected members, managers and staff were already working hard to deliver the improvements required although the recent changes had not yet had time to demonstrate improved outcomes at the time of the inspection. These improvements are now being evidenced.

An Adoption Service improvement action plan has been developed and the Council is now working with Coram to provide additional expertise to the service. The action plan is being reported, as part of the Children Services Improvement Programme, to the Department for Education and to elected members at the Corporate Parenting Panel.

Annual Governance Statement

Risk Management

The Council's Risk Management Framework and Policy was reviewed and updated during 2011-12, with the Policy approved by the Governance and Audit Committee on behalf of the County Council. The changes made within the attached policy are based on the Office of Government Commerce's model guidelines, which are consistent with ISO 31000, the international standard for risk management, and ensure alignment with council priorities. Risk Management guidance materials have been updated to aid staff in managing risks in accordance with the Risk Management Policy.

The Corporate Risk Register was refreshed with information gathered from a series of Cabinet and Corporate Management Team workshops, and published in KCC's Medium Term Financial Plan, along with the Council's Risk Strategy.

The Risk Management Framework will be further updated in 2012-13 to reflect the new governance arrangements for the County Council, which were approved on 29 March 2012.

The responsibility for the Council's Risk Management approach has now transferred from the Finance and Procurement function to Business Strategy, and a dedicated Risk Management team has been established to ensure that Risk Management is embedded across the Council and address known issues in the current arrangements.

Significant governance issues

The following issues have been assessed as being significant for the purpose of the Annual Governance Statement:

Issue	Proposed action	Owner
Maintaining standards of governance and service delivery in the face of budget demands/pressures	Proceed in accordance with existing plans and keep under review	Corporate Management Team
Service transformation is incomplete in some areas	Continue with existing action plans and keep under review	Corporate Management Team
Concerns regarding delivery of children's services and related data quality	Full implementation of the action plans already in place	Corporate Management Team

We will over the coming year take appropriate steps to address all of these matters and to further enhance 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.



Paul Carter
Leader
On behalf of Kent County Council



David Cockburn
Corporate Director, Business Strategy and Support

Independent Auditor's Report to the Members of Kent County Council

Opinion on the Council's Financial statements

I have audited the financial statements of Kent County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Finance and Procurement and the auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the accounting statements:

- give a true and fair view of the financial position of Kent County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of Kent County Council

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of Corporate Director of Finance and Procurement and the auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

Independent Auditor's Report to the Members of Kent County Council

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Independent Auditor's Report to the Members of Kent County Council

Report by exception

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. I consider the findings of the Ofsted inspection in October 2010 to be a significant matter. The inspection concluded that the overall effectiveness of safeguarding children and young people services and services for looked after children were inadequate, identifying significant weaknesses in the Authority's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

The Council is working to an agreed improvement plan but as Ofsted have not carried out a re-inspection during 2011-12 I am unable to remove to except for qualification

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

I am also required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the Council has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells
District Auditor
Audit Commission
1st Floor, Millbank Tower,
Millbank,
London SW1P 4HQ

26 July 2012

Movement in Reserves Statement

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 other 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. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Year ended 31 March 2011(Restated)				
	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2010	-25,835	-167,950	-16,016	-65,353	-275,154
Movement in Reserves during 2010-11					
Surplus or (Deficit) on Provision of Services	-131,595				-131,595
Other Comprehensive Expenditure and Income					0
Total Comprehensive Expenditure and Income	-131,595	0	0	0	-131,595
Adjustments between accounting basis & funding basis under regulations - Note 7	124,358		-488	4,563	128,433
Net increase/Decrease before Transfers to Earmarked Reserves	-7,237	0	-488	4,563	-3,162
Transfers to/from Earmarked Reserves	6,347	-6,347			0
Increase/Decrease (movement) in Year	-890	-6,347	-488	4,563	-3,162
	Year ended 31 March 2012				
Balance at 31 March 2011 carried forward	-26,725	-174,297	-16,504	-60,790	-278,316
Movement in reserves during 2011-12					
Surplus or (Deficit) on provision of services	11,983				11,983
Other Comprehensive Expenditure and Income		25			25
Total Comprehensive Expenditure & Income	11,983	25	0	0	12,008
Adjustments between accounting basis & funding basis under regulations - Note 7	-43,411		1,607	-13,211	-55,015
Net Increase/Decrease before transfers to Earmarked Reserves	-31,428	25	1,607	-13,211	-43,007
Transfers to/from Earmarked Reserves	26,428	-26,428			0
Increase/Decrease (movement) in Year	-5,000	-26,403	1,607	-13,211	-43,007
Balance at 31 March 2012 carried forward	-31,725	-200,700	-14,897	-74,001	-321,323

Movement in Reserves Statement

	Year ended 31 March 2011		
	Total Usable Reserve	Unusable reserves Restated	Total Council Reserves
	£'000	£'000	£'000
Balance at 31 March 2010	-275,154	319,864	44,710
Movement in Reserves during 2010-11			
Surplus or (Deficit) on Provision of Services	-131,595		-131,595
Other Comprehensive Expenditure and Income (total of *'s on CIES)		-420,817	-420,817
Total Comprehensive Expenditure and Income	-131,595	-420,817	-552,412
Adjustments between accounting basis & funding basis under regulations	128,433	-128,433	0
Net increase/Decrease before Transfers to Earmarked Reserves	-3,162	-549,250	-552,412
Transfers to/from Earmarked Reserves	0	0	0
Increase/Decrease (movement) in Year	-3,162	-549,250	-552,412
Year ended 31 March 2012			
Balance at 31 March 2011 carried forward	-278,316	-229,386	-507,702
Movement in reserves during 2011-12			
Surplus or (Deficit) on provision of services	11,983		11,983
Other Comprehensive Expenditure and Income (total of *'s on CIES)	27	315,318	315,345
Total Comprehensive Expenditure & Income	12,010	315,318	327,328
Adjustments between accounting basis & funding basis under regulations	-55,015	55,015	0
Net Increase/Decrease before transfers to Earmarked Reserves	-43,005	370,333	327,328
Transfers to/from Earmarked Reserves	0	0	0
Increase/Decrease (movement) in Year	-43,005	370,333	327,328
Balance at 31 March 2012 carried forward	-321,321	140,947	-180,374

Comprehensive Income and Expenditure Statement

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 2012		
			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Service					
Cultural Services			23,366	3,176	20,190
Environmental, Regulatory & Other Services			21,086	13,928	7,158
Planning Services			18,960	3,883	15,077
Court Services			2,684	475	2,209
Arts & Libraries			22,365	2,076	20,289
Waste Management			69,640	2,960	66,680
Children's and Education Services			1,348,977	1,133,369	215,608
Highways, Roads and Transport Services			176,308	19,582	156,726
Adult Social Care			528,013	163,279	364,734
Corporate and Democratic Core			29,276	27,541	1,735
Non Distributed Costs			19,091	16,043	3,048
Cost of Services			2,259,766	1,386,312	873,454
Other operating Expenditure	9				98,463
Net Surplus on trading accounts	29				-8,425
Financing and Investment Inc and Exp	10				71,936
Taxation and Non Specific Grant Income	11				-1,023,445
(Surplus) or deficit on Provision of Services					11,983
(Surplus)/deficit arising on revaluation of non current assets				*	-42,292
Actuarial (gains)/losses on pension fund assets / liabilities				*	358,817
(Surplus)/deficit arising on loans and receivables				*	-1,204
Other					25
Total Comprehensive Income and Expenditure					327,329

Comprehensive Income and Expenditure Statement

Notes

		Year ended 31 March 2011		
		Gross	Gross	Net
		Expenditure	Income	Expenditure
		£'000	£'000	£'000
Service				
Cultural Services		13,843	3,290	10,553
Environmental, Regulatory & Other Services		25,965	6,435	19,530
Planning Services		24,513	8,355	16,158
Court Services		3,114	439	2,675
Arts & Libraries		28,774	1,952	26,822
Waste Management		68,987	5,599	63,388
Children's and Education Services		1,590,381	1,378,896	211,485
Highways, Roads and Transport Services		150,700	13,041	137,659
Adult Social Care		549,826	147,632	402,194
Corporate and Democratic Core		19,937	17,431	2,506
Non Distributed Costs		-180,321	25,475	-205,796
Cost of Services		2,295,719	1,608,545	687,174
Other operating Expenditure	9			140,438
Net Surplus on trading accounts	29			-9,218
Financing and Investment Inc and Exp	10			99,101
Taxation and Non Specific Grant Income	11			-1,049,090
(Surplus) or deficit on Provision of Services				-131,595
(Surplus)/deficit arising on revaluation of non current assets			*	-28,690
Actuarial (gains)/losses on pension fund assets / liabilities			*	-383,224
(Surplus)/deficit arising on loans and receivables			*	-8,903
Other				
Total Comprehensive Income and Expenditure				-552,412

In 2011-12 Service Reporting Code of Practice (SeRCOP) was adopted replacing Best Value Accounting Code of Practice (BVACOP) which has required the 2010-11 Comprehensive Income and Expenditure Statement to be changed to reflect the new service lines. There has been a movement in the cost of service between the service lines but there is no overall change to the total cost of service.

Last years exceptional item within the Non Distributed costs line is related to the change from Retail Price Index (RPI) to the Consumer Price Index (CPI) in the actuary's assumptions.

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.

		31 March 2012		31 March 11	31 March 10
	Notes	£'000	£'000	Restated	
				£'000	£'000
Non Current Assets					
Property Plant & Equipment	12	2,211,572		2,285,649	2,234,443
Heritage Assets	13	5,980		5,828	5,689
Investment Property	14	23,501		21,078	21,294
Intangible assets	15	1,591		1,632	2,544
Total Property Plant & Equipment			2,242,644	2,314,187	2,263,970
Long-term investments	16	11,320		10,962	35,671
Long-term debtors	17	61,172		59,146	59,154
Total long-term assets			2,315,136	2,384,295	2,358,795
Current Assets					
Inventories		7,006		6,694	6,231
Assets held for sale (>1yr)	19	4,820		4,275	9,595
Short term debtors	17	171,016		223,521	210,803
Investments	16	134,681		134,555	89,026
Cash and Cash equivalents	18	139,421		67,310	100,734
Total current assets			456,944	436,355	416,389
Current Liabilities					
Temporary borrowing	16	-77,843		-57,350	-45,240
Short term Lease Liability	16	-4,852		-4,923	-3,983
Short term provisions	21	-29,378		-34,105	-37,235
Creditors	20	-261,008		-291,766	-284,534
Cash and Cash equivalents	18				
Total Current liabilities			-373,081	-388,144	-370,992
Long Term Liabilities					
Creditors due after one year	20	-3,895		-2,949	-823
Provisions	21	-17,896		-14,077	-14,423
Long-term borrowing	16	-1,025,805		-1,053,557	-1,012,116
Other Long Term Liabilities		-1,133,528		-813,001	-1,347,187
Capital Grants Receipts in Advance	35	-37,501		-41,220	-74,353
Long Term Liabilities			-2,218,625	-1,924,804	-2,448,902
Net Assets			180,374	507,702	-44,710
Reserves					
Usable Reserves	22	-321,322		-278,316	-275,154
Unusable Reserve	23	140,948		-229,386	319,864
Total Reserves			-180,374	-507,702	44,710

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

	Notes	2011-2012 £'000	2010-2011 £'000
Net (Surplus) or deficit on the provision of services		11,984	-131,596
Adjustments to net surplus or deficit on the provision of services for non cash movements	24	-365,264	-227,842
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	224,284	270,052
Net cash flows from operating activities	25	-128,996	-89,386
Investing Activities	26	13,204	145,508
Financing Activities	27	43,681	-22,698
Net increase(-) or decrease in cash and cash equivalents		-72,111	33,424
Cash and cash equivalents at the beginning of the reporting period		67,310	100,734
Cash and cash equivalents at the end of the reporting period	18	139,421	67,310

Note 1 - Accounting Policies

Note 1. Accounting Policies

General

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2003 in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Council Accounting in the UK 2011-12 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis.

Accruals of Income and Expenditure

The 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.

Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They comprise call and business accounts.

In the Cash Flow Statement and Balance Sheet, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Note 1 - Accounting Policies

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Service lines within the Comprehensive Income and Expenditure Statement, but is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- Teachers

The Council 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 and no liability for future payments of benefits is recognised in the Balance Sheet.

- Other employees

The liabilities of the Kent pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Note 1 - Accounting Policies

The assets of Kent pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unlisted securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Note 1 - Accounting Policies

Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. 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 Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

Financial assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement (debited to the appropriate service) 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 to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Note 1 - Accounting Policies

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Heritage Assets

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage assets above our de minimus of £10k are recognised in the balance sheet wherever possible at valuation or cost. In most cases, insurance valuations are used. However, the unique nature of many heritage assets makes valuation complex and so where values cannot be obtained, either due to the nature of the assets or the prohibitive cost of obtaining a valuation, they are not recognised in the balance sheet but comprehensive descriptive disclosures are included in the statement of accounts.

An impairment review of heritage assets is carried out where there is physical deterioration of a heritage asset.

Intangible Assets

Assets that do not result in the creation of a tangible asset (which is an asset that has physical substance), 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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and jointly controlled entities. However, as the majority of the transactions (largely with Kent Top Temps) are between the Council and the subsidiary we are not preparing group accounts.

Note 1 - Accounting Policies

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

JANE (Joint Arrangement Not an Entity)

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

The proportion of transactions and balances of JANES that relate to the Council are included in the Council's single entity accounts.

Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Note 1 - Accounting Policies

- contingent rents, the difference between the rent paid in year and the original amount agreed in the contract (e.g. following a rent review) also debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense on the same basis as rental income.

Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with Service Reporting Code of Practice 2011-12 (SerCOP):

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the 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".

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Note 1 - Accounting Policies

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

The Council 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. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Where impairment losses are identified, they are accounted for by:

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

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	- useful life as determined by the valuer
Vehicles, plant and equipment	- 3-15 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil
Heritage Assets	- nil

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

- Land
- Structure
- Mechanical and Electrical
- Fixtures and Furnishings
- Temporary Buildings

These components are a significant value of the asset as a whole and have significantly different useful lives.

Note 1 - Accounting Policies

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page 40.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Gains and Losses on Disposal of Non Current Assets

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in reserves Statement.

Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

PFI Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment 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 property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Non current 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 Comprehensive Income and Expenditure Statement

Note 1 - Accounting Policies

- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page 66 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The 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.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. Details of the Council's reserves are shown in the notes to the Accounts on pages 46-50 and 67-75.

Landfill Allowance Schemes

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.

Note 1 - Accounting Policies

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

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 a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. 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 Movement in Reserves Statement to mitigate any impact on council tax.

Inventories

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

Accounting for Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs except where it is not recoverable. VAT receivable is excluded from income.

Carbon Reduction Commitment Allowances

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide as energy is used. As carbon dioxide is emitted a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured as the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the cost of the Authority's services and is apportioned to services on the basis of energy consumption.

Collection Fund Accounting Policy

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. 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing Council from Council Tax debtors that belongs proportionately to the billing Council 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.

Note 2. Accounting Standards that have been issued but have not yet been adopted

For 2011-12 the only change relates to an amendment to IFRS7 Financial Instruments: Disclosures (transfer of financial assets). The impact of this amendment will be in the 2012-13 accounts. There will be no impact as we are unlikely to transfer financial assets that are not de-recognised.

Note 3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council will make a provision where a future event is uncertain but there is a legal or constructive obligation.

Note 4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £650k for every year that useful lives had to be reduced. Over a period of 5 years (before the next valuation takes place) this could result in an error of £3.3m - this is not material.
	Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2011/12 the following de minimus thresholds were applied: Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £375k. Over 5 years this would give a difference of £1.9m - this is not material.
	Highways & Waste Depots: £1m County Offices: £2m	

Notes 4, 5 and 6

Leases	For a number of leases identified by schools and directorates we have had to make assumptions on the fair value of the assets - this has been obtained by identifying the current costs of similar assets.	As the total depreciated value of leases is only £1,161k the effect of the estimation is not material.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. Accounting standards IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation from corporate bonds decreased from 1.9% to 1.3% during the year due to a decrease in corporate bond yields. Asset performance being less than expected over the year has also led to an increase in pension deficit. During 2011-12, the Council's actuaries advised that the net pensions liability had increased by £1.7m as a result of estimates being corrected as a result of experience and increased by £297m attributable to updating of the assumptions.

Note 5. Material Items of Income and Expense

The net loss on disposal of non-current assets of £97.7m includes £101.3m which relates to schools transferring to academy status and a foundation school gaining trust status in March.

Note 6. Events after the Balance Sheet Date

We received a letter from the Department of Education on 14th May confirming that a sum has been offered to meet our contractual liabilities with regard to the BSF programme. We are still in discussion with the Department and are currently providing additional evidence for further negotiation.

Note 7 - Adjustments between accounting basis & funding basis under regulations

Note 7. Adjustments between accounting basis and funding basis under regulations

31 March 2012	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-103,380			103,380
Revaluation losses on Property Plant and Equipment	-61,256			61,256
Movements in the fair value of Investment Properties	4,119			-4,119
Amortisation of intangible assets	-498			498
Capital Grants and contributions applied	198,840			-198,840
Revenue expenditure funded from capital under statute	-99,114			99,114
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	-92,364			92,364
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	55,830			-55,830
Capital expenditure charged against the General Fund	24,828			-24,828
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement			-179,812	179,812
Application of grants to capital financing transferred to the Capital Adjustment Account			166,601	-166,601
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		-9,194		9,194
Use of the Capital Receipts Reserve to finance new capital expenditure		10,801		-10,801

Note 7 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve towards administrative costs of noncurrent asset disposals				
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-5,365			5,365
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-88			88
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-41,524			41,524
Employer's pensions contributions and direct payments to pensioners payable in the year	73,074			-73,074
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	237			-237
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,250			-3,250
Total Adjustments	-43,411	1,607	-13,211	55,015

Note 7 - Adjustments between accounting basis & funding basis under regulations

31 March 2011

General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
£'000	£'000	£'000	£'000

Adjustments primarily involving the Capital Adjustment Account:

Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:

Charges for depreciation and impairment of non current assets	-97,034		97,034
Revaluation losses on Property Plant and Equipment	-28,251		28,251
Amortisation of intangible assets	-1,557		1,557
Capital Grants and contributions applied	247,401		-247,401
Revenue expenditure funded from capital under statute	-145,138		145,138

Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement

	-136,213		136,213
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Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory provision for the financing of capital investment	55,979		-55,979
Capital expenditure charged against the General Fund	16,873		-16,873

Adjustments primarily involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement		-188,281	188281
Application of grants to capital financing transferred to the Capital Adjustment Account		192,844	-192844

Adjustments primarily involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		-15,918	15,918
Use of the Capital Receipts Reserve to finance new capital expenditure		15,430	-15,430

Note 7 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve towards administrative costs of noncurrent asset disposals				0
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-3600			3,600
				0
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-111			111
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	120,549			-120,549
	88,602			-88,602
Employer's pensions contributions and direct payments to pensioners payable in the year				
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	855			-855
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6,003			-6,003
Total Adjustments	124,358	-488	4,563	-128,433

Note 8 - Earmarked Reserves

Note 8. Earmarked Reserves

The Council keeps a number of reserves in the Balance Sheet that have been set up voluntarily to earmark resources for future spending plans. These are held for costs which are likely to be incurred but their timing is not certain and they cannot be absorbed within annual spending plans such as emergency costs resulting from severe weather conditions. Earmarked reserves are also used to smooth the impact on the Council Tax payer so that fixed annual contributions are made from the budget for costs which are incurred sporadically e.g. elections, which occur every 4 years.

A thorough review of our Reserves was carried out as part of the 2011-12 budget setting process. This resulted in a net draw-down of our reserves, but this will need re-instating over the medium term. A similar process was undertaken as part of the 2012-13 budget setting process and as a result a further draw down of reserves is planned for 2012-13. Our Corporate Director of Finance and Procurement, who is responsible for setting the level of Reserves, has deemed the level to be 'adequate' given the level of risk that we face.

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2012, the sum of which are shown in the tables on pages 41-44.

Vehicles, plant and equipment (VPE)

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.

Office Strategy

This reserve is to support the implementation of major office strategy projects.

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 UK 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 UK Government.

Note 8 - Earmarked Reserves

Three Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 3 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 UK 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 2010-11 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.

Economic Downturn Reserve

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

Corporate Restructuring Reserve

Given the level of savings required in Local Government over the next few years, this reserve has been set up, largely from underspending in 2009-10, to fund invest to save projects which are essential to helping us re-engineer our business efficiently.

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.

NHS Support for Social Care Reserve

Kent PCTs were allocated £16.226m in 2011-12 to passport to Kent County Council to aid the provision of Social Care Services which are to benefit health and to improve overall health gain. KCC and the PCTs continue to work together to agree jointly appropriate areas for investment which are funded from this reserve.

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.

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.

Note 8 - Earmarked Reserves

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.

Libraries IT PFI final grant settlement reserve

During 2010-11 the UK Government changed the treatment of this grant and instead of paying this in quarterly instalments each year they have now provided a lump sum final payment to bring the total to that which would have been received if the grant had been calculated on an annuity basis from the start. This reserve will be used to replace the annual grant which we had budgeted to receive quarterly through to 2016-17.

Kent Public Services Network (KPSN) Development Reserve

This reserve will be used to smooth the cost of large upgrades to the Core IT Infrastructure. The KPSN Management Board will determine the timing of these upgrades.

Kent Public Services Network (KPSN) Re-procurement Reserve

This reserve represents a 2% surcharge on all services provided to partners under the KPSN contract, to be used to fund the re-procurement of the contract.

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.

Earmarked Reserve to support next years budget

The approved medium term plan for 2012-15 includes support from 2011-12 underspending, which was transferred into this earmarked reserve during 2011-12 to be drawn down in 2012-13.

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 DFE 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.

Social Care - Supported Living costs reserve

This reserve is required to potentially fund backdated costs in relation to service users in supported living in Kent who are currently funded by other authorities. These costs may arise following legal negotiations.

Note 8 - Earmarked Reserves

Public Inquiries reserve

This reserve is required to smooth the fluctuations in costs incurred in major strategic developments and defence of the County Council's position at a public inquiry, either at an appeal against a County Council's enforcement decision or in response to a strategic decision determined by a Local Planning Authority.

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.

Landfill Allowance Taxation Scheme Reserve

The government allocates each Waste Disposal Authority a quota of Landfill Allowance permits. This determines the amount of biodegradable waste the Authority can send to landfill sites. These permits can either be used, banked for future use or traded with other waste disposal authorities. This reserve represents the value of cumulative unsold Landfill Allowance permits. National guidance on the value per permit is used to calculate the value of this reserve. The reserve is only realised when and if these permits are actually sold.

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 2012-13 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 8 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2011	Movement	Balance at 31 Mar 2012
	£'000	£'000	£'000
VPE reserve	-3,955	-1,580	-5,535
Special funds	-5,153	987	-4,166
School Maintenance Indemnity schemes	-936	141	-795
Kings Hill development smoothing reserve	4,404	-5,500	-1,096
Swanscombe School PFI equalisation reserve	-5,950	3,552	-2,398
Six schools PFI	-9,942	8,415	-1,527
Three schools PFI	-1,429	-2,292	-3,721
Westview/Westbrook PFI equalisation reserve	-2,344	191	-2,153
Better Homes Active Lives PFI equalisation reserve	-3,564	709	-2,855
Reserve for projects previously classified as capital - now revenue	-5,300	2,453	-2,847
Economic Downturn reserve	-13,308	-3,313	-16,621
Corporate Restructuring reserve	-2,667	729	-1,938
Supporting People reserve	-3,178	1,045	-2,133
NHS Support for Social Care reserve	0	-12,900	-12,900
Environmental initiatives reserve	-2,425	351	-2,074
Rolling budget reserve	-11,349	-8,893	-20,242
Emergency Conditions reserve	-1,309	500	-809
Elections reserve	-422	-410	-832
Dilapidations reserve	-1,643	-877	-2,520
Workforce Reduction reserve	-4,363	0	-4,363
Libraries/IT PFI grant settlement reserve	-2,270	581	-1,689
KPSN Development reserve	-1,042	1,042	0
KPSN Re-procurement reserve	-373	-155	-528
IT Asset Maintenance reserve	-3,898	-744	-4,642
Earmarked Reserve to support next years budget	0	-3,512	-3,512
Prudential Equalisation reserve	-10,104	397	-9,707
Dedicated Schools Grant - Central Expenditure	-4,381	-4,227	-8,608
Turner Contemporary Investment reserve	-3,158	1,068	-2,090
Social Care Supported Living Costs reserve	-1,371	-630	-2,001
Public Inquiries reserve	-635	-64	-699
Other	-4,375	608	-3,767
Total	-106,440	-22,328	-128,768
Insurance Reserve			
KCC	-3,099	-531	-3,630
LATS Reserve			
Landfill Allowance Taxation Scheme	-1,208	1,208	0
	-110,747	-21,651	-132,398
Commercial Services Earmarked Reserves	-2,332	-1,604	-3,936
EKO	-4,985	5	-4,980
Total Earmarked Reserves	-118,064	-23,250	-141,314
Correction to late entry put through on Insurance Fund in 10-11	-27	27	0
	-118,091	-23,223	-141,314

Note 9. Other Operating Expenditure

	2011-12 £000's	2010-11 £000's
Levies	735	625
Gains/Losses on the disposal of non-current assets	97,728	139,813
	98,463	140,438

Note 10. Financing and investment income and expenditure

	2011-12 £000's	2010-11 £000's
Interest payable and similar charges	77,292	79,519
Pensions interest cost and expected return on pensions assets	8,062	31,409
Interest receivable and similar income	-4,864	-7,095
Income and expenditure in relation to investment properties and changes in their fair value	-4,220	-260
Other investment income	-4,333	-4,472
	71,937	99,101

Note 11. Taxation and non specific grant incomes

	2011-12 £000's	2010-11 £000's
Income from Council Tax	-575,917	-571,765
Non-ringfenced government grants	-447,528	-477,325
	-1,023,445	-1,049,090

Note 12 - Property, Plant and Equipment

Note 12. Property, Plant & Equipment

Movement on balances - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2011	1,252,407	82,172	1,202,868	8,227	388,797	37,851	2,972,322	116,467
Additions	144,480	8,571	118,028	949	92,774	5,730	370,532	2,848
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	22,950					230	23,180	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-36,783					-1,550	-38,333	
Derecognition - Disposals	-3,464	-5,605				-2,643	-11,712	

Property, Plant & Equipment - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other	-105,661			-358	-8,879		-114,898	
Assets reclassified (to) / from Held for Sale	-798					-780	-1,578	
Other Movements in cost or valuation	16,000		-10,205		-230,018	571	-223,652	
At 31 March 2012	1,289,131	85,138	1,310,691	8,818	242,674	39,409	2,975,861	119,315

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
at 1 April 2011	-65,311	-52,564	-566,933			-1,865	-686,673	-4,083
Depreciation Charge	-32,720	-10,558	-59,633			-729	-103,640	-2,875
Depreciation written out to the Revaluation Reserve	15,334					1,892	17,226	
Depreciation written out to the Surplus / Deficit on the Provision of Services								
Impairment losses / (reversals) recognised in the Revaluation Reserve	45,232					4,959	50,191	
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	48,661					1,550	50,211	

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - Movements in 2011-2012

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	379	4,479				6	4,864	
Derecognition - Other	3,637						3,637	
Other movements in Depreciation and Impairment	-93,135	-113				-6,858	-100,106	
At 31 March 2012	-77,923	-58,756	-626,566	0	0	-1,045	-764,290	-6,958
Net Book Value At 31 March 2012	1,211,208	26,382	684,125	8,818	242,674	38,364	2,211,571	112,357
At 31 March 2011	1,187,096	29,608	635,935	8,227	388,797	35,986	2,285,649	112,384

Note 12 - Property, Plant and Equipment

Note 12. Property, Plant & Equipment

Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2010	1,255,622	73,154	1,141,300	7,362	332,103	34,537	2,844,078	133,350
Additions	96,000	10,270	61,568	888	168,113		336,839	1,146
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	8,695					6,392	15,087	489
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-23,921					-802	-24,723	-18,518
Derecognition - Disposals	-1,529	-1,252				-4,125	-6,906	

Property, Plant & Equipment - Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other	-78,649		-23			-1,414	-80,086	
Assets reclassified (to) / from Held for Sale								
Other Movements in cost or valuation	-3,811				-111,419	3,263	-111,967	
At 31 March 2011	1,252,407	82,172	1,202,868	8,227	388,797	37,851	2,972,322	116,467

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
at 1 April 2010	-53,536	-44,624	-509,868	0		-1,606	-609,634	-2,364
Depreciation Charge	-30,440	-9,156	-57,065			-451	-97,112	-2,859
Depreciation written out to the Revaluation Reserve	13,136					12	13,148	1,140
Depreciation written out to the Surplus / Deficit on the Provision of Services								
Impairment losses / (reversals) recognised in the Revaluation Reserve	3,508					507	4,015	
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	29,674					802	30,476	

Note 12 - Property, Plant and Equipment

Property, Plant & Equipment - Comparative Movements in 2010-11

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	87	1,216				375	1,678	
Derecognition - Other	5,269					27	5,296	
Other movements in Depreciation and Impairment	-33,009					-1,531	-34,540	
At 31 March 2011	-65,311	-52,564	-566,933	0	0	-1,865	-686,673	-4,083
Net Book Value								
At 31 March 2011	1,187,096	29,608	635,935	8,227	388,797	35,986	2,285,649	112,384
At 31 March 2010	1,202,086	28,530	631,431	7,362	332,104	32,930	2,234,443	130,985

Note 12 - Property, Plant and Equipment

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 Lucy Parker MRICS of Jones Lang Lasalle, Philip Schmid MRICS of Jones Lang Lasalle, Andrew Bowyer MRICS of Jones Lang Lasalle and Richard Jones 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:			
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
2010-11	223,774	15,199	238,973
2011-12	424,096	17,594	441,690

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 2011-12 all land and buildings which have not had a valuation within the last five years have now been valued, these include BSF Schools, Special Schools, Family & Social Care establishments, Highways Depots, Waste Disposal Sites, County Offices as well as 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/fair value was provided.

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

Contractual Liabilities

These values are for future years payments in relation to contracts over £10m that we are committed to:

	2011 -12 £000
Sheppey Academy	23,895
Skidders Academy	14,436

Note 13 - Heritage Assets

Heritage Assets

Heritage Assets are a new classification of asset introduced for the first time in this Statement of Accounts, as required by The Code of Practice. The Council has adopted a new accounting policy for Heritage Assets which is set out on page 33.

	Historic Buildings £000s	Artwork - Paintings & Sculptures £000s	Archives £000s	Historical & Archaeological Artefacts £000s	Civic Regalia £000s	Total Heritage Assets £000s
<u>Cost or Valuation</u>						
At 1 April 2010	1,114	2,200	2,261	100	14	5,689
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		68	70		1	139
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2011	1,114	2,268	2,331	100	15	5,828
<u>Cost or Valuation</u>						
At 1 April 2011	1,114	2,268	2,331	100	15	5,828
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		74	77		1	152
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2012	1,114	2,342	2,408	100	16	5,980

It is not practicable to disclose transactions relating to Heritage Assets for the past 5 years as retrospective values are not available for all assets.

Historic Environment & Monuments

Eight **windmills** are included in the balance sheet at a value of £1.003m, which represents spend on these assets. These are either Grade I or II listed buildings and are located across Kent. KCC first took windmills into our care in the 1950s when, with the millers gone, there was no one else to protect these landmark buildings. We now own eight, ranging from Post Mills of Chillenden and Stocks at Wittersham to the magnificent Smock Mill at Cranbrook – the tallest in England.

Kent County Council works with local groups to actively preserve the future of the windmills and to support their repair and, where records exist, restoration. We also encourage improvements to the buildings and sites, to encourage greater public access and greater use of the windmills as an educational resource.

Note 13 - Heritage Assets

Thurnham Castle, located within White Horse Wood Country Park is a late 11th/early 12th century motte and bailey castle with gatehouse and curtain walls in flint and traces of an oval or polygonal shell keep, built on a steep spur of the North Downs. Above ground remains consist of some surviving sections of walling and earthworks of the main castle mound. This is valued at £111k in the balance sheet which represents spend on the asset.

Situated within Shorne Woods Country Park is the site of the medieval manor house **Randall Manor**. The site now consists of below ground archaeological remains, along with earthworks relating to associated fish ponds and field systems.

Hildenborough war memorial consists of a cross shaft with a carved relief of a crucifixion scene. It stands on a plinth on a stepped dais. The inscription to the dead of the First World War is on the front face of the plinth below the cross with names on the side faces and additional names of the fallen on the risers of the steps.

The former World War II Air Raid Wardens' post stands in a fenced and partly walled enclosure at the side of the steps down from Folkestone Road to the approach to Dover Priory railway station. It is a small flat-roofed concrete structure with all apertures boarded up.

Martello Tower No. 5 situated at Folkestone Grammar School is a Scheduled Monument, one of a chain of forts that protected the south coast from the threat of invasion in the Napoleonic period. It stands within the grounds of the school, immediately west of the buildings.

The church of St Martin-le-Grand and remains of the Dover Classis Britannica fort are incorporated and displayed at the Dover Discovery Centre, which houses Dover Library. It was formerly the White Cliffs Experience. The Roman remains relate to the 2nd century fort that occupied the site and the area to the southwest. The church of St Martin-le-Grand was an early foundation that developed through the medieval period. At the time of the Reformation it fell into disuse and buildings were constructed in and around the church. The remains of the church are exposed in the land between the centre and the museum to the northeast.

Artwork

Included in the balance sheet, at insurance valuations, are the following collections:

The Master collection of 16th-19th century prints and drawings, valued at £978k. This collection is currently held at Kings Hill and is soon to be transferred to the Kent History Centre in Maidstone.

Kent Visual Arts Loan Service, a collection of c. 1500 pieces of original artwork, currently held in storage at Kings Hill, valued at £550k.

The **Antony Gormley Boulders Sculptures**, the sculptor's first professional commission, valued at £500k are currently under restoration and will be held at the Kent History Centre, Maidstone.

Contemporary collection of c.200 paintings (6 or 7 collections) in storage at Kings Hill, valued at £252k.

KCC Sessions House collection, valued at £62k

In addition, there are around 100 paintings held within libraries across Kent, however it is expected that the cost of obtaining a valuation of these paintings will exceed the value of the paintings.

Archive Collections

Kent County Council looks after its own records and those of its predecessor authorities. In addition it collects and makes accessible other historic records under the terms of the 1962 Public Records Act and the 1972 Local Government Act. These records include those of public bodies such as courts, health trusts and coroners, of district councils and of individuals and organisations in the county. There are about 14kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the new Kent History and Library Centre in Maidstone. Approximately 25% of the records are owned by KCC, the values of which are included in the balance sheet as follows (valuations are insurance valuations unless otherwise specified):

Note 13 - Heritage Assets

General archive collections - £650k

Knatchbull/Brabourne Manuscripts £1,258k. Family and estate papers relating to the Knatchbull/Brabourne family and comprising accounts, correspondence, legal papers and manorial records.

Rare Books collection £200k based on an informal estimate given by an antiquarian book dealer.

Amherst Family Papers £300k based on a valuation obtained before they were bought via a Heritage Lottery Fund bid.

The **Kent Historic Environment Record** is primarily a digital database (including GIS display) of Kent's archaeological sites, findspots, historic buildings and historic gardens. It also includes paper records of the County aerial photograph series and of archaeological, historic building and historic landscape reports.

Archaeological & historical artefacts

Kent County Council has accepted ownership of the **High Speed 1 archaeological archives** as owner of last resort to prevent the collections from being broken up or disposed of. The collections comprise approximately 70 cubic metres of boxes containing archaeological artefacts including pottery, bone, stone, metalwork and worked flint. They are generally of little financial value. The collections are currently housed half at Kent Commercial Services, Kings Hill and half about to be transferred from the archaeological contractors to a store at Dover Eastern Docks.

KCC owns approximately 2,800 objects of social history, archaeological and geological material, housed at **Sevenoaks Museum**. A marble **roman bust & portrait**, found at Lullingstone Villa, dating back to 2nd Century AD are valued in the balance sheet at £60k and £40k respectively. These are currently on long term loan from Sevenoaks Museum to the British Museum.

There is a collection of artefacts kept at **Ramsgate Museum** including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

Folkestone History Resource Centre, within Folkestone Library houses collections that cover the full range of human history, including archaeology, social, military and civil history, whilst various objects and documents record the maritime history and development of the town. There is also a range of pictorial items of local topographical and biographical interest.

KCC owns **Scientific Calibration Equipment** dating back to the 1800s, in display cases.

Civic Regalia

KCC's silver collection is valued at £16k (insurance value). This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup and The 500 Squadron Silver collection.

Note 14 - Investment Properties

Note 14. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2011 -12 £'000	2010 -11 £'000
Rental income from Investment Property	254	260
Direct operating expenses arising from investment property		
Net gain/(loss)	254	260

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

	2011 -12 £'000	2010 -11 £'000
Balance at start of the year	21,078	21,294
Additions:		
• Purchases		
• Construction		
• Subsequent expenditure		
Disposals		
Net gains/losses from fair value adjustments	2,161	150
Transfers:		
• to/from Inventories		
• to/from Property, Plant and Equipment	270	-200
Other changes	-8	-166
EKO		
Balance at end of the year	23,501	21,078

Note 15 - Intangible Assets and Note 16 - Financial Instruments

Note 15. Movement in intangible assets

	Purchased Software licences £000's	Total £000's
Original cost	14,428	14,428
Amortisation to 1 April 2011	-12,795	-12,795
Balance at 1 April 2011	1,633	1,633
Expenditure in year	456	456
Written off to revenue in year	-498	-498
Balance at 31 March 2012	1,591	1,591

Software licences were purchased for the new Enterprise Resource Programme project, Adult services systems and various Commercial Services replacement systems. The cost is being written off over the life of the licences; between 3 and 5 years.

Note 16. 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	
	31 Mar 2012 £000's	31 Mar 2011 £000's	31 Mar 2012 £000's	31 Mar 2011 £000's
Borrowing	1,025,805	1,053,557	77,534	57,255
EKO			309	95
	1,025,805	1,053,557	77,843	57,350
Other Creditors	3,895	2,949	214,602	219,898
PFI/Finance Lease Liabilities	221,795	226,647	4,852	4,923
Government Grants			10,831	13,487
	1,251,495	1,283,153	308,128	295,658
Investments	11,320	10,962	134,681	134,555
Debtors	61,172	59,146	149,228	199,991
Cash and cash equivalents			139,421	67,310
Total Financial Assets	72,492	70,108	423,330	401,856

The debt and investments recorded on the balance sheet comprise the following

Note 16 - Financial Instruments

	Long Term		Current	
	restated		31 Mar 2012	31 Mar 2011
	31 Mar 2012	31 Mar 2011		
	£000's	£000's	£000's	£000's
Borrowing:				
Nominal Amount	1,012,288	1,039,309	77,330	57,119
Accrued Interest	13,358	13,602	513	231
Unamortised Discounts / (Premiums) on Modified Loans	159	646		
Total Borrowings as per Balance Sheet	1,025,805	1,053,557	77,843	57,350
Investments:				
Nominal Amount	10,000	10,000	284,751	221,205
Fire and Pension Fund cash			-7,352	-14,245
Accrued Interest	1,320	962	2,035	2,512
Impairment charge for Iceland			-5,332	-7,607
Total Investments as per Balance Sheet	11,320	10,962	274,102	201,865

Financial Instruments Gains / Losses

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

	2011-12		
	Financial Liabilities	Financial Assets	Total
	Liabilities measured at amortised cost	Loans and receivables	
	£000's	£000's	£000's
Interest expense - Debt	-57,835		-57,835
Losses on derecognition	-950		-950
Impairment losses		2,275	2,275
	-58,785	2,275	-56,510
Interest expense - Finance leases	-20,074		-20,074
Interest expense - PFI	-1,195		-1,195
Interest payable and similar charges	-80,054	2,275	-77,779
Interest income		4,864	4,864
Gains on derecognition		487	487
Interest and investment income	0	5,351	5,351
Gains on revaluation			
Losses on revaluation			
Amounts recycled to I&E Account after impairment			
Surplus arising on revaluation of financial assets	0	0	0
Net gain/(loss) for the year	-80,054	7,626	-72,428

Note 16 - Financial Instruments

Financial Instruments - Fair Values

The Council's long term financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under short term borrowings or short term investments. This also includes accrued interest for borrowings, investments, cash and cash equivalents.

The 2011/12 Code of Practice requires the Fair Values of these assets to be disclosed for comparison purposes. Fair Value is defined in Financial Reporting Standard 26 (FRS26) as the amount for which an asset could be exchanged, or liability settled, between two parties in an arm's length transaction. The Fair Value of a financial instrument on initial recognition is generally the transaction price.

The Council's debt outstanding at 31 March 2011 and 31 March 2012 consisted of loans from the Public Works Loan Board (PWLB) and market loans.

The PWLB has provided the Council with the Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have to pay to extinguish the loan on these dates. For Market loans the Council's Treasury Advisor has calculated the fair value based on equivalent swap rates at the Balance Sheet date.

In the case of the Council's investments, these consisted of deposits in call accounts and term deposits with the Debt Management Office (DMO), banks and building societies and the maturity dates of the majority of these deposits were within 12 months of the Balance Sheet date. The contracts of the term deposits do not permit premature redemption. Those with Icelandic banks were impaired.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2012		31 March 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	£000's	£000's	£000's
PWLB debt	657,042	846,139	714,788	828,027
Non-PWLB debt	446,297	441,800	396,024	391,800
EKO temporary loan	309	309	95	95
Total Borrowings	1,103,648	1,288,248	1,110,907	1,219,922
Creditors	229,329	229,329	236,334	236,334
Total Financial Liabilities	1,332,977	1,517,577	1,347,241	1,456,256
Long Term Investments	11,320	11,654	10,962	11,363
Short Term Investments	134,681	134,681	134,555	134,555
Cash and cash equivalents	139,421	139,421	67,310	67,310
Total Investments and Cash	285,422	285,756	212,827	213,228
Debtors	210,400	210,400	259,137	259,137
Total Financial Assets	495,822	496,156	471,964	472,365

The fair value of financial liabilities 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 at the Balance Sheet date.

Note 17 - Debtors and Note 18 - Cash and Cash Equivalents

The fair value for long term investments at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Note 17. Amounts owed to the Council by debtors

	At 31 March 2012 £000's	At 31 March 2011 £000's
Long Term debtors:		
Medway Council (transferred debtor)	45,342	47,231
Public bodies	1,842	2,134
Other	13,988	9,781
	61,172	59,146
Other debtors:		
Government Departments	33804	71296
Other Local Authorities	7734	10778
NHS Bodies	1,866	2,073
General debtors	105,590	115,769
Payments in advance	21,788	23,530
EKO	234	75
	171,016	223,521

Capital debtors amounting to £11.7m are included in the Accounts at 31 March 2012 (£39.5m in 2010-11). Capital debtors relate to grants towards capital expenditure incurred in 2011-12 which had not been received by 31 March 2012.

Note 18. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	At 31 March 2012 £000's	At 31 March 2011 £000's
Cash held by the Council		-645
Bank current accounts	13,411	2,345
Short-term deposits with building societies	126,010	65,610
Total Cash and Cash Equivalents	139,421	67,310

Note 19 - Assets held for Sale and Note 20 - Creditors

Note 19. Assets Held for Sale

	Current	
	2011-12 £000's	2010-11 £000's
Balance outstanding at start of year	4,275	9,595
Assets newly classified as held for sale:		
Property, Plant and Equipment	1,305	875
Intangible Assets		
Other assets/liabilities in disposal groups		
Revaluation losses	-600	-200
Revaluation gains	715	900
Impairment losses		-350
Assets declassified as held for sale:		
Property, Plant and Equipment		
Intangible Assets		
Other assets/liabilities in disposal groups		
Assets sold	-875	-6,545
Transfers from non-current to current		
Other Movements		
Balance outstanding at year-end	4,820	4,275

Note 20. Amounts owed by the Council to creditors

	At 31 March 2012	At 31 March 2011
	£000's	£000's
Central government bodies	10,831	13,487
Other local authorities	5,402	4,861
NHS bodies	4,551	838
General creditors	203,632	213,777
Receipts in advance	32,951	55,203
Deferred income	2,624	3,178
Kent and Essex Inshore Fisheries & Conservation Authority	918	340
EKO	99	82
	261,008	291,766
Creditors due after 1 year	3,895	2949

Capital creditors amounting to £43m are included in the Accounts at 31 March 2012 (£67m in 2010-11).

Note 21 - Provisions

Note 21. 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.

The Post Employment Provision covers the costs of early retirements, redundancy costs and any other post employment costs for ex-employees/employees who have confirmed leaving dates.

The Accumulated Absences Provision is required to cover the costs of annual leave entitlements carried over to the following financial year. If an employee were to leave, they would be entitled to payment for this untaken leave.

	Insurance £'000	Post Employment £'000	Accumulated Absences £'000	Other Provisions £'000	Total £'000
Short Term					
Balance at 1 April 2011	-5,958	-4,540	-20,548	-3,059	-34,105
Additional Provisions made in 2011-12	-5,583	-6,624	-10,254	-1,158	-23,619
Amounts used in 2011-12	5,565	4,095	17,281	1,043	27,984
Unused amounts reversed in 2011-11		363			363
Balance at 31 March 2012	-5,976	-6,706	-13,521	-3,174	-29,377
Long Term					
Balance at 1 April 2011	-8,312	-5,765			-14,077
Additional Provisions made in 2011-12	-1,036	-2,783			-3,819
Amounts used in 2011-12					0
Unused amounts reversed in 2011-11					0
Balance at 31 March 2012	-9,348	-8,548	0	0	-17,896
Total Provisions at 31 March 2012	-15,324	-15,254	-13,521	-3,174	-47,273

Post Employment

The provision relates to early retirements and redundancies, and are individually insignificant.

Accumulated Absences

The provision relates to annual leave entitlement carried forward at 31 March 2012. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

All other provisions are individually insignificant.

Note 22 - Usable Reserves

Note 22. Usable Reserves

Reserve	Balance 1 April 2011 £'000	Net Movement in year £'000	Balance 31 March 2012 £'000	Purpose of Reserve
Usable Capital Receipts	-16,504	1,607	-14,897	Proceeds of fixed assets available to meet future Capital Expenditure
General Fund	-26,725	-5,000	-31,725	Resources available to meet future unforeseen events
Capital Grants unapplied	-60,791	-13,211	-74,002	See note below
Earmarked Reserves	-118,064	-23,250	-141,314	See Note 8
Schools Reserve	-55,190	-3,898	-59,088	See below
Surplus on Trading Accounts	-1,015	719	-296	Commercial Services and Oakwood House
Total	-278,289	-43,033	-321,322	
Correction of late entry in 2010-11	-27	27	0	
	-278,316	-43,006	-321,322	

Capital grants unapplied of £74,002k as at 31 March 2012 include schools capital reserves of £1,975k. This has reduced from the £7,254k held by schools as at 31 March 2011. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2012 funds held in school revenue reserves stood at £59,088k. These reserves are detailed in the table below.

	Balance at 1 April 2011 £'000	Movement £'000	Balance at 31 Mar 2012 £'000
School delegated revenue budget reserves - committed	-7,646	-2,376	-10,022
School delegated revenue budget reserves - uncommitted	-26,863	143	-26,720
Unallocated Schools budget	-20,343	-1,647	-21,990
Community Focused Extended School Reserves	-338	-18	-356
	-55,190	-3,898	-59,088

Note 23 - Unusable Reserves

Note 23. Unusable 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	Balance 1 April 2011 £'000	Net Movement in year £'000	Balance 31 March 2012 £'000	Purpose of Reserve
Revaluation Reserve	-292,362	-16,135	-308,497	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-514,218	69,169	-445,049	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	17,437	-1,116	16,321	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-5,330	-237	-5,567	Movement between the I & E and amount require by regulation to be credited to the General Fund
Deferred capital receipts	-3,600	-5,365	-8,965	
Pensions Reserves				Balancing account to allow inclusion of Pensions
- KCC	537,005	327,177	864,182	Liability in Balance Sheet
- DSO	2,119	90	2,209	
Accumulated Absences Account	20,548	-7,027	13,521	This absorbs the differences on the General Fund from accruing for untaken annual leave
Post Employment Account	9,015	3,777	12,792	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	-229,386	370,333	140,947	

Note 23 - Unusable Reserves

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets]. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2011-12	2010-11
	£'000	£'000
Balance as at 1st April	-292,362	-285,449
Upward revaluation of assets	-89,464	-50,807
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	47,172	22,117
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-42,292	-28,690
Difference between fair value depreciation and historical cost depreciation	8,955	6,617
Accumulated gains on assets sold or scrapped	17,202	15,160
Amount written off to the Capital Adjustment Account	26,157	21,777
Balance at 31 March	-308,497	-292,362

Note 23 - Unusable Reserves

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	-514,218	-583,506
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of noncurrent assets	164,636	125,285
- Revaluation losses on Property, Plant and Equipment	-17,202	-15,160
- Amortisation of intangible assets	498	1,557
- Revenue expenditure funded from capital under statute	99,114	145,138
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	103,093	143,413
	350,139	400,233
Adjusting amounts written out of the Revaluation Reserve	-8,955	-6,617
Net written out amount of the cost of non-current assets consumed in the year	-173,034	-189,890
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	-1,607	487

Note 23 - Unusable Reserves

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-172,420	-247,401	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-13,211	-4,562	
- Statutory provision for the financing of capital investment charged against the General Fund	-55,830	-55,979	
- Capital expenditure charged against the General Fund	-24,828	-16,873	
		<hr/>	<hr/>
		-267,896	-324,328
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-4,119	0
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement			0
		<hr/>	<hr/>
Balance at 31 March		-445,049	-514,218

Note 23 - Unusable Reserves

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	17,437	26,229
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-950	-950
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-950	-950
	-166	-7,842
Balance at 31 March	16,321	17,437

Note 23 - Unusable Reserves

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	539,124	1,131,499
Actuarial gains or losses on pensions assets and liabilities	358,817	-383,224
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	41,524	-120,549
Employer's pensions contributions and direct payments to pensioners payable in the year	-73,074	-88,602
Balance at 31 March	866,391	539,124

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	-5,330	-4,475
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-237	-855
Balance at 31 March	-5,567	-5,330

Note 23 - Unusable Reserves

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	-3,600	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-8,965	-3,600
Transfer to the Capital Receipts Reserve upon receipt of cash	3,600	0
Balance at 31 March	-8,965	-3,600

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	20,548	25,720
Settlement or cancellation of accrual made at the end of the preceding year	-20,548	-25,720
Amounts accrued at the end of the current year	13,521	20,548
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-7,027	-5,172
Balance at 31 March	13,521	20,548

Note 23 - Unusable Reserves & Note 24 - Cash Flow

Post Employment Account

The Post Employment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for early retirement and redundancy payments that are agreed in year but are due in future years. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2011-12	2010-11
	£'000	£'000
Balance at 1 April	9,015	9,846
Settlement or cancellation of accrual made at the end of the preceding year	-3,250	-3,594
Amounts accrued at the end of the current year	7,028	2,763
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements	3,778	-831
Balance at 31 March	12,793	9,015

Note 24. Cash Flow - Non Cash Adjustments

	2011-12	2010-11
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	31,550	209,151
Carrying amount of non-current assets sold	-123,171	-162,464
Amortisation of fixed assets	-498	-1,557
Depreciation of fixed assets	-103,816	-97,034
Impairment & downward valuations	-60,822	-28,251
Increase/decrease debtors	-24,673	-5,609
Increase/decrease creditors	6,263	-7,946
Increase/decrease stock	312	463
Movement on investment properties	4,118	
REFCUS	-99,114	-145,138
Other non-cash items charged to the net surplus/deficit on the Provision of Services	4,587	10,543
	-365,264	-227,842
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property plant and equipment, investment property and intangible assets	25,443	22,651
Capital grants applied	198,841	247,401
	224,284	270,052
	-140,980	42,210

Notes 25, 26 and 27 - Cash Flow - Operating, Investing and Financing Activities

Note 25. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2011-12 £'000	2010-11 £'000
Interest received	-4,546	-7,345
Interest paid	77,254	78,921
Employee Costs	979,135	1,144,701
Income from Council Tax	-575,917	-571,765
Government Grants	-1,448,767	-1,871,842

Note 26. Cash Flow Statement - Investing Activities

	2011-12 £'000	2010-11 £'000
Purchase of property, plant and equipment, investment property and intangible assets	291,280	331,127
Purchase of short-term and long-term investments	3,347,481	2,774,055
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-25,443	-22,651
Proceeds from short-term and long-term investments	-3,355,654	-2,740,381
Other receipts from investing activities	-244,459	-196,642
Net cash flows	13,205	145,508

Note 27. Cash Flow Statement - Financing Activities

	2011-12 £'000	2010-11 £'000
Cash receipts of short- and long-term borrowing	-50,000	-100,000
Other receipts from financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	21,184	24,421
Repayments of short- and long-term borrowing	57,024	46,031
Other payments for financing activities	15,473	6,850
Net cash flows from financing activities	43,681	-22,698

Note 28 - Amounts Reported for Resource Allocation Decisions

Note 28. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

	Year ended 31 March 2012					Total
	Education, Learning & Skills	Families & Social Care	Enterprise & Environment	Customer & Communities	Business Strategy & Support	
	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-92,761	-120,212	-34,645	-43,090	-57,726	-348,434
Government Grants	-835,371	-83,534	1,999	-15,876	-14,311	-947,093
Total Income	-928,132	-203,746	-32,646	-58,966	-72,037	-1,295,527
Employee expenses	656,032	157,704	20,953	63,002	75,090	972,781
Other operating expenses	289,006	461,822	151,928	79,602	208,781	1,191,139
Support Service recharges	15,113	13,267	1,661	6,092	5,262	41,395
Total operating expenses	960,151	632,793	174,542	148,696	289,133	2,205,315
Net Cost of Services	32,019	429,047	141,896	89,730	217,096	909,788

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	909,788
Add services not included in main analysis	
Add amounts not reported to management	244,626
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-280,959
Net Cost of Services in Comprehensive Income & Expenditure Statement	873,455

Note 28 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2012				
	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-348,434		-980	20,614	-146,269
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-947,093		28,485		
Total Income	-1,295,527	0	27,505	20,614	-146,269
Employee expenses	972,781		-39,612		
Other service expenses	1,191,139		91,546	-301,573	146,269
Support Service recharges	41,395				
Depreciation, amortisation and impairment			165,136		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	2,205,315	0	217,070	-301,573	146,269
Surplus or deficit on the provision of services	909,788	0	244,575	-280,959	0
Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total		
	£000's	£000's	£000's		
Fees, charges & other service income	-475,069		-475,069		
Surplus or deficit on associates and joint ventures			0		
Interest and Investment Income		-13,781	-13,781		
Income from council tax		-575,917	-575,917		
Government grants and contributions	-918,608	-447,528	-1,366,136		
Total Income	-1,393,677	-1,037,226	-2,430,903		
Employee expenses	933,169		933,169		
Other service expenses	1,127,432		1,127,432		
Support Service recharges	41,395		41,395		
Depreciation, amortisation and impairment	165,136		165,136		
Interest payments		77,292	77,292		
Precepts & Levies		735	735		
Gain or Loss on Disposal of Fixed Assets		97,728	97,728		
Total operating expenses	2,267,132	175,755	2,442,887		
Surplus or deficit on the provision of services	873,455	-861,471	11,984		

Note 28 - Amounts Reported for Resource Allocation Decisions

	Year ended 31 March 2011					Total
	Education, Learning & Skills	Families & Social Care	Enterprise & Environment	Customer & Communities	Business Strategy & Support	
	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-86,247	-134,965	-18,215	-48,128	-87,053	-374,608
Government Grants	-1,126,968	-24,239	-4,474	-13,711	-9,083	-1,178,475
Total Income	-1,213,215	-159,204	-22,689	-61,839	-96,136	-1,553,083
Employee expenses	802,639	167,077	21,650	69,054	69,996	1,130,416
Other operating expenses	395,604	455,474	147,485	81,639	192,519	1,272,721
Support Service recharges	29,757	20,685	657	13,378	14,654	79,131
Total operating expenses	1,228,000	643,236	169,792	164,071	277,169	2,482,268
Net Cost of Services	14,785	484,032	147,103	102,232	181,033	929,185

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	929,185
Add services not included in main analysis	
Add amounts not reported to management	2,805
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-244,817
Net Cost of Services in Comprehensive Income & Expenditure Statement	687,173

Note 28 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2011				
	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-374,608		4,472	18,602	95,135
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-1,178,475		-20,753		
Total Income	-1,553,083	0	-16,281	18,602	95,135
Employee expenses	1,130,416		-240,560		
Other service expenses	1,272,721		138,071	-263,419	-95,135
Support Service recharges	79,131				
Depreciation, amortisation and impairment			121,575		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	2,482,268	0	19,086	-263,419	-95,135
Surplus or deficit on the provision of services	929,185	0	2,805	-244,817	0
Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total		
	£000's	£000's	£000's		
Fees, charges & other service income	-256,399		-256,399		
Surplus or deficit on associates and joint ventures			0		
Interest and Investment Income		14,836	14,836		
Income from council tax		-571,765	-571,765		
Government grants and contributions	-1,199,228	-477,324	-1,676,552		
Total Income	-1,455,627	-1,034,253	-2,489,880		
Employee expenses	889,856		889,856		
Other service expenses	1,052,238		1,052,238		
Support Service recharges	79,131		79,131		
Depreciation, amortisation and impairment	121,575		121,575		
Interest payments		75,048	75,048		
Precepts & Levies		624	624		
Gain or Loss on Disposal of Fixed Assets		139,813	139,813		
Total operating expenses	2,142,800	215,485	2,358,285		
Surplus or deficit on the provision of services	687,173	-818,768	-131,595		

Note 29 - Trading Operations

Note 29. Trading Operations

The results of the various trading operations for 2011-12 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-) 2011-12	Surplus/ Deficit(-) 2010-11
	£'000	£'000	£'000	£'000
Kent County Supplies and Furniture	48,573	45,489	3,084	3,087
Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly				
Facilities & Technical Services	6,992	6,420	572	838
Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT				
Brokerage Services	251,588	248,300	3,288	3,645
Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for ELS, E&E & FSC				
County Print	2,276	2,259	17	125
Graphic design and general printing				
Transport Services	18,421	17,366	1,055	1,403
Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport				
Landscape Services	7,369	6,957	412	305
Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment				
Oakwood House				
Conference centre	1,973	1,976	-3	-185
Total surplus	337,192	328,767	8,425	9,218

Note 30 - Pooled Budgets

Note 30. Pooled Budgets

Under Section 75 of the NHS Act 2006, the Council 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. It's 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. Windchimes, Bluebells and Treetops are all short stay respite units providing a multi agency day care service or short term overnight stays for children with disabilities.

KDAAT	2011-12	2010-11	RNCC	2011-12	2010-11
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
East & West Kent PCT	2,755	2,715	Eastern & Coastal Kent PCT	4,078	4,003
National Treatment Agency	6,089	6,155	West Kent PCT	4,439	4,374
Kent County Council	1,252	1,672			
Total Funding	10,096	10,542	Total Funding	8,517	8,377
Expenditure	10,096	10,469	Expenditure	8,517	8,377
Net	0	73	Net	0	0
KCC share of surplus		11			
Westbrook/West View PFI	2011-12	2010-11	ICES	2011-12	2010-11
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
Eastern & Coastal Kent PCT	3,220	3,256	Eastern & Coastal Kent PCT	725	689
Kent County Council	3,617	3,607	West Kent PCT	282	309
PFI Credits	1,624	1,519	Medway PCT	35	35
			Medway Council		
			Kent County Council	955	947
Total Funding	8,461	8,382	Total Funding	1,997	1,980
Expenditure	8,461	8,382	Expenditure	1,657	1,617
Net	0	0	Net	340	363
			KCC share of surplus	116	127
Gravesham Place PFI	2011-12	2010-11	LD Integrated Staffing	2011-12	2010-11
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
West Kent PCT	2,782	2,638	Eastern & Coastal Kent PCT		2,418
Kent County Council	4,860	4,662	Kent & Medway NHS & Social Care Partnership Trust	147	1,768
			Kent County Council	4,019	4,117
			Kent Community Health NHS Trust	4,203	
Total Funding	7,642	7,300	Total Funding	8,369	8,303
Expenditure	7,642	7,300	Expenditure	8,092	8,317
Net	0	0	Net	277	-14
			KCC share of surplus	252	-86

Note 30 - Pooled Budgets and Note 31 - Members Allowances

Note 30. Pooled Budgets

Windchimes Childrens Respite Centre	2011-12	2010-11	Bluebells Childrens Respite Centre	2011-12	2010-11
	£'000	£'000		£'000	£'000
Gross Funding			Gross Funding		
Eastern & Coastal Kent PCT	40		West Kent PCT	240	
Kent County Council	609		Kent County Council	192	
Total Funding	649	0	Total Funding	432	0
Expenditure	616		Expenditure	379	
Net	33	0	Net	53	0
KCC share of surplus	33		KCC share of surplus	53	

Treetops Childrens Respite Centre	2011-12	2010-11
	£'000	£'000
Gross Funding		
West Kent PCT	236	
Kent County Council	472	
Total Funding	708	0
Expenditure	696	
Net	12	0
KCC share of surplus	12	

Note 31. Members Allowances

The Council paid the following amounts to members of the council during the year.

	2011-12	2010-11
	£'000	£'000
Salaries	0	0
Allowances	1,662	1,728
Expenses	140	128
Total	1,802	1,856

In 2011-12 the cost of the County Cars were £50k.

Note 32 - Officers Remuneration

Note 32. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2011 to 31 March 2012

Regulations require the Council to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Head of Paid Services and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2011-12, was £50,000 or more.

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. This includes all payments, regardless of whether or not they were due in the year e.g. advance payment of salary 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 2012	Schools 31 March 2012	Non-Schools 31 March 2011	Schools 31 March 2011
50,000 - 54,999	175	242	179	300
55,000 - 59,999	103	174	123	225
60,000 - 64,999	68	124	83	137
65,000 - 69,999	37	70	48	74
70,000 - 74,999	37	27	26	42
75,000 - 79,999	15	18	12	25
80,000 - 84,999	10	14	12	13
85,000 - 89,999	10	16	7	15
90,000 - 94,999	9	7	3	20
95,000 - 99,999	7	8	7	9
100,000 - 104,999	5	5	4	3
105,000 - 109,999	2	3	3	4
110,000 - 114,999	3	0	2	1
115,000 - 119,999	0	0	0	3
120,000 - 124,999	0	0	1	1
125,000 - 129,999	2	0	1	2
130,000 - 134,999	1	0	0	0
135,000 - 139,999	0	0	2	0
140,000 - 144,999	1	0	1	0
145,000 - 149,999	0	0	0	0
150,000 - 154,999	0	0	2	0
155,000 - 159,999	1	0	1	0

Note 32 - Officers Remuneration

Remuneration	Total number of employees cont			
	Non-Schools 31 March 2012	Schools 31 March 2012	Non-Schools 31 March 2011	Schools 31 March 2011
(£)				
160,000 - 164,999	0	0	3	0
165,000 - 169,999	0	0	0	0
170,000 - 174,999	1	0	2	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	0	0
185,000 - 189,999	0	0	2	0
190,000 - 194,999	2	0	0	0
195,000 - 199,999	0	0	0	0
200,000 - 204,999	0	0	0	0
205,000 - 209,999	0	0	1	0
210,000 - 214,999	0	0	1	0
215,000 - 219,999	1	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	0	0	0	0
245,000 - 249,999	0	0	0	0
290,000 - 294,999	0	0	1	0
325,000 - 329,999	0	0	1	0
430,000 - 434,999	0	0	1	0
555,000 - 559,999	1	0	0	0
Total	491	708	529	874

The number of employees shown against the above remuneration band will not tie up with the information on the following pages. This is because the table above refers to remuneration which includes items a-c as per the note on the previous page, whereas the following table relates purely to salary entitlement in the year, and only those staff whose annual salary is £150k or over should be included. The following tables are set-out in the format prescribed in the CIPFA Code, issued by The Chartered Institute of Public Finance and Accountancy. No bonuses were paid to Senior Officers in 2011-12. The figures included in Allowances generally relate to either market premium or additional payments for temporary additional responsibilities e.g. covering a more senior post.

The reduction in the number earning over £50k is mainly due to the restructure of the Council, and the transfer to Academy status for a significant number of schools; figures for Academies are not included in the above table.

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Group Managing Director - Katherine Kerswell	1	139,806			420,000		559,806	29,359	589,165
Corporate Director Business Strategy & Support - David Cockburn		173,991					173,991	36,225	210,216
Corporate Director Customer & Communities - Amanda Honey		159,075					159,075	32,130	191,205
Corporate Director Families & Social Care - Andrew Ireland	2	64,500					64,500	13,545	78,045
Corporate Director Enterprise & Environment - Mike Austerberry		150,000					150,000	31,500	181,500

Note 32 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Education Learning & Skills - Patrick Leeson	3	69,919		3,199			73,118	15,355	88,473
Corporate Director Finance & Procurement - Lynda McMullan	4	45,450			172,000		217,450	9,545	226,995
Interim Corporate Director Families & Social Care - Malcolm Newsam	5	195,000					195,000		195,000
Interim Corporate Director Education Learning & Skills - Andy Roberts	6	101,800					101,800		101,800
Director of Governance & Law - Geoff Wild		105,900		22,370			128,270	26,937	155,207

Note 32 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Finance & Procurement - Andy Wood		114,727					114,727	24,093	138,820
Corporate Director Human Resources - Amanda Beer		111,600					111,600	23,436	135,036

* This includes all contractual entitlements. Both sums are subject to Confidentiality Agreements

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Notes

1 Ms Kerswell left KCC during December 2011. The annualised salary for this post was £197,000.

2 Mr Ireland joined KCC in November 2011.

3 Mr Leeson joined KCC in October 2011.

4 Ms McMullan left KCC during July 2011. The annualised salary for this post was £136,350.

5 The fee paid for Mr Newsam was for 32 weeks interim employment between April 2011 - November 2011. The figure shown is the amount paid to the recruitment agency and not to the individual.

6 The fee paid to Mr Roberts was for 30 weeks interim employment between April 2011 and October 2011. The figure shown is the amount paid to the recruitment agency and not the individual.

Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2010-11

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Chief Executive Peter Gilroy	1	25,362	0	0	0	407,851	433,213	5,859	439,071
Group Managing Director - Katherine Kerswell	2	160,883	0	0	0	0	160,883	37,164	198,047
Managing Director of Adult Social Services - Oliver Mills		162,431	0	0	118,472	0	280,903	36,746	317,649
Managing Director of Communities - Amanda Honey		159,075	0	0	0	0	159,075	36,746	195,821
Executive Director Strategy, Economic Development & ICT David Cockburn		163,570	0	0	0	0	163,570	37,785	201,355

Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2010-11

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Managing Director Children, Families & Education Rosalind Turner	-	180,000	0	0	96,657	0	276,657	41,580	318,237
Executive Director, Environment, Highways & Waste Mike Austerberry	-	150,000	0	0	0	0	150,000	34,650	184,650
Interim Managing Director of Children Families & Education - Malcolm Newsam	3	78,750	0	0	0	0	78,750	0	78,750
Interim Managing Director of Children Families and Education - Andy Roberts	4	11,700	0	0	0	0	11,700	0	11,700

Notes Senior Officers Pay, where annual equivalent salary is £150,000 or more per year - 2010-11...cont**Notes**

Mr Gilroy left KCC during May 2010. The annualised salary for this post was £214,423. In order to secure Mr Gilroy's extended service, in November 2006 the County Council's Personnel Committee, including Labour, Lib-Dem and Conservative Members, unanimously agreed to a variation in Mr Gilroy's contract brought about by changes in pension legislation. The payment of £200,000 (£407,851 including income tax and National Insurance) meant that Mr Gilroy was not disadvantaged by extending his contract as a result of changes to national pension legislation. The Payment of £200,000 did not enhance his overall remuneration package, a fact that has been acknowledged by the Audit Commission.

1

Ms Kerswell joined KCC in June 2010 replacing Mr Gilroy

2

The fee paid for the services of Mr Newsam was for 12 weeks 3 days interim 'employment' between January 2011 - March 2011. The figure shown is the amount paid to the recruiting agency and not to the individual.

3

The fee paid for the services of Mr Roberts was for 3 weeks interim 'employment' in March 2011. The figure shown is the amount paid to the recruiting agency and not to the individual.

4

Note 32 - Officers Remuneration

Senior Officers Pay, where annual equivalent salary is between £50,000 and £150,000 per year - reporting to the Group Managing Director - 2010-11

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Director of Finance		136,350	0	0	0	0	136,350	31,497	167,847
Acting Director of Finance	1	96,492	0	3,005	0	211	99,707	22,984	122,691
Director of Law & Governance		128,270	0	0	0	0	128,270	29,630	157,900
Director of Personnel and Development		98,000	0	0	0	0	98,000	22,638	120,638
Interim Director Property ⁽¹⁾	2	40,896	0	0	0	0	40,896	0	40,896

Note 32 - Officers Remuneration

Senior Officers Pay, where annual equivalent salary is between £50,000 and £150,000 per year - reporting to the Group Managing Director - 2010-11.....cont

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Benefits in Kind £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Interim Director Property ⁽²⁾	3	94,560	0	3,140	0	375	98,075	22,655	120,730
Director Commercial Services ⁽¹⁾	4	34,733	0	0	0	0	34,733	8,023	42,757
Interim Director Commercial Services ⁽²⁾	5	98,033	0	0	0	0	98,033	22,646	120,679
Director of Strategic Development & Public Access		85,700	0	0	18080	0	103,780	19,797	123,577
Head of Communications & Media Centre		71,253	0	14,598	0	750	86,600	20,005	106,605

Senior Officers Pay, where annual equivalent salary is between £50,000 and £150,000 per year - reporting to the Group Managing Director - 2010-11....cont

Notes

1 The post of Director of Finance was covered on a temporary basis by the Head of Financial Management from November 2010. The salary shown reflects the postholders total remuneration covering both posts held.

2 This post was covered by an interim between April 2010 - July 2010. The salary figure is actually the amount paid to the recruiting agency and not to the individual.

3 This post was covered on an interim basis by a member of KCC staff from October 2010. The salary shown reflects the postholders total remuneration covering both posts held.

4 The person in post left the organisation in July 2010

5 This post was covered on an interim basis by a member of KCC staff from August 2010. The salary shown reflects the postholders total remuneration covering both posts held.

Note 32 - Officers Remuneration

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. Of the total redundancies made 78% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000 and £20,001 - £40,000 and have applied this percentage equally to each of those bands. The total cost in 2011-12 of £10.0m includes schools and commitments in 2012-13. The total cost in 2011-12 of £10m includes schools and commitments in 2012-13.

(a) Exit package cost band (inc special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11 £	2011/12 £
100,001-450,000	0	1	5	1	5	2	1,075,264	592,000
80,001-100,000	1	0	1	0	2	0	187,624	0
40,001-80,000	3	3	8	6	11	9	553,790	419,310
20,001-40,000	65	109	18	31	83	140	2,291,685	3,650,979
0-20,000	384	666	108	188	492	854	2,799,177	5,346,184
Total	453	779	140	226	593	1,005	6,907,540	10,008,473

Note 33 - Audit Costs and Note 34 - Dedicated Schools Grant

Note 33. Audit Costs

In 2011-12 the following fees were paid relating to external audit and inspection :

	2011-12	2010-11
	£'000	£'000
Fees payable for external audit services carried out by the appointed auditor	319	342
Fees payable to the Audit Commission in respect of statutory inspection		4
Fees payable to the appointed auditor for the certification of grant claims and returns	11	14
Fees payable in respect of other services provided by the appointed auditor	32	2
	362	362

Fees payable in respect of other services provided by the appointed auditor have increased in 2011-12 due to an objection raised.

Note 34. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-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 2011-12 are as follows:

	Central	Individual	Total
	Expenditure	Schools	
	£'000	Budget	£'000
		£'000	£'000
Final DSG for 2011-12			792,799
Brought forward from 2010-11			21,997
Carry Forward to 2012-13 agreed in advance			0
Agreed initial budget distribution in 2011-12	125,154	689,642	814,796
In year adjustments	-13,538	13,538	0
Agreed budgeted distribution in 2011-12	111,616	703,180	814,796
Less actual central expenditure	85,108		85,108
Actual ISB deployed to schools		703,180	703,180
Local Council contribution for 2011-12	0	0	0
Carry Forward to 2012-13	26,508	0	26,508 *

Notes *

The total carry forward to 2012-13 of £26,508k represents a carry forward of £8,608k on the centrally retained DSG budget and £17,900k on the schools' unallocated budget. The schools unallocated reserve now stands at over £21m, and its use is determined by the Schools' Funding Forum. This balance has accumulated over a number of years and its "growth" has been reported regularly to the Forum. It should be noted that the Schools' Forum have now committed the majority of the unallocated reserve and it is estimated that over half will be spend in 2012-13.

Note 35 - Grant Income

Note 35. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011-12:

	2011-12	2010-11
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-575,917	-571,765
Council Tax Freeze	-14,342	
Revenue Support Grant	-315,987	-275,715
Local Services Support Grant	-3,125	-88,520
Performance Reward Grant		290
New Homes	-1,379	
Capital Government Grants and Contributions	-112,695	-113,380
Total	-1,023,445	-1,049,090
Credited to Services		
Dedicated Schools Grant	-792,799	-789,139
Learning and Skills Council/Young Persons		
Learning Agency	-756	-116,990
Other DFES Grants	-168,111	-316,476
Department of Health Grants	-38,126	-9,334
Asylum	-12,166	-15,274
Other	-32,289	-65,574
Total	-1,044,247	-1,312,787

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2011-12	2010-11
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	-11,817	-23,890
Other Grants	-2,265	-140
Other Contributions	-23,419	-17,190
Total	-37,501	-41,220

Note 36. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions.

Members

Members of the Council have direct control over the council's financial and operating policies.

Members are required to declare any related party transactions on an annual basis. There were no material transactions between Kent County Council and its Members, other than payment of Members' Allowances, in 2011-12. The total of members' allowances paid in 2011-12 is shown in Note 31 on page 86.

Officers

Details of senior officers' remuneration are shown in Note 32 on pages 87 to 99.

All key management personnel are required to declare any pecuniary interests on an annual basis. For 2011-12, there were no material transactions between the Council and its key management personnel.

Other Public Bodies (subject to common control by central government)

The Council has pooled budget arrangements for the provision of a range of services including drug and alcohol related services, registered nursing care contribution in care homes and integrated care centres providing nursing, respite and recuperative care to Older People. Further details of all pooled budget arrangements, transactions and balances outstanding are provided in Note 30 on page 85 to 86.

The Council's Director of Public Health is a joint appointment with East Kent & Coastal and West Kent PCTs. During 2011-12 KCC paid one third of the cost of this post.

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 Consolidated Income and Expenditure Statement, Note 41 on pages 113 to 117 of these Accounts.

As administrator of the Kent Pension Fund, KCC has direct control of the Fund. Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £2.612m and cash held by KCC on behalf of the Pension fund is £3.313m.

Payments to other local authorities and health bodies, excluding precepts, totalled £25.5m.

Receipts from other local authorities and health bodies totalled £71.2m.

Note 36 - Related Party Transactions

Assisted Organisations:

The Council has made payments as follows to voluntary organisations for the provision of various services, including day care for the elderly, physically disabled and those with learning difficulties and mental health needs.

Type of payment	No of voluntary organisations	Expenditure £'000's	Balance held £'000
Contract	181	26,645	91
Grants	73	2,517	9
Other payments	137	15,239	1,300

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 45.

Payments made to Kent Top Temps Ltd (KTT) amounted to £27.8m. A further £0.34m of the loan provided to KTT was repaid in 2011-12 with a balance of £0.2m remaining. KCC received £0.030m of interest. KTT made £3m of purchases from KCC (including Commercial Services).

Payments made to Kent County Facilities Ltd (KCF) amounted to £0.8m. There is no loan from KCC outstanding.

A loan was made to Kent County Supplies Ltd of £0.150m during 2010-11 on which KCC received £0.008m of interest.

A loan of £0.429m was made to East Kent Opportunities LLP in 2010-11, and this, with existing loans and recharges of internal services provided, leaves a balance of £0.071m in 2011-12.

A loan of £0.100m was made to Kent Cultural Trading in 2011-12.

Kent County Council also has an interest in the following companies:

Active companies with less than 50% control

Payments made in 11-12

Association of Tourist Attractions in Kent	-
Groundwork Kent and Medway	£130,852
Aylesham and district Community Workshop Trust	£2,281
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	£14,095
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	£764,322
Locate in Kent Ltd (as amended on 5/5/2000)	£2,006,500
Trading Stds South East Ltd	£65,164
Business Support Kent Community Interest	£100,823
East Kent Spatial Development Company	-

Active companies with greater than 50% control

Produced in Kent (PINK) Ltd	£88,511
Kent Cultural Trading Limited	£131,728

Dormant companies

Kent Training Centres Ltd	-
Kentish Fare Ltd	-
Invicta Innovations Ltd	-
Kent Access Ltd	-
Invicta Services Ltd	-

Note 37 - Capital Expenditure and Financing

Note 37. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2011-12	Restated 2010-11
	£000's	£000's
Opening Capital financing requirement	1,518,146	1,411,489
Capital investment		
Property, Plant and Equipment	177,200	251,730
Intangible assets	385	645
Revenue expenditure funded from capital under statute	86,110	124,271
	<u>1,781,841</u>	<u>1,788,135</u>
Sources of finance		
Capital receipts	-10,801	-15,430
Government grants and other contributions	-194,509	-251,962
Direct revenue contributions	-24,828	-16,373
(MRP/loans fund principal)	-55,830	-55,979
PFI Liability where we don't realise the asset		69,755
Closing Capital Financing Requirement	<u>1,495,873</u>	<u>1,518,146</u>
Movement	-22,273	106,657
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)		
Increase in underlying need to borrow (unsupported by Government financial assistance)	-22,273	36,902
Assets acquired under finance leases		
PFI/PPP contracts where no asset is acquired		69,755
Increase/(decrease) in Capital Financing Requirement	<u>-22,273</u>	<u>106,657</u>

Note 38 - Leases

Note 38. Leases

Council as Lessee

Finance Leases

The Council has acquired five County Offices and two Day Care Centres under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 Mar 2012 £'000	31 Mar 2011 £'000
Other Land and Buildings	1,043	1,420
	1,043	1,420

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 Mar 2012 £'000	31 Mar 2011 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	439	574
• Non-current	901	1,340
Finance costs payable in future years	1,127	1,255
Contingent rents payable in future years	2,336	2,334
Minimum lease payments	4,803	5,503

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 Mar 2012 £'000	31 Mar 2011 £'000	31 Mar 2012 £'000	31 Mar 2011 £'000
Not later than one year	820	919	99	127
Later than one year and not later than five years	985	1,463	270	309
Later than five years	2,998	3,121	758	819
	4,803	5,503	1,127	1,255

In 2011-12 £333k contingent rents were payable by the Council (£206k in 2010-11).

The Council has also acquired two Waste Disposal sites under Service Concession Contracts.

Note 38 - Leases

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 Mar 2012	31 Mar 2011
	£'000	£'000
Other Land and Buildings	7,353	5,832
	7,353	5,832

The Council is committed to making minimum payments under these contracts comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 Mar 2012	31 Mar 2011
	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	356	338
• Non-current	3,479	3,830
Finance costs payable in future years	2,284	2,506
Minimum lease payments	6,119	6,674

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 Mar 2012	31 Mar 2011	31 Mar 2012	31 Mar 2011
	£'000	£'000	£'000	£'000
Not later than one year	559	559	203	222
Later than one year and not later than five years	1,349	1,644	662	711
Later than five years	4,211	4,471	1,419	1,573
	6,119	6,674	2,284	2,506

Note 38 - Leases

Operating Leases

The Council has acquired property, motor vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 Mar 2012	31 Mar 2011
	£'000	£'000
Not later than one year	16,865	17,216
Later than one year and not later than five years	25,478	31,000
Later than five years	7,479	4,306
	49,822	52,522

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 Mar 2012	31 Mar 2011
	£'000	£'000
Minimum lease payments	19,645	19,674
Contingent rents	412	601
Sublease payments receivable	0	-2
	20,057	20,273

Note 38 - Leases

The Council has five contracts which have been assessed under IFRIC 4 to contain embedded leases. The future minimum payments due under non-cancellable embedded leases in future years are shown in the table below. As it was impracticable to separate lease payments from other payments due under the contract, these amounts include payments for non-lease elements.

	31 Mar 2012	31 Mar 2011
	£'000	£'000
Not later than one year	2,108	2,108
Later than one year and not later than five years	4,837	5,264
Later than five years	0	0
	<hr/>	<hr/>
	6,945	7,372

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these embedded leases was approximately £2,108k (£1,744k in 2010-11).

Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of Early Years Children's Centres, Nursery Schools and other educational establishments such as Pupil Referral Unit's (PRU's).
- For the provision of Supported Accommodation and Registered Care Centres
- For the use of office space by local businesses at Kings Hill
- Land for use as Waste Disposal sites

The minimum lease payments receivable under non-cancellable leases in future years are:

	31 Mar 2012	31 Mar 2011
	£'000	£'000
Not later than one year	1,055	533
Later than one year and not later than five years	1,821	1,236
Later than five years	2,342	2,192
	<hr/>	<hr/>
	5,218	3,961

In 2011-12 no contingent rents were received by the Council (2010-11 £73k).

Note 39 - PFI and Similar Contracts

Note 39. PFI and Similar Contracts

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
As at 31 March 2011	44,330	20,757	9,819	48,148	123,054
Additions	147	603	250	235	1,235
Revaluations					
Transfer from/to WIP					
Impairment					
Depreciation	-1,183	-691	-227	-1,064	-3,165
As at 31 March 2012	43,294	20,669	9,842	47,319	121,124

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	3 BSF Schools	TOTAL
						£'000
As at 31 March 2011	77,651	9,128	14,431	59,187	65,085	225,482
Fair value of assets coming into use in-year						0
Liability repaid	-1,542	-157	-294	-932	-1,086	-4,011
As at 31 March 2012	76,109	8,971	14,137	58,255	63,999	221,471

The original recognition of these fixed assets is 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.

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,548	6,641	2,900	459	11,548
Within 2-5 years	6,294	25,288	12,270	3,496	47,348
Within 6-10 years	9,975	28,387	17,144	6,510	62,016
Within 11-15 years	12,856	23,651	19,397	10,487	66,391
Within 16-20 years	19,791	17,079	21,945	11,128	69,943
Within 21-25 years	25,644	6,095	19,615	5,192	56,546

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.

Note 39 - PFI and Similar Contracts

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	133	1,284	558	397	2,372
Within 2-5 years	911	4,856	2,376	1,550	9,693
Within 6-10 years	2,139	5,193	3,302	1,949	12,583
Within 11-15 years	5,043	2,930	3,707	1,010	12,690
Within 16-20 years	745	107	397	0	1,249

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
					£'000
Within 1 year	257	1,092	1,399	341	3,089
Within 2-5 years	1,426	4,159	6,008	1,167	12,760
Within 6-10 years	1,547	4,614	8,538	3,066	17,765
Within 11-15 years	2,600	3,854	9,858	2,967	19,279
Within 16-20 years	4,683	2,566	11,399	1,610	20,258
Within 21-25 years	3,625	466	2,487	225	6,803

The RPIx and AWE (was 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 AWE 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
					£'000
Within 1 year	958	4,137	0	276	5,371
Within 2-5 years	4,398	15,814	0	1,272	21,484
Within 6-10 years	6,295	17,983	0	2,577	26,855
Within 11-15 years	8,492	15,536	0	2,827	26,855
Within 16-20 years	12,446	11,885	0	2,524	26,855
Within 21-25 years	17,681	6,901	0	2,272	26,854
Within 26-30 years	7,984	804	0	163	8,951

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

Note 39 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,161	5,947	1,841	41	8,990
Within 2-5 years	5,271	22,612	7,836	872	36,591
Within 6-10 years	8,509	25,265	10,949	3,179	47,902
Within 11-15 years	11,014	20,824	12,387	6,078	50,303
Within 16-20 years	15,416	15,180	14,015	8,955	53,566
Within 21-25 years	22,628	5,685	10,307	2,623	41,243

RPIx is used as the basis for indexation in the BSF Wave 3 PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year - short term	4,057	19,101	6,698	1,514	31,370
Within 2-5 years	18,300	72,729	28,490	8,357	127,876
Within 6-10 years	28,465	81,442	39,933	17,281	167,121
Within 11-15 years	40,005	66,795	45,349	23,369	175,518
Within 16-20 years	53,081	46,817	47,756	24,217	171,871
Within 21-25 years	69,578	19,147	32,409	10,312	131,446
Within 26-30 years	7,984	804	0	163	8,951
Total	221,470	306,835	200,635	85,213	814,153

Swan Valley and Craylands, 6 Group Schools, and 3 BSF 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). The development of these schools straddled both the 2006-07 and 2007-08 financial years. Three of these schools opened part of their new buildings during the 2006-07 financial year (Hugh Christie, Holmesdale and The North). The other three schools opened their new buildings during 2007-08 (Ellington School for Girls, The Malling and Aylesford). The unitary charge commenced in November 2006, PFI credits commenced in June 2007 and were backdated to November 2006. 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 £373.9 million over the 28 year contract period.

On 24 October 2008, the Council contracted with Kent PFI Company1 Ltd to provide 3 new secondary schools in Gravesend (St John's, Thamesview and Northfleet Technology College) under a Private Finance Initiative (PFI). All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010, PFI credits commenced in March 2011 and were backdated to July 2010. 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 £250.8 million over the 25 year contract period.

Note 39 - PFI and Similar Contracts and Note 40 Termination Benefits

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, £80.75m for the 6 schools and £98.94m for the 3 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 years (Swan Valley and Craylands), 28 years (6 schools) and 25 years (3 schools). This grant amounts to just under £23m (Swan Valley and Craylands), just over £177m (6 schools) and just over £193m (3 schools).

Westbrook and West View

In 2011-12 the Council made payments of £3.5m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payment of £3.6m for 2012-13 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 2012-13 the Council is committed to making payments estimated at £2.5m 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 (£2.4m was paid in 2011-12). The contract will run until April 2036.

Better Homes Active Lives PFI

In October 2007 the Council 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 contract for the provision of services will last until 2038-39. In 2011-12 the Council made payments of £5.4m to the contractor, and is committed to paying the same amount next year, although this will depend on the performance of Kent Community Partnership delivering the services under the contract.

Note 40. Termination Benefits

The Authority terminated the contracts of a number of employees in 2011-12, incurring liabilities of £10m (£6.91m in 2010-11) - see Note 32 for the number of exit packages and total cost per band. Of this total £0.42m is payable to Group Managing Director and £0.17m payable to Corporate Director Finance & Procurement in the form of loss of office, as disclosed in Note 32. The remaining £9.41m is payable to officers across the Authority who were made redundant as part of the rationalisation of services.

Note 41 - Pensions Costs

Note 41a - Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011-12 Kent County Council paid £42.6m (£58.2m in 2010-11), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 12.8% 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 2011-12 these amounted to £4.3m (£4.5m in 2010-11), representing 1.3% (1.1% in 2010-11) of pensionable pay.

Note 41b. Defined Benefit Pension Scheme

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 through the Movement in Reserves Statement.

Under the requirements of IAS19, 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	
	2011-12	2010-11
	£000's	£000's
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	-50,015	-71,439
• Past service costs and curtailments	16,553	223,397
Financing and Investment Income and Expenditure		
• Interest cost	-108,811	-124,247
• Expected return on assets in the scheme	100,749	92,838
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-41,524	120,549
• Actuarial gains and losses	-358,817	383,224
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-400,341	503,773
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	41,524	-120,549
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-73,074	-88,602

Note 41 - Pensions Costs

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 2011-12 Kent County Council paid an employer's contribution of £73.1m (£88.6m in 2010-11) into the Pension Fund, representing 23% (25% in 2010-11) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2011-12 was based on the review carried out as at 31 March 2010. 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 2011-12 (£0k in 2010-11). The capital value of payments agreed in earlier years is £116m (£112m in 2010-11).

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2011-12	2010-11
	£000's	£000's
1 April	1,471,303	1,344,338
Expected rate of return	100,749	92,838
Actuarial gains and (losses)	-64,518	13,473
Employer contributions	77,592	93,064
Contributions by scheme participants	21,175	23,621
Benefits paid inc unfunded benefits	-95,492	-86,493
Receipt /payment of bulk transfer values	-11,916	-9,538
31 March	1,498,893	1,471,303

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 £36,231k (2010-11: £114,146k)

Reconciliation of present value of the scheme liabilities:

	Liabilities: Local Government Pension Scheme	
	2011-12	2010-11
	£000's	£000's
1 April	2,008,308	2,473,567
Current service cost	50,015	71,439
Interest cost	108,811	124,247
Contributions by scheme participants	21,175	23,621
Actuarial (gains) and losses	298,727	-365,138
Benefits paid	-95,492	-86,493
Liabilities extinguished on settlements	-35,097	-37,478
Past service costs	6,628	-195,457
31 March	2,363,075	2,008,308

Note 41 - Pensions Costs

Scheme History

	2007-08 as restated	2008-09	2009-10	2010-11	2011-12
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
• Local Government Pension Scheme	-1,716,700	-1,706,200	-2,473,567	-2,008,308	-2,363,075
Fair value of assets in the Local Government Pension Scheme	1,147,400	966,300	1,344,338	1,471,303	1,498,893
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-569,300	-739,900	-1,129,229	-537,005	-864,182

Net Pension assets as at

	31 Mar 2012 £000's	31 Mar 2011 £000's	31 Mar 2010 £000's
Present value of funded obligation	2,302,631	1,950,959	2,407,024
Fair value of scheme assets (bid value)	1,498,893	1,471,303	1,344,338
Net Liability	803,738	479,656	1,062,686
Present value of unfunded obligation	60,444	57,349	66,543
Net Liability in Balance Sheet	864,182	537,005	1,129,229

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £864m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative movement of £327.1m

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. International Accounting standard IAS19 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 decreased from 1.9% to 1.3% 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 2011 levels then the pensions deficit would have been £298,727,000 less at £565,455,000. 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 5.8%.

IAS19 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).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £67,200k.

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.

Note 41 - Pensions Costs

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2011-12	2010-11
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.30%	7.40%
Gilts	3.30%	4.40%
Bonds	4.60%	5.50%
Property	4.30%	5.40%
Cash	3.00%	3.00%
Target Return Portfolio	4.70%	-
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	20.0 years	19.8 years
Women	24.0 years	23.9 years
Longevity at 65 for future pensioners:		
Men	22.0 years	21.9 years
Women	25.9 years	25.8 years
Rate of inflation	3.3%	3.5%
Rate of increase in Consumer Price Index	2.5%	2.7%
Rate of increase in salaries	3.8%	4.0%
Rate of increase in pensions	2.5%	2.7%
Rate for discounting scheme liabilities	4.6%	5.5%
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 2012	March 2011
	%	%
Equity Investments	74%	76%
Gilts	1%	1%
Bonds	10%	12%
Property	9%	9%
Cash	4%	2%
Target Return Portfolio	2%	-
	100%	100%

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2011-12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007-08	2008-09	2009-10	2010-11	2011-12
	as restated	as restated			
	%	%	%	%	%
Differences between the expected and actual return on assets	-9.7	-32.2	20.7	0.9	-4.3
Experience gains and losses on liabilities	4.3	-0.1	-0.4	-5.3	0.1

Note 41 - Pensions Costs

Analysis of Amount Recognised in the Comprehensive Income and Expenditure Statement

	2011-12	2010-11	2009-10
	£000's	£000's	£000's
Actuarial Gains/Losses	-363,388	380,650	-631,384
Increase / Decrease in irrecoverable surplus from membership fall and other factors	4,571	2,574	251,029
Actuarial gain / (loss) recognised	-358,817	383,224	-380,355

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £2.2m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2012 in accordance with IAS19.

Note 42. Contingent Liabilities

Employment

There are eight claims relating to discrimination and breach of contract in employment. Of these, seven are limited to unfair dismissal and one is against schools. In addition to the seven claims there are a potential number which have not yet officially pleaded. 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 £140k and an additional amount of approximately £150k for those not officially pleaded. However, on a number of these claims the prospects of success are assessed to be good. It is extremely rare for employment tribunals to award all of the damages that are claimed.

Education

There are no education cases.

Childcare

All care proceedings are subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 368 live cases where proceedings have actually been issued. The costs to KCC of taking these proceedings are in excess of £10k each.

Litigation

There are ten such cases of which legal costs for nine of these are expected to exceed £300k in total. The remaining case is in relation to a contractual dispute to which the financial exposure to Kent is difficult to determine but could be in excess of £1m.

Asylum & Judicial review

There is one judicial review case of Age assessment for which the cost is likely to exceed £10k. There are four further cases, two of which, if successful, would exceed £10k each. The third case has been settled, the issue of costs is outstanding but it is likely to exceed £10k. The fourth case claim has been withdrawn but legal costs are being sought, which if successful would exceed £10k.

Nearest Relative

There is one case seeking to remove a parent from role as nearest relative. The outcome is unpredictable but if successful will be in excess of £10k.

Court of Protection

There are matters of Court of Protection which has jurisdiction over cases involving the interests of vulnerable people under the Mental Health Act 2005. There is a wide discretion for the Court in such litigation and individual costs may exceed £10k. These cases are not likely to attract cost orders that place KCC potentially liable or exposed to risk.

Note 43. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- 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;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates.

Overall Procedures for Managing Risk

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

Credit Risk

Loans and Receivables

The Council manages credit risk by ensuring that investments are placed with the Debt Management Office, Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. Limits are placed on the amount of money that can be invested with a single counterparty. The limits for 2011-12 were: DMO £450m, UK banks £40m, building societies £20m and the maximum duration for any new deposit is 12 months. The counterparty limits for 2012-13 are: UK banks and building societies £50m with a group limit for banks £75m, and a maximum duration of 12 months.

It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2011-12, approved by Full Council 17 February 2011 and with the immediate implementation of the 2012-13 strategy approved at Full Council on 9 February 2012.

The criteria for the selection of counterparties are:

- A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
- Credit rating and other relevant financial information e.g. credit default swaps, share price.
- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.
- Exposure to other parts of the same banking group.
- Reputational issues.

Throughout 2011-12 the minimum criteria for new investments has been a long term rating of A+ or equivalent.

Note 43 - Nature and Extent of Risks Arising from Financial Instruments

Counterparty	Credit Rating Criteria met when investment placed?	Criteria rating met on 31 March 2012?	Balance invested as at 31 March 2012				Total
			Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	
	Yes/No	Yes/No	£000's	£000's	£000's	£000's	£000's
Call Accounts	Yes	Yes	126,000				126,000
UK Banks	Yes	Yes	41,600	33,000		10,000	84,600
Overseas Banks	Yes	No					0
Total Banks			167,600	33,000	0	10,000	210,600
UK Building Societies	Yes	Yes	14,300	35,700			50,000
DMO	Yes	Yes					0
Total			181,900	68,700	0	10,000	260,600

With the exception of 2 long term deposits placed in 2008 and 2009 all deposits outstanding as at 31 March 2012 met the Council's credit rating criteria on 31 March 2012.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £14.6m.

Receivables

The Council does not generally allow credit for its debtors, as such £1.903m of the £149.228m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2012	31 Mar 2011
	£000's	£000's
One to three months	195	750
Three to six months	1,115	740
Six months to one year	336	189
More than one year	257	130
	1,903	1,809

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 2012 was £57.1m.

Note 43 - Nature and Extent of Risks Arising from Financial Instruments

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available when it is needed. If unexpected movements happen, the Council has ready access to borrowings from the Public Works Loan Board and commercial banks. There is no perceived risk that it will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme of to finance future debt maturities.

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

The maturity analysis of financial liabilities is as follows:

	31 Mar 2012	31 Mar 2011
	£000's	£000's
Less than one year	77,021	57,024
Between one and two years	2,015	77,021
Between two and six years	121,195	91,209
Between six and fifteen years	173,005	188,005
More than fifteen years	716,073	683,074
	1,089,309	1,096,333

Market risk

Interest Rate Risk: The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 30% on external debt that can be subject to variable interest rates. At 31 March 2012, 86.69% of the debt portfolio was held in fixed rate instruments, and 13.31% in variable rate instruments.

Investments are also subject to movements in interest rates. The Council's policy of holding variable rate and short term fixed rate investments increases the exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

Price Risk: the Council does not invest in equity shares and therefore is not subject to any price risk (i.e. the risk that the council will suffer loss as a result of adverse movements in the price of financial instruments).

Foreign Exchange Risk: the Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	1,450
Increase in interest receivable on variable rate investments	(1,310)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	140
Decrease in fair value of fixed rate investment assets	303
Impact on Other Comprehensive Income and Expenditure	303
Decrease in fair value of fixed rate borrowings / liabilities*	77,439

*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

Note 44 - Deposits in Icelandic Banks

44. Deposits 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 Council had £50.35m deposited across 3 of these institutions, with varying maturity dates and interest rates.

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

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 calculated loss for the Council is £0.5m based on the latest update of CIPFA LAAP Bulletin 82.

Heritable

Heritable bank is a UK registered bank under English Law. The company was placed in administration on 7 October 2008. The Council has received dividends up to 31 March 2012 of 64.4% and as at 31 March 2012, the calculated return of our investment is 88% as per LAAP Bulletin 82 update 6. In calculating the impairment the Council has followed LAAP 82, which makes the following assumptions re timing of the recoveries:

April 2012	3.79%	January 2013	3.50%
July 2012	3.50%	April 2013	3.50%
October 2012	3.50%	July 2013	5.81%

Landsbanki

As at the 31 March 2012 the Council received 30% of the recoverable amount. The estimate of the recoverable amount from this Iceland-domiciled bank is 100%. This return is anticipated over the following period:

December 2012	8.00%	December 2016	8.00%
December 2013	8.00%	December 2017	8.00%
December 2014	8.00%	December 2018	22.00%
December 2015	8.00%		

Glitnir Bank hf

As at the 31 March 2012 the Council received 100% of the recoverable amount.

The Council received £2.96m in Icelandic Kroner for Iceland-domiciled accounts. This has been placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

45. 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 4 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 Connect2Staff. It also operates buses for contract and private hire trading as Kent Top Travel. KTT had a turnover in 2011-12 of £34.2m with a net profit of £0.29m before tax, £0.22m after tax (estimated). In 2010-11 its net assets were £1.2m and in 2011-12 they are £1.4m. £0.54m of the loan provided in earlier years has been repaid and stood at £0.2m at year end, set against the net indebtedness of the Council to KTT of £5.4m.

Kent County Facilities Ltd (KCF) is a subsidiary of Kent County Trading Ltd., wholly owned by Kent County Council. KCF 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 including waste management, and transport servicing and repairs. In 2011-12 KCF had a turnover of £3.1m, a net profit of £0.2m and its net assets were £0.533m. The loan previously provided by Commercial Services was fully repaid in March 2010, and the indebtedness of the Council to KCF is £0.236m.

Kent County Supplies Ltd (KCS) is a subsidiary of Kent County Trading Ltd., wholly owned by Kent County Council. It commenced trading on the 7 April 2010. KCS focuses on the supply of goods and services to the care industry, including both public sector bodies and the private sector. KCS aims to provide a comprehensive range to satisfy all of the needs of a care/nursing home, from everyday essentials to specialist equipment. During the year the Careworker trading activities were transferred into KCS from Kent Top Temps Ltd. KCS had a turnover in 2011-12 of £13m with a net profit of £0.35m before tax, £0.26m after tax (estimated). At the end of 2011-12 its net current assets were £0.004m. A loan of £0.150m has been provided by Kent County Council in 2010-11. The indebtedness of the Council to KCS amounted to £0.003m.

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 2011-12, 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 £0.40m.

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 2011-12. This situation is reviewed on an annual basis.

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

Note 46 - Trust Funds

Note 46. Trust Funds

Funds which KCC acts as custodian trustee

2011-12

	Income	Expenditure	Assets	Liabilities
	£'000	£'000	£'000	£'000
Hidenborough War Memorial	0	0	1	0
James Wilford (Kent) Charity	0	0	0	0
Hugh and Montague Leney Travelling Award Trust Countywide. Awards for educational travel.	8	10	179	0
Jim Petrie Memorial Fund Pupils/students in secondary schools and colleges. To encourage appreciation of country life.	0	1	2	0
Joan Kemsley Memorial Fund Countywide. Reflection of opera experience/attending opera at Glyndebourne	1	0	3	0
J A Tapping Trust Provision of comforts for needy children in the Deal area.	0	0	3	0
Grace Say Charity Provision of comforts for needy people in the Dartford area.	1	0	33	0
Glyndebourne To promote the musical education of school children.	0	1	0	0
Total	10	12	221	0

Note 46 - Trust Funds

2010-11	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Hidenborough War Memorial	0	0	1	0
James Wilford (Kent) Charity	0	0	0	0
Hugh and Montague Leney Travelling Award Trust Countywide. Awards for educational travel.	13	5	184	0
Jim Petrie Memorial Fund Pupils/students in secondary schools and colleges. To encourage appreciation of country life.	0	1	4	0
Joan Kemsley Memorial Fund Countywide. Reflection of opera experience/attending opera at Glyndebourne	0	0	2	0
J A Tapping Trust Provision of comforts for needy children in the Deal area.	0	0	5	0
Grace Say Charity Provision of comforts for needy people in the Dartford area.	1	0	33	0
Glyndebourne To promote the musical education of school children.	0	0	1	0
Strickland Scholarship To promote the musical education of school children.	0	18	0	0
Total	14	24	230	0

Other Funds

	2010-11 Capital Value to fund £'000	2011-12 Capital Value to fund £'000
Criminal Injuries Compensation Awards	1,196.0	852.0
Maidstone Grammar Schools Endowment Fund	213.0	220.0
W H Petty Testimonial Fund	7.0	7.0
	1,416	1,079

Note 47 Other Notes

Note 47 - Other Notes

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 Council. 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 124 -146.

The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2011-12.

Prior Period Adjustments

The following pages provide details of a prior period adjustment that we have made in relation to a) schools that have transferred ownership and b) a transfer of grant from the taxation and non specific grant income line to the service line to match the spend where it is revenue expenditure funded from capital under statute and is funded from grant. Under a) there are 6 Foundation schools and 1 Voluntary Aided school. These schools are PFI schools and were on our balance sheet to match the liability. However, as ownership has transferred we are required to write them off at nil consideration.

2010-11 Restated Income and Expenditure Account	Net Expenditure	Write out of PFI and Trust Schools	Refcus	Restated
	£'000	£'000	£'000	£'000
Service				
Cultural Services	10,559		-6	10,553
Environmental, Regulatory & Other Services	19,530			19,530
Planning Services	16,578		-420	16,158
Court Services	2,675			2,675
Arts & Libraries	26,822			26,822
Waste Management	63,388			63,388
Children's and Education Services	351,743	-7,276	-132,982	211,485
Highways, Roads and Transport Services	137,659			137,659
Adult Social Care	402,919		-725	402,194
Corporate and Democratic Core	2,506			2,506
Non Distributed Costs	-205,796			-205,796
Net Cost of Service	828,583	-7,276	-134,133	687,174
Other operating expenditure	70,683	69,755		140,438
Net Surplus on trading accounts	-9,218			-9,218
Financing and Investment Inc and Exp	99,101			99,101
Taxation and Non Specific Grant Income	-1,183,223		134,133	-1,049,090
(Surplus)/deficit arising on reval of non current assets	-28,690			-28,690
Actuarial (gains)/losses on pension fund assets/liabilities	-383,224			-383,224
(Surplus)/deficit arising on loans and receivables	-8,903			-8,903
Other				0
Net General Fund Surplus(-)/Deficit	-614,891			-552,412

Prior Period Adjustments

2009-10 Restated Balance Sheet

	31 March 2010		
	£'000	Write out of PFI and Trust Schools £'000	Restated £'000
Non- Current Assets			
Property Plant & Equipment	2,304,676	-70,233	2,234,443
Heritage Assets	5,689		5,689
Investment Property	21,294		21,294
Intangible Assets	2,544		2,544
Total Property Plant & Equipment	2,330,292		2,263,970
Long-term investments	35,671		35,671
Long-term debtors	59,154		59,154
Total long-term assets	2,425,117	-70,233	2,358,795
Inventories	6,231		6,231
Assets held for sale (> 1yr)	9,595		9,595
Short term debtors	210,803		210,803
Investments	89,026		89,026
Cash and Cash equivalents	100,734		100,734
Total current assets	416,389		416,389
Temporary borrowing	-45,240		-45,240
Short term Lease Liability	-3,983		-3,983
Short term provisions	-37,235		-37,235
Creditors	-284,534		-284,534
Cash and Cash equivalents			
Total current liabilities	-370,992		-370,992
Creditors due after one year	-823		-823
Provisions	-14,423		-14,423
Long-term borrowing	-1,012,116		-1,012,116
Other Long Term Liabilities	-1,347,187		-1,347,187
Capital Grants Receipts in Advance	-74,353		-74,353
Long-term Liabilities	-2,448,902	-70,233	-2,448,902
Net Assets	21,612	-70,233	-44,710
Usable Reserves	-275,154		-275,154
Unusable Reserves	249,631	70,233	319,864
Total Reserves	-21,612	70,233	44,710

Prior Period Adjustments

2010-11 Restated Balance Sheet

	31 March 2011		
	£'000	Write out of PFI and Trust Schools £'000	Restated £'000
Non- Current Assets			
Property Plant & Equipment	2,418,360	-132,711	2,285,649
Heritage Assets	5,828		5,828
Investment Property	21,078		21,078
Intangible Assets	1,632		1,632
Total Property Plant & Equipment	2,446,898		2,314,187
Long-term investments	10,962		10,962
Long-term debtors	59,146		59,146
Total long-term assets	2,517,006	-132,711	2,384,295
Inventories	6,694		6,694
Assets held for sale (> 1yr)	4,275		4,275
Short term debtors	223,521		223,521
Investments	134,555		134,555
Cash and Cash equivalents	67,310		67,310
Total current assets	436,355		436,355
Temporary borrowing	-57,350		-57,350
Short term Lease Liability	-4,923		-4,923
Short term provisions	-34,105		-34,105
Creditors	-291,766		-291,766
Cash and Cash equivalents			
Total current liabilities	-388,144		-388,144
Creditors due after one year	-2,949		-2,949
Provisions	-14,077		-14,077
Long-term borrowing	-1,053,557		-1,053,557
Other Long Term Liabilities	-813,001		-813,001
Capital Grants Receipts in Advance	-41,220		-41,220
Long-term Liabilities	-1,924,804		-1,924,804
Net Assets	640,413	-132,711	507,702
			0
Usable Reserves	-278,316		-278,316
Unusable Reserves	-362,097	132,711	-229,386
Total Reserves	-640,413	132,711	-507,702

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, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Pension Fund is a contributory defined benefit scheme administered in accordance with the Local Government Pension Scheme Regulations 2007-09, as amended. It is contracted out of the State Second Pension.

The fund is overseen by the Kent County Council Superannuation Fund Committee which is a committee of Kent County Council.

Employing Bodies 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 include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employee contributions are matched by employers' contributions which are 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 up to a maximum of 20 years.

The Fund is maintained by investing in a range of assets, primarily equities, fixed income, property and cash. Pension Fund cash which is not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund is invested with financial institutions approved by the Council. The remaining cash is split between Investment Fund Managers, who hold it on deposit for interest until required.

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 Pension Fund's website at:

[Kent Pension Fund](#)

Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2011-12 £000's	2010-11 £000's
Contributions and Benefits			
Contributions Receivable:			
From employers	5	167,318	180,822
From employees	5	46,719	48,866
Transfers In	6	11,561	13,929
		225,598	243,617
Benefits Payable			
Pensions	7	-136,263	-126,220
Lump Sums	7	-51,640	-40,803
Payments to and on account of leavers			
Refunds of contributions		-59	-24
Transfers Out	8	-8,031	-10,595
Administrative & other expenses borne by the scheme	9	-2,954	-2,868
		-198,947	-180,510
Net additions from dealings with Members		26,651	63,107
Returns on Investments			
Investment Income	10, 11	76,835	62,993
Tax on Income		-2,897	-2,865
Change in Market Value of Investments	13	19,038	203,838
Loss on Icelandic Investment			0
		92,976	263,966
Investment Management Expenses	12	-11,481	-10,094
Net Return on Investments		81,495	253,872
Net increase in Fund during the year		108,146	316,979
Opening Net Assets of the Scheme at 1 April		3,202,442	2,885,463
Closing Net Assets of the Scheme at 31 March		3,310,588	3,202,442

Pension Fund Accounts

Net Assets Statement as at 31 March

	Notes	2012 £000's	2011 £000's
Investments at Market Value	13		
Index-Linked Securities		34,990	34,731
Equities		1,057,570	1,062,652
Pooled Investments		1,720,756	1,680,490
Private Equity / Infrastructure		45,360	26,296
Property		222,576	190,955
Pooled Property Investments		88,074	89,615
Cash Deposits		98,850	72,972
Other Investments		6,694	5,089
		3,274,870	3,162,800
Investment Liabilities	13	-173	0
		3,274,697	3,162,800
Current Assets	19	45,890	48,200
Current Liabilities	20	-9,999	-8,558
Net Assets		3,310,588	3,202,442

Notes to the Pension Fund Account

1. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2011-12 financial year and its position at 31 March 2012.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Summary of Significant Accounting Policies

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, interest and rental income have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

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 and gains on selling transactions. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

f) Investment management and administrative expenses

All expenses are accounted for on an accruals basis.

g) Financial assets

Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2012. Unquoted investments are valued by the fund managers at fair value.

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 2011.

The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2012.

Notes to the Pension Fund Account

h) Derivatives

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.

i) Foreign 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. Foreign income has been translated into sterling at the rate ruling at the date of the transaction.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Cash held as Demand Deposits and all Cash Equivalents whether managed by KCC or other fund managers are included in investments. All other Cash is included in Current Assets.

k) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

3. Actuarial valuation at 31 March 2010

As required by Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended, an actuarial valuation of the Fund was carried out as at 31 March 2010. The next valuation will take place as at March 2013

The market value of the Fund's assets at the valuation date was £2,780m and the liabilities were £3,623m. The assets therefore, represent 77% (2007 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 6 month smoothed market value

Rate of return on investments 6.6% pa

Rate of general pay increases 5% pa

Rate of increases to pensions in payment
(in excess of guaranteed minimum pension):- 3.0% pa

The actuarial valuation was undertaken on the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; and the attained age valuation method for employers who were closed to new entrants.

These methods assess the costs of benefits accruing to existing members during the year following valuation and the remaining working lifetime respectively, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Notes to the Pension Fund Account

4. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the fund's liabilities on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts.

The actuary has calculated that as at 31 March 2012 based on the actual Fund value, the Pension Fund had a net liability of £2,180m as follows:

Net Pension Asset as at	31 Mar 2012	31 Mar 2011	31 Mar 2010
	£000's	£000's	£000's
Present Value of Funded Obligation	5,490,539	4,523,250	5,137,091
Fair Value of Scheme Assets (bid value)	3,310,588	3,202,442	2,885,463
Net Liability	2,179,951	1,320,808	2,251,628

Note, the Present Value of Funded Obligation consists of £4,496.696m in respect of Vested Obligation and £993.843m in respect of Non-Vested Obligation.

The liability above is calculated on an IAS19 basis and therefore differs from the results of the 2010 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

5. Contributions Receivable

		2011-12	2010-11
		£000's	£000's
From Employers	Normal	93,657	110,877
	Early Retirements recoverable costs	12,107	9,173
	Deficit Funding	61,554	60,772
		167,318	180,822
Analysis of Employers' Contributions	Kent County Council	70,948	80,525
	Scheduled Bodies	87,350	89,668
	Admitted Bodies	9,020	10,629
		167,318	180,822
From Employees		2011-12	2010-11
		£000's	£000's
	Kent County Council	19,926	21,473
	Scheduled Bodies	23,908	24,362
	Admitted Bodies	2,703	2,729
Lump Sum Contributions	182	302	
	46,719	48,866	
Note:	As at 31 March the comparative numbers of members are:	2012	2011
	Kent County Council	21,752	21,956
	Scheduled Bodies	17,905	19,540
	Admitted Bodies	1,766	1,912
		41,423	43,408

Notes to the Pension Fund Account

6. Transfers In

	2011-12 £000's	2010-11 £000's
Individual	9,680	13,929
Bulk	1,881	
	11,561	13,929

7. Benefits Payable

	KCC £000's	Scheduled Bodies £000's	Admitted Bodies £000's	2011-12 £000's	2010-11 £000's
Pensions					
Retirement pensions	43,264	44,975	4,529	92,768	85,512
Widows' pensions	2,476	3,119	260	5,855	5,592
Children's allowances	97	140	5	242	218
Pensions increase	19,315	21,225	1,325	41,865	39,376
Less benefits recovered directly from employing authorities	0	-4,346	-121	-4,467	-4,478
	65,152	65,113	5,998	136,263	126,220
Lump Sums					
Retirement (Lump Sums)	21,252	24,633	1,843	47,728	37,379
Death gratuities	1,146	2,430	336	3,912	3,424
	22,398	27,063	2,179	51,640	40,803

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.

8. Transfers Out

	2011-12 £000's	2010-11 £000's
Individual	8,031	10,595

9. Administrative and other Expenses borne by the Scheme

	2011-12 £000's	2010-11 £000's
Internal Administration	2,455	2,423
Actuarial Fees	240	205
Audit Fee	45	50
Legal and Other Professional Fees	157	108
Other miscellaneous expenses	57	82
	2,954	2,868

Notes to the Pension Fund Account

10. Summary of Income from Investments

	2011-12		2010-11	
	£000's	%	£000's	%
Index-Linked	685	0.89	253	0.40
Equities	37,161	48.36	31,008	49.22
Pooled Investment Vehicles	15,350	19.99	15,086	23.95
Private Equity / Infrastructure	3,014	3.92	479	0.76
Property	11,345	14.77	10,379	16.48
Pooled Property Investments	3,959	5.15	4,919	7.81
Total Income From Investments	71,514	93.08	62,124	98.62
Cash and Cash equivalents	5,103	6.64	538	0.85
Sub-Underwriting Commission/other			79	0.13
Stock Lending	218	0.28	252	0.40
Total	76,835	100.00	62,993	100.00

11. Property Income and Expenditure

	2011-12	2010-11
	£000's	£000's
Rental Income from Investment Properties	11,345	10,379
Management Fees	-686	-635
Direct Operating Expenses on investment properties generating rental income (note 12)	-864	-843
	9,795	8,901

12. Investment Management Expenses

	2011-12		2010-11	
	£000's	£000's	£000's	£000's
Investment Managers		10,354		8,904
Actuarial (Investment Consultancy)		114		177
Performance Measurement		97		115
Custody fees		52		55
Property Management Expenses		10,617		9,251
- Miscellaneous property expenses	819		533	
- Insurance recoverable received	126		68	
- Disbursements paid	630		570	
- Recoverable expenses	-711	864	-328	843
		11,481		10,094

Notes to the Pension Fund Account

13. Analysis of Change in Market Value of Investments

	Market Value as at 31 March 11 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 12 £000's
Index Linked	34,731	26,172	-31,985	6,072	34,990
Equities	1,062,652	220,942	-188,753	-37,271	1,057,570
Pooled Investments	1,680,490	89,478	-101,295	52,083	1,720,756
Private Equity / Infrastructure	26,296	20,536	0	-1,472	45,360
Property	190,955	31,268	0	353	222,576
Pooled Property Investments	89,615	108	-922	-727	88,074
	<u>3,084,739</u>	<u>388,504</u>	<u>-322,955</u>	<u>19,038</u>	<u>3,169,326</u>
Cash deposits	72,972				98,850
Other Investments					
- Debtors - Outstanding Sales	656				40
- Creditors - Outstanding Purchases	0				-173
- Investment Income Accruals	<u>4,433</u>				<u>6,654</u>
Total	<u>3,162,800</u>			<u>19,038</u>	<u>3,274,697</u>
	Market Value as at 31 March 10 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 11 Restated £000's
Index Linked	30,540	8,100	-4,594	685	34,731
Equities	1,186,584	286,264	-483,819	73,623	1,062,652
Pooled Investments	1,287,411	484,747	-211,431	119,763	1,680,490
Private Equity / Infrastructure	8,004	16,549	0	1,743	26,296
Property	168,177	15,709	0	7,068	190,954
Pooled Property Investments	64,334	22,899	0	2,383	89,616
Derivatives	151	789	-940	0	0
	<u>2,745,201</u>	<u>835,057</u>	<u>-700,784</u>	<u>205,265</u>	<u>3,084,739</u>
Cash Deposits	63,706			-1,427	72,972
Other Investments					
- Debtors - Outstanding Sales	2,213				656
- Creditors - Outstanding Purchases	-3,682				0
- Profit/Loss on Forward Currency	-21				
- Investment Income Accruals	<u>3,502</u>				<u>4,433</u>
Total	<u>2,810,919</u>			<u>203,838</u>	<u>3,162,800</u>

Notes to the Pension Fund Account

During 2010-11 the Alliance Bernstein mandate was terminated and all derivatives were closed out. The fund no longer holds any derivatives.

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 £880,221 (2010-11 £884,068). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments. The amount of indirect costs is not separately provided to the Pension Fund.

14. Analysis of Investments (excluding derivative contracts) 2011-12

	Market Value as at 31 March 11 £'000's	Market Value as at 31 March 11 £'000's
FIXED INTEREST SECURITIES		
UK		
Public Sector Quoted	34,990	34,731
	34,990	34,731
EQUITIES		
UK		
Quoted	555,603	556,262
OVERSEAS		
Quoted	501,967	506,390
	1,057,570	1,062,652
POOLED FUNDS - Additional Analysis		
UK		
Fixed Income	343,487	325,127
Unit Trusts	612,887	623,024
OVERSEAS		
Fixed Income	76,790	71,288
Unit Trusts	687,592	661,051
	1,720,756	1,680,490
PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE		
Property		
UK	222,576	190,955
Property Unit Trusts		
UK	72,111	71,875
Overseas	15,963	17,740
	88,074	89,615
Private Equity Funds		
UK	3,574	2,091
Overseas	5,334	1,147
Infrastructure		
UK	8,441	8,130
Overseas	28,011	14,928
	45,360	26,296
TOTAL	3,169,326	3,084,739

Notes to the Pension Fund Account

15. Investments analysed by Fund Manager

	2012		2011	
	£000's	%	£000's	%
Baillie Gifford	582,653	17.8	574,355	18.2
DTZ	310,651	9.5	280,887	8.9
GMO	192,010	5.9	191,489	6.0
Goldman Sachs	270,503	8.3	244,713	7.7
HarbourVest	5,334	0.2	1,147	0.0
Henderson	8,441	0.3	8,130	0.3
Impax	23,517	0.7	26,877	0.9
Invesco	398,911	12.2	355,861	11.3
Partners Group	28,011	0.8	14,928	0.5
Pyrford	80,354	2.4	0	0.0
Schroders	874,007	26.8	883,517	28.0
State Street Global Advisors	441,211	13.5	537,701	17.0
YFM	3,574	0.1	2,091	0.1
Kent County Council Investment Team	49,000	1.5	36,734	1.1
	3,268,176	100	3,158,430	100.00

The investment manager totals exclude investment debtors and creditors.

16. Financial Instruments

16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

	31 March 12			31 March 11		
	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's
Financial Assets						
Index Linked Securities	34,990			34,731		
Equities	1,057,570			1,062,652		
Pooled Investments	1,720,756			1,680,490		
Property Pooled Investments	88,074			89,615		
Private Equity/Infrastructure	45,360			26,296		
Cash		104,307			73,983	
Other Investment Balances		6,694			5,089	
Debtors/ Receivables		40,433			47,189	
	2,946,750	151,434	0	2,893,784	126,261	0
Financial Liabilities						
Derivative Contracts						
Other Investment balances		-173				
Creditors			-9,999			-8,558
Borrowings						
	0	-173	-9,999	0	0	-8,558
	2,946,750	151,261	-9,999	2,893,784	126,261	-8,558

Notes to the Pension Fund Account

16b. Net Gains and Losses on Financial Instruments

	31 March 12	31 March 11
	£000's	£000's
Financial assets		
Fair value through profit and loss	18,684	196,770
Loans and receivables	0	0
Financial assets measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	18,684	196,770

16c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 12		31 March 11	
	Carrying value	Fair Value	Carrying value	Fair Value
	£000's	£000's	£000's	£000's
Financial assets				
Fair value through profit and loss	2,946,750	2,946,750	2,893,784	2,893,784
Loans and receivables	151,434	151,434	126,261	126,261
Total financial assets	3,098,184	3,098,184	3,020,045	3,020,045
Financial liabilities				
Loans and receivables	-173	-173	0	0
financial liabilities at amortised cost	-9,999	-9,999	-8,558	-8,558
Total financial liabilities	-10,172	-10,172	-8,558	-8,558

16d. Valuation of Financial Instruments carried at Fair Value

Level 1

Financial instruments at Level 1 are those where the fair values are derived from adjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

Notes to the Pension Fund Account

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Values at 31 March 2012				
Financial Assets				
Financial assets at fair value through profit and loss	2,901,390		45,360	2,946,750
Loans and receivables	151,434			151,434
Total financial assets	3,052,824	0	45,360	3,098,184
Financial Liabilities				
Loans and receivables	-173			-173
Financial liabilities at amortised cost	-9,999			-9,999
Total financial liabilities	-10,172	0	0	-10,172
Net financial assets	3,042,652	0	45,360	3,088,012
Values at 31 March 2011				
Financial Assets				
Financial assets at fair value through profit and loss	2,867,488		26,296	2,893,784
Loans and receivables	126,261			126,261
Total Financial assets	2,993,749	-	26,296	3,020,045
Financial Liabilities				
Financial liabilities at fair value through profit and loss				
Financial liabilities at amortised cost	-8,558			-8,558
Total financial liabilities	-8,558	0	0	-8,558
Net financial assets	2,985,191	0	26,296	3,011,487

17. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Superannuation Fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Notes to the Pension Fund Account

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risks. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012-13 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	13.30%
Overseas Equities	15.25%
Global Pooled inc UK	15.01%
UK Index Linked securities	3.90%
Cash	0.00%
Alternatives	17.09%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Other price risk - sensitivity analysis

Asset Type	Value as at 31 March 12 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	98,850	0.00	98,850	38,850
Investment portfolio assets:				
UK Equities	555,603	13.30	629,498	481,709
Overseas Equities	501,967	15.25	578,517	425,418
Global Pooled inc UK	1,808,830	15.01	2,080,336	1,537,325
UK Index Linked securities	34,990	3.90	36,355	33,625
Private Equity	8,908	17.09	10,431	7,386
Infrastructure Funds	36,452	17.09	44,681	30,222
Investment income due	6,654	0.00	6,654	6,654
Amounts receivable for sales	40	0.00	40	40
Amounts payable for purchases	-173	0.00	-173	-173
Total assets available to pay benefits	3,052,121		3,485,189	2,561,056

Notes to the Pension Fund Account

Asset Type	Value as at 31 March 11 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	72,972	0.00	72,972	72,972
Investment portfolio assets:				
UK Equities	556,262	13.30	630,245	482,279
Overseas Equities	506,390	15.25	583,615	429,166
Global Pooled inc UK	1,770,104	15.01	2,035,796	1,504,411
UK Index Linked securities	34,731	3.90	36,085	33,376
Private Equity	3,238	17.09	3,792	2,685
Infrastructure Funds	23,058	17.09	26,999	19,118
Investment income due	4,433	0.00	4,433	4,433
Amounts receivable for sales	656	0.00	656	656
Amounts payable for purchases	0	0.00	0	0
Total assets available to pay benefits	2,971,844		3,394,593	2,549,096

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Asset Type	As at 31 March 12 £000	As at 31 March 11 £000
Cash and cash equivalents	98,850	72,972
Fixed Interest Securities	367,045	362,499
Total	465,895	435,471

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying amount as at 31 March 12 £000's	Change in year in the net assets available to pay benefits £000's	
Cash and cash equivalents	98,850	99,838	97,862
Fixed Interest Securities	367,045	370,715	363,374
Total change in assets available	465,895	470,553	461,236

Asset Type	Carrying amount as at 31 March 11 £000's	Change in year in the net assets available to pay benefits +100bps -100bps £000's	
Cash and cash equivalents	72,972	73,702	72,242
Fixed Interest Securities	362,499	366,124	358,874
Total change in assets available	435,471	439,826	431,116

Notes to the Pension Fund Account

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end:

	Asset value as at 31 March 12	Asset value as at 31 March 11
	£000's	£000's
Currency exposure - asset type		
Overseas Equities	501,967	506,390
Global Pooled Funds	780,345	702,397
Global Private Equity and Infrastructure	33,345	16,075
Non Sterling Cash	38,873	22,139
Total overseas assets	1,354,530	1,247,001

Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2012-13 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A relevant strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 12	Percentage change %	Change to net assets available to pay benefits	
	£000's		£000's	£000's
Currency exposure - asset type				
Overseas Equities	501,967	8.32	543,747	460,187
Global Pooled Funds	780,345	6.67	832,355	728,334
Global Private Equity and Infrastructure	33,345	6.55	35,528	31,162
Non Sterling Cash	38,873	9.62	42,613	35,133
Total change in assets available	1,354,530		1,454,243	1,254,816

	Asset value as at 31 March 11	Percentage change %	Change to net assets available to pay benefits	
	£000's		£000's	£000's
Currency exposure - asset type				
Overseas Equities	506,390	8.32	548,415	464,366
Global Pooled Funds	702,397	6.67	749,301	655,493
Global Private Equity and Infrastructure	16,075	6.55	17,128	15,023
Non Sterling Cash	22,139	9.62	24,293	19,985
Total change in assets available	1,247,001		1,339,137	1,154,867

Notes to the Pension Fund Account

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The Council has also set limits as to the maximum amount may be placed with any one financial institution. In addition, the council invests its cash in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

The Council believes it has managed its exposure to credit risk. Pension Fund cash was invested with other Council money with Icelandic Banks in 2008. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £47.18m (31 March 2011: £34.5m). This was held with the following institutions:

Summary	Rating	Balance as at 31 March 12 £000's	Balance as at 31 March 11 £000's
Funds Managed under Internal Treasury arrangements			
Money Market funds			
JP Morgan Sterling Liquidity Fund - GBP	AAA	17,088	1,206
JP Morgan Sterling Liquidity Fund - USD	AAA	20,230	21,769
Blackrock Sterling Government Liquidity Fund	AAA	3,100	
Goldman Sachs Sterling Government Fund	AAA	2,952	
		43,370	22,975
Bank Deposit Accounts			
NatWest SIBA	A	3,809	11,520
		47,179	34,495
Bank Current Accounts			
Natwest Current Account - GBP	A	84	324
Natwest Current Account - Euro	A	2,767	370
Barclays - DTZ client monies account	A	2,606	317
		5,457	1,011
Total		52,636	35,506
Funds Managed by fund Managers			
Money Market funds			
JP Morgan Sterling Liquidity Fund - GBP	AAA	47,674	27,048
Bank Current Accounts			
JP Morgan Chase - Current Account - GBP	A+	3,996	11,429
Total		51,670	38,477

Notes to the Pension Fund Account

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Council has immediate access to its pension fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2012 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Stock Lending

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

Loan Type	Market Value £000's	Collateral Value £000's	Collateral type
Equities	47,296	51,479	Securities
Sovereigns - Euro	4,953	5,201	Securities
	<u>52,249</u>	<u>56,680</u>	

19. Current Assets

	2012		2011	
	£000's	£000's	£000's	£000's
Debtors				
- Contributions due - Employees	3,529		3,818	
- Contributions due - Employers	26,142		27,846	
- Sundry debtors	738	30,409	863	32,527
Amounts due to KCC		10,024		14,662
Cash		5,457		1,011
		<u>45,890</u>		<u>48,200</u>
Analysis of debtors				
Central Government Bodies		262		332
Other Local Authorities		27,268		29,285
Other Entities and individuals		2,879		2,910
		<u>30,409</u>		<u>32,527</u>

Notes to the Pension Fund Account

20. Current Liabilities

	2012 £000's	2011 £000's
Current Liabilities		
Unpaid Benefits	-4,291	-4,386
Other current liabilities	-5,708	-4,172
	-9,999	-8,558
Analysis of creditors		
Central Government Bodies	0	0
Other Local Authorities	-2,976	-2,531
Public Corporations	-11	-12
Other Entities and individuals	-7,012	-6,015
	-9,999	-8,558

21. Loss on Icelandic Investment

At 31 March 2012 the Pension Fund is carrying a provision of £229,861 in respect of cash investments in the Icelandic banks which collapsed in 2008, based on the assumption that KCC has priority creditor status. This is included in other current liabilities per Note 20.

22. 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: £811,233 (£753,300 in 2010-11). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2011-12 £000's	2010-11 £000's	2011-12 £000's	2010-11 £000's	2011-12 £000's	2010-11 £000's
Value at 1 April	4,390	3,906	2,058	2,082	1,136	1,222
Income						
Contributions Received	1,309	1,198	188	183	8	10
Transfer Values Received	136	65	0	0	0	0
Interest & bonuses	36	46	0	0	22	58
Total	1,481	1,309	188	183	29	68
Expenditure						
Retirement Benefits Paid	-781	-762	-290	-357	-186	-143
Transfer Values Paid	-151	-16	0	0	-4	-11
Refund of Contributions	-10	-37	0	0	0	0
Total	-942	-815	-290	-357	-190	-154
Change in Market Value	99	-10	79	150	0	0
Value at 31 March	5,028	4,390	2,035	2,058	975	1,136

Notes to the Pension Fund Account

23. Related Party Transactions

The Kent Pension Fund is administered by Kent County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

	2011-12 £000's	2010-11 £000's
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,612	2,531
Year end balance due from KCC arising out of transactions between KCC and the Pension Fund	3,313	1,580
In respect of interest received on cash deposits		89

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

24. Contingent Liabilities and Contractual Commitments

As at 31 March 2012 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Total Commitment		Invested		Outstanding
	Base Currency	£	Base Currency	£	£
YFM Private Equity	£6m	6m	£4m	4m	2m
Partners Group	€83m	69m	€34m	29m	40m
HarbourVest	\$67.5m	42m	\$4m	2m	40m
HarbourVest	€37m	31m	€5m	4m	70m

25. Contingent Assets

22 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

26. Prior Period Adjustments

Cash and Cash Equivalents

In previous years, amounts owed to/by KCC arising out of joint banking arrangements, were treated as cash assets or liabilities under current Assets. Currently with the operation of a separate bank account of the Pension Fund, these amounts are now shown as Debtors/Creditors under Current Assets.

In the previous financial year, Cash Equivalents managed by KCC were included in Current Assets and those managed by External Fund Managers were included in Investments. In the current financial year, all Cash Equivalents are included under investments to accurately reflect the nature and purpose of those investments.

Notes to the Pension Fund Account

Scheduled Bodies

Local Authority and District Councils

Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge & Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council

Schools

Allington Primary School	Maplesden Noakes School, Maidstone
All Souls County Primary School	Mascalls School
Angley School	Northfleet Technical College
Archbishops CE School	Northfleet School for Girls
Astor College of Arts	Oakwood Park Grammar School
Astor of Hever School	Our Lady of Hartley RC Primary School
Aycliffe CEP	Parkway Primary
Aylesford School	Pent Valley Secondary School
Barton Court Grammar School	Rainham Mark Grammar School
Barton Junior School	Riverview Infants School
Birchington CEP School	Riverview Junior School
Borden Grammar School	Robert Napier School
Borough Green Primary School	Roseacre Junior School
Bredgar School	Sandling CP
Brockhill Park School	Shatter Locks Infants
Brookfield Junior School	Simon Langton Grammar School for Boys
Charles Dickens High School	Skinner's School
Chatham Grammar School for Girls	Snodland County Primary School
Chatham Grammar School for Boys	St Anselm's RC Comprehensive School
Chaucer Technology School	St Bartholomew County Primary School
Crockenhill Primary	St Botolphs County Primary School
Cranbrook School	St Edmund of Canterbury Comprehensive
Dartford Grammar School for Girls	St Francis County Primary School
Ditton Infant School	St George's School, Broadstairs
Ditton CE Junior School	St George's School, Gravesend
Dover Grammar School for Boys	St Gregory's Catholic Comprehensive
Dover Grammar school for Girls	St Johns CEP School
Downsview Infants School	St John RC Comprehensive
East Borough Primary School	St Joseph RC Primary School
Five Acre Wood School	St Mary's CEP
Folkestone School for Girls	St Peter's Aylesford
Gateway Community Primary School	St Simon Stock School
Gravesend Grammar School for Boys	Staplehurst School
Gravesend Grammar School for Girls	Stella Maris RC Primary School
Greatstone County Primary School	Sutton at Hone County Primary School
Halfway House County Primary School	Thamesview School
Harcourt County Primary School	The Norton Knatchbull
Herne Bay Junior School	Thomas Aveling School
Hextable School	Tunbridge Wells Girls Grammar School
High Firs Primary School	Valence Special School

Notes to the Pension Fund Account

Highsted Grammar School
Hillview School for Girls
Holy Family RC Primary
Holy Trinity County Primary School, Dartford
Holy Trinity County Primary School, Gravesend
Horton Kirby County Primary School
Hundred of Hoo School
Hugh Christie School
John Wesley School
Judd School Tonbridge
Malling School

West Minster CP Sheppey
White Cliffs Primary
Whitehill Primary School
Willesborough County Primary Junior School
Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Hall
Wrotham School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
K College
Mid Kent College
North West Kent College
Thanet College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Chesterfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
Downswood Parish Council
Eastry Parish Council
Edenbridge Town Council
EK Arms Length Management Organisation
EK Services (Thanet)
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 and Broomfield Parish Council
Horton Kirby and South Darenth Parish Council
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Fire and Rescue Authority
Kent Police Authority
Kent Probation
Kent Valuation Tribunal
Kings Hill Parish Council
Leigh Parish Council
Littlebourne Parish Council
Longfield and New Barn Parish Council
Lower Medway Internal Drainage Board
Margate Charter Trustees
Minster on Sea Parish Council
Otford Parish Council
Otham Parish Council
Pembury Parish Council
Ramsgate Town Council
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
Sturry Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Temple Ewell Parish Council
Tenterden Town Council
Thanet Joint Computer Committee
Upper Medway Internal Drainage Board
Westerham Parish Council
West Kingsdown Parish Council
Woodnesborough Parish Council

Academies

Amherst School Academy
Barton Court Grammar School (Academy)
Bennett Memorial Diocesan School (Academy)
Bishop of Rochester Academy
Borden Grammar School (Academy)
Brockhill Park Performing Arts College (Academy)
Brompton Academy
Canterbury Academy
Castle Community College Academy
Chatham Grammar School for Girls (Academy)
Chatham House Grammar School Academy
Chatham Grammar School for Boys
Chiddingstone Primary School Academy
Clarendon House Grammar School Academy
Cliffewoods Primary School Academy
Cornwallis Academy
Cranbrook School (Academy)
Dane Court Grammar School (Academy)
Dartford Grammar School For Boys Academy
Dover Christchurch Academy
Duke of York Military Academy
Folkestone Academy
Folkestone School for Girls (Academy)
Fort Pitt Grammar School Academy Trust
Fulston Manor School Academy
Graveney Primary School Academy
Gravesend Grammar School (Boys) Academy
Hartsdown Technology College (Academy)
Hayesbrook High School for Boys Academy
Herne Bay High School Academy
Highstead Grammar School Academy
Highworth Grammar School Academy
Hillview School for Girls (Academy)
Homewood School (Academy)
Hundred of Hoo School (Academy)
Isle of Sheppey Academy
Joydens Infant School Academy
Joydens Junior School Academy
John Wallis Academy
Kemnal Academy Trust Horizons Primary School
Kemnal Academy Trust: Orchards Academy
Kemnal Academy Trust: Rainham School for Girls
Kemnal Academy Trust: Smarden Primary School Academy
King Ethelbert School (Academy)
Knole Academy
Leigh Technology Academy
Longfield Academy
Lynsted & Norton Primary School Academy
Marlowe Academy
Marsh Academy
Mascalls School (Academy)
Mayfield Grammar School (Academy)
Meopham Community Academy
Milestead & Frinsted CE Primary
Milestone Academy
New Line Learning Academy
Oakwood Park Grammar School (Academy)
Queen Elizabeth's Grammar School (Academy)
Rainham Mark Grammar School Academy
Regis Manor Community Primary School Academy
Rochester Grammar School for Girls Academy
Saint George Church of England School
Sandwich High School Academy
Selling CE Primary Academy
Sheldwich Primary School
Sir Joseph's Williamson Math School Academy
Sir Roger Manwood School Academy
Sittingbourne Community College Academy
Skinners Academy
Spires Academy
St Augustine Academy
St John's Primary School Academy
St Stephens Junior School Academy
Strood Academy
The Maplesden Noakes School (Academy)
The Abbey School Academy
Thomas Aveling School (Academy)
Tonbridge Grammar School for Girls Academy
Walderslade Girls School Academy
Weald of Kent Grammar School Academy
Wentworth Primary School Academy
Westlands Primary School Academy
Westlands School Academy
Wilmington Academy
Wilmington Girls Grammar School (Academy)
Wilmington Grammar School for Boys (Academy)
Wilmington Primary School (Academy)

Glossary of terms

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 Service Reporting 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.

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.

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.

Glossary of terms

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.

Revenue expenditure funded from capital under statute (Refcus)

Refcus includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

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.