Contents

Notes to the Accounting Statements index

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2012-13 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 2012-13 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 148 and 149.

The Accounts consist of:

- A Movement in Reserves Statement on pages 8 and 9.
- A Comprehensive Income and Expenditure Statement on pages 10 and 11.
- The Balance Sheet on page 12 which sets out the financial position of Kent County Council as at 31 March 2013.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 13.
- Notes to support the above primary statements, pages 14 to 104.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 105 to 131.

Revenue Budget and Outturn

In February 2012 the Council approved a net revenue budget for 2012-13 of £904.321m. In addition £17.242m of 2011-12 underspending was rolled forward and added to the budget. 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	Outturn	Variance
	£000's	£000's	£000's
Education, Learning & Skills	48,359	42,610	-5,749
Specialist Children's Services	148,601	158,111	9,510
Adult Social Care & Public Health	329,464	326,907	-2,557
Environment, Highways & Waste	156,630	153,697	-2,933
Customer & Communities	81,390	77,350	-4,040
Regeneration & Enterprise	3,654	3,657	3
Finance & Business Support	85,482	76,103	-9,379
Business Strategy, Performance & Health Reform	60,409	60,228	-181
Democracy & Partnerships	7,574	6,821	-753
	921,563	905,484	-16,079
Delegated Schools Budgets	0	10,964	10,964
	921,563	916,448	-5,115

	Budget	Outturn	Variance
FUNDED BY:-	£000's	£000's	£000's
Reserves	-17,242	-17,242	0
Formula Grant	-303,446	-303,446	0
Council Tax	-580,153	-580,153	0
Council Tax Freeze Grant	-14,446	-14,448	-2

New Homes Bonus Grant	-2,839	-2,839	0
Local Services Support Grant	-3,437	-3,437	0
Total Funding	-921,563	-921,565	-2
NET OUTTURN POSITION	0	-5,117	-5,117

The net underspending within the portfolios of £16.081m (excluding £10.964m delegated schools overspend) has been carried forward and will be used as follows: £5m to support 2013-14 budget, £6.157m to roll forward to fund existing commitments as a result of re-phasing and £4.924m to reserves pending further analysis of the funding outlook for KCC.

Schools

In total, schools overspent against their delegated budgets by £10.964m, which has been drawn down from school reserves. This includes a £1.888m drawdown from school reserves as a result of 34 schools converting to new style academy status which allows them to take their reserves with them, and a £2.983m underspend against delegated budgets for the remaining Kent schools. In addition, there was £12.059m of overspending on the unallocated schools budget, largely due to £5.2m of schools collaboration work; £2.42m to fund transitional protection for changes in formula funding for specialist schools delegated budgets; £2.951m revenue contribution to capital for joint funded capital projects with schools in order to keep them warm, safe and dry; £0.411m for schools broadband; £0.3m for schools finance training, and an overspend on early years placements of £1.135m offset by other minor variances of -£0.358m. Schools now have £38.193m revenue reserves and there is £9.931m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2013 is £31.725m, which is unchanged from the position as at 31 March 2012.

Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landsbanki's UK subsidiary Heritable went into administration. The Council had £50.35m deposited across 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. The Glitnir claims were paid in full in 2011-12 and in 2012-13 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 7 - although since this document was issued a large part of Heritable's remaining business has been sold and a large dividend will be received in August. In real terms this means a recovery of 96% of the original deposit plus interest to the respective claim dates although this will be increased when the Heritable dividend is received.

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 £181.2m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education, Learning and Skills	100,107	84,626	-15,481
Adult Social Care and Public Health	4,316	2,954	-1,362
Environment, Highways & Waste	58,791	57,453	-1,338
Customer and Communities	6,621	5,606	-1,015
Regeneration & Enterprise	10,036	2,693	-7,343
Business Strategy, Performance and Health Reform	23,943	7,963	-15,980
Specialist Children's Services	709	1,329	620
	204,523	162,624	-41,899
Devolved Capital to Schools	18,157	17,481	-676
	222,680	180,105	-42,575
Property Enterprise Fund 1		7	7
Property Enterprise Fund 2		1,117	1,117
TOTAL	222,680	181,229	-41,451

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £41.899m less than cash limits. Of this, £45.104m reflected re-phasing of capital expenditure plans across all services and £3.205m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2013-14 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2012-13 was £17.481m and at 31 March 2013 schools have in hand some £0.676m of devolved capital funding, a decrease of £1.324m on 2011-12, which will be carried forward to 2013-14 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.

Details of the financing of capital expenditure are on page 50.

Capital Reserves

At 31 March 2013 the Council has earmarked and other capital reserves of £141.1m as shown on page 61.

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 2013 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 75.

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 2012-13 IAS 19 report shows that the Pension Fund now has a deficit of £894m. This is an increase in the deficit of £28m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2012-13, earlier years and for future years. The balance currently stands at £1025.9m as shown on the balance sheet on page 12. 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 "Jointly Controlled Operation" and in 2012-13 the transactions and balances of EKO relating to KCC have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

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 24 July 2013 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 2013.

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

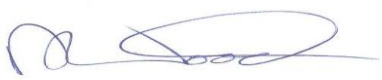
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

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 2013.

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
17 July 2013

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 2012				
	General Fund Balance	**Earmarked GF Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2011	**-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 and Income	**11,983**	**25**	**0**	**0**	**12,008**
Adjustments between accounting basis & funding basis under regulations - Note 10	-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 (total of *s on Note 20)	26,428	-26,428			**0**
Increase/Decrease (movement) in Year	**-5,000**	**-26,403**	**1,607**	**-13,211**	**-43,007**
	Year ended 31 March 2013				
Balance at 31 March 2012 carried forward	**-31,725**	**-200,698**	**-14,897**	**-74,002**	**-321,322**
Movement in reserves during 2012-13					
Surplus or (Deficit) on Provision of Services	106,045				**106,045**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**106,045**	**0**	**0**	**0**	**106,045**
Adjustments between accounting basis & funding basis under regulations - Note 10	-118,175		-18,685	-33,519	**-170,379**
Net increase/Decrease before Transfers to Earmarked Reserves	**-12,130**	**0**	**-18,685**	**-33,519**	**-64,334**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	12,130	-12,130			**0**
Increase/Decrease (movement) in Year	**0**	**-12,130**	**-18,685**	**-33,519**	**-64,334**
Balance at 31 March 2013 carried forward	**-31,725**	**-212,828**	**-33,582**	**-107,521**	**-385,656**

Movement in Reserves Statement

	Year ended 31 March 2012		
	Total Usable Reserves	Unusable reserves	Total Council Reserves
	£'000	£'000	£'000
Balance at 31 March 2011	**-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 and 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 (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-43,005**	**370,333**	**327,328**
	Year ended 31 March 2013		
Balance at 31 March 2012 carried forward	**-321,321**	**140,948**	**-180,373**
Movement in reserves during 2012-13			
Surplus or (Deficit) on Provision of Services	106,045		106,045
Other Comprehensive Expenditure and Income (total of *'s on CIES)		17,326	17,326
Total Comprehensive Expenditure & Income	**106,045**	**17,326**	**123,371**
Adjustments between accounting basis & funding basis under regulations	-170,380	170,380	0
Net increase/Decrease before Transfers to Earmarked Reserves	**-64,335**	**187,706**	**123,371**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-64,335**	**187,706**	**123,371**
Balance at 31 March 2013 carried forward	**-385,656**	**328,654**	**-57,002**

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 2013		
Service		**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
Cultural Services		8,409	3,583	4,826
Environmental, Regulatory & Other Services		17,932	6,517	11,415
Planning Services		23,075	5,390	17,685
Court Services		2,845	475	2,370
Arts & Libraries		33,960	1,699	32,261
Waste Management		69,688	2,996	66,692
Children's and Education Services		1,255,703	969,773	285,930
Highways, Roads and Transport Services		164,159	18,510	145,649
Adult Social Care		539,691	133,276	406,415
Corporate and Democratic Core		38,889	26,996	11,893
Non Distributed Costs		14,220	8,661	5,559
Cost of Services		**2,168,571**	**1,177,876**	**990,695**
Other operating Expenditure	**11**			99,197
Net Surplus on trading accounts	**32**			-5,585
Financing and Investment Inc and Exp	**12**			88,607
Taxation and Non Specific Grant Income	**13**			-1,066,869
(Surplus) or deficit on Provision of Services				**106,045**
(Surplus)/deficit arising on revaluation of non current assets			*	-5,244
Actuarial (gains)/losses on pension fund assets / liabilities			*	23,203
(Surplus)/deficit arising on loans and receivables			*	-633
Total Comprehensive Income and Expenditure				**123,371**

Comprehensive Income and Expenditure Statement

Service	Notes	Restated Year ended 31 March 2012 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural Services		23,584	3,176	20,408
Environmental, Regulatory & Other Services		21,229	13,928	7,301
Planning Services		19,051	3,883	15,168
Court Services		2,684	475	2,209
Arts & Libraries		22,659	2,076	20,583
Waste Management		69,642	2,960	66,682
Children's and Education Services		1,352,645	1,133,369	219,276
Highways, Roads and Transport Services		176,308	19,582	156,726
Adult Social Care		529,083	163,279	365,804
Corporate and Democratic Core		30,571	27,541	3,030
Non Distributed Costs		12,821	16,554	-3,733
Cost of Services		**2,260,277**	**1,386,823**	**873,454**
Other operating Expenditure	**11**			98,463
Net Surplus on trading accounts	**32**			-8,425
Financing and Investment Inc and Exp	**12**			71,936
Taxation and Non Specific Grant Income	**13**			-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**

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 2013		31 March 12
	Notes	**£'000**	**£'000**	**£'000**
Non Current Assets				
Property Plant & Equipment	**15**	2,016,868		2,211,572
Heritage Assets	**18**	6,637		5,980
Investment Property		22,322		23,501
Intangible assets		2,899		1,591
Total Property Plant & Equipment			2,048,726	2,242,644
Long-term investments	**37**	0		11,320
Long-term debtors	**24**	59,759		61,172
Total long-term assets			2,108,485	2,315,136
Inventories		6,467		7,006
Assets held for sale (<1yr)		5,016		4,820
Short term debtors	**24**	163,748		171,016
Investments	**37**	64,961		134,681
Cash and Cash equivalents	**26**	215,058		139,421
Total current assets			455,250	456,944
Temporary borrowing	**37**	-2,327		-77,843
Short term Lease Liability	**37**	-4,462		-4,852
Short term provisions	**23**	-24,694		-29,378
Creditors	**25**	-227,581		-261,008
Total Current liabilities			-259,064	-373,081
Creditors due after one year	**25**	-27,970		-3,895
Provisions	**23**	-17,296		-17,896
Long-term borrowing	**37**	-1,023,575		-1,025,805
Other Long Term Liabilities	**19/24/36**	-1,154,942		-1,133,528
Capital Grants Receipts in Advance	**14**	-23,887		-37,501
Long Term Liabilities			-2,247,670	-2,218,625
Net Assets			57,001	180,374
Usable Reserves	**20**	-385,656		-321,322
Unusable Reserve	**21**	328,655		140,948
Total Reserves			-57,001	-180,374

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	2012-2013 £'000	2011-2012 £'000
Net (Surplus) or deficit on the provision of services		106,045	11,984
Adjustments to net surplus or deficit on the provision of services for non cash movements	27	-376,118	-365,264
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	169,367	224,284
Net cash flows from operating activities	28	-100,706	-128,996
Investing Activities	29	-75,649	13,204
Financing Activities	30	100,718	43,681
Net increase(-) or decrease in cash and cash equivalents		-75,637	-72,111
Cash and cash equivalents at the beginning of the reporting period		139,421	67,310
Cash and cash equivalents at the end of the reporting period	26	215,058	139,421

Notes 1 and 2

Note 1. Basis for Preparation/General

The notes to the financial statements on the following pages are in order of significance, primarily based on aiding an understanding of the key drivers of the financial position of the Council, whilst maintaining the grouping of notes between the income and expenditure statement and the balance sheet where appropriate.

The notes relating to specific financial statement lines now include the corresponding accounting policy. As a result there is not a separate principal accounting policies note but note 2 details general accounting policies where there are not accompanying notes.

The content and presentation of the accounts for 2012-13 has been reviewed. This has resulted in removing notes that were deemed immaterial and presenting the notes in an order which is of most importance to the reader.

Details of the order of the notes can be found in the index on page 2 of the financial statements.

Note 2. General Accounting Policies (where there is no accompanying note)

General

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2011 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 2012-13 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.

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 2 - Accounting Policies

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.

Accounting for Schools

The accounting policies for Schools are in line with the Council's and therefore are complied on an accruals basis. Schools balances are consolidated into the Council's accounts, with income and expenditure being attributed to the appropriate service line in the Comprehensive Income and Expenditure Statement and assets and liabilities included on the Balance Sheet. The Schools Reserve is held in a separate reserve and are located within Usable Reserves.

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.

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.

Jointly Controlled Operations

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 its incurs and the share of income it earns from the activity of the operation. The proportion of transactions and balances of Jointly Controlled Operations that relate to the Council are included in the Council's single entity accounts.

Note 2 and 3

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 2012-13 (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.

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. VAT receivable is excluded from income.

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.

Carbon Reduction Commitment Allowances

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. 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.

Note 3. Accounting Standards that have been issued but have not yet been adopted

For 2012-13 there are amendments to the following accounting standards:

IAS 19 Employment Benefits - new class of components to be recognised in the financial statements, significantly the removal of the expected return on assets to be replaced by net interest costs. If the amendment had been adopted in 2012-13 the amount recognised in the Comprehensive Income and Expenditure Account would have been £92.5m compared with the £73.9m which has been recognised.

IFRS 7 Financial Instruments Disclosures - Offsetting Financial Assets and Liabilities.

IAS 12 Deferred Tax - Recovery of Underlying Assets. This amendment impacts on Group Accounts and there will be no impact as we do not produce Group Accounts.

The impact of the above amendments will be in the 2013-14 accounts.

Note 4. 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.

- There is currently inconsistency across Local Authorities regarding the accounting treatment for different types of schools. Until the announcement of a definitive requirement by CIPFA, expected for the 2013-14 Statement of Accounts, the Council treats Community and Voluntary Controlled schools as on balance sheet and all other types of schools as off balance sheet.

Note 5. Assumptions Made about the Future and Other Major Sources of Estimation

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 2013 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 £501k 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 £2.505m - 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 2012/13 the following de minimus thresholds were applied: Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m Highways & Waste Depots: £1m County Offices: £2m Libraries: no componentisation Adult Education Centres: no Youth & Community Centres: no	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £1.33m. Over 5 years this would give a difference of £6.65m - this is not material.

Note 5 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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 £1,024k 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 standard 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 1.3% to 1.0% 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 2012-13, the Council's actuaries advised that the net pensions liability had increased by £2.6m as a result of estimates being corrected due to experience and increased by £157m attributable to the updating of the assumptions.

Note 6. Officers Remuneration

Accounting Policy

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.

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
– unitised 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

Note 6 - Officers Remuneration

– 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.

Note 6 - Officers Remuneration

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2012 to 31 March 2013

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 2012-13, 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 2013	Schools 31 March 2013	Non-Schools 31 March 2012	Schools 31 March 2012
50,000 - 54,999	152	216	175	242
55,000 - 59,999	86	182	103	174
60,000 - 64,999	48	96	68	124
65,000 - 69,999	28	55	37	70
70,000 - 74,999	32	29	37	27
75,000 - 79,999	6	16	15	18
80,000 - 84,999	4	16	10	14
85,000 - 89,999	6	12	10	16
90,000 - 94,999	7	6	9	7
95,000 - 99,999	3	10	7	8
100,000 - 104,999	5	4	5	5
105,000 - 109,999	5	2	2	3
110,000 - 114,999	3	1	3	0
115,000 - 119,999	0	0	0	0
120,000 - 124,999	1	0	0	0
125,000 - 129,999	0	1	2	0
130,000 - 134,999	2	0	1	0
135,000 - 139,999	0	0	0	0
140,000 - 144,999	0	0	1	0
145,000 - 149,999	0	0	0	0
150,000 - 154,999	1	0	0	0
155,000 - 159,999	1	0	1	0

Note 6 - Officers Remuneration

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2013	Schools 31 March 2013	Non-Schools 31 March 2012	Schools 31 March 2012
160,000 - 164,999	2	0	0	0
165,000 - 169,999	0	0	0	0
170,000 - 174,999	0	0	1	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	0	0
185,000 - 189,999	1	0	0	0
190,000 - 194,999	0	0	2	0
195,000 - 199,999	0	0	0	0
200,000 - 204,999	0	0	0	0
205,000 - 209,999	0	0	0	0
210,000 - 214,999	0	0	0	0
215,000 - 219,999	0	0	1	0
555,000 - 559,999			1	0
Total	**393**	**646**	**491**	**708**

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.

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.

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2012-13 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 Business Strategy & Support - David Cockburn		187,719					187,719	39,734	227,453
Corporate Director Customer & Communities - Amanda Honey		159,075	1,530				160,605	35,003	195,608
Corporate Director Education Learning & Skills - Patrick Leeson		154,530		7,070			161,600	33,936	195,536
Corporate Director Families & Social Care - Andrew Ireland		156,348					156,348	32,833	189,181
Corporate Director Enterprise & Environment - Mike Austerberry		151,500					151,500	0	151,500

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2012-13 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 £
Director of Governance & Law - Geoff Wild		129,553		2,610			132,163	28,813	160,976
Corporate Director Finance & Procurement - Andy Wood		121,200					121,200	25,452	146,652
Corporate Director Human Resources - Amanda Beer		112,716					112,716	23,670	136,386

Note 6 - 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 £
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 6- 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 6 - 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.

Note 6 - 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 54% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000, £20,001 - £40,000 and £40,001 - £80,000 and have applied this percentage equally to each of those bands. The total cost in 2012-13 of £3.9m includes schools and commitments in 2013-14.

(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	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12 £	2012/13 £
100,001-450,000	1	0	1	0	2	0	592,000	0
80,001-100,000	0	0	0	0	0	0	0	0
40,001-80,000	3	3	6	2	9	5	419,310	247,670
20,001-40,000	109	27	31	23	140	50	3,650,979	1,414,497
0-20,000	666	208	188	178	854	386	5,346,184	2,252,577
Total	**779**	**238**	**226**	**203**	**1,005**	**441**	**10,008,473**	**3,914,744**

Note 7 - Members Allowances and Note 8 - Deposits in Icelandic Banks

Note 7. Members Allowances

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

	2012-13 £'000	2011-12 £'000
Salaries	0	0
Allowances	1,646	1,662
Expenses	139	140
Total	**1,785**	**1,802**

In 2012-13 the cost of the County Cars were £52k.

Note 8. Deposits in Icelandic

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landbanki's UK subsidiaries Heritable went into administration. The Council had £50.35m deposited across these 3 institutions, with varying maturity dates and interest rates. 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.

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.

Bank	Amount Invested £000's	Interest Rate	Amount due as at Claim Date £000's	Repayments to date £000's
Heritable	1,500	6.15	1,513	1,169
Heritable	2,000	6.19	2,113	1,633
Heritable	2,000	5.6	2,010	1,553
Heritable	3,250	6.1	3,253	2,513
Heritable	4,600	5.9	4,717	3,645
Heritable	5,000	6.25	5,004	3,866
Glitnir	5,000	5.5	5,276	5,127
Glitnir	5,000	6.3	5,212	5,065
Glitnir	5,000	6	5,150	5,004
LBI hf	2,000	6.19	2,125	1,019
LBI hf	5,000	6	5,300	2,541
LBI hf	5,000	5.96	5,291	2,536
LBI hf	5,000	5.93	5,028	2,411
Total	**50,350**		**51,992**	**38,082**

Note 8 - Iceland and Note 9 - Material Items of Income and Expenditure

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 2013 of 77.2% and as at 31 March 2013, the calculated return of our investment is 88% as per LAAP Bulletin 82 update 7. In calculating the impairment the Council has followed LAAP 82, which makes the following assumptions re timing of the recoveries:

July 2013	2.00%	Jan-14	8.80%

Since the Lap Bulletin was issued the administrator has sold a substantial part of the remaining business and a large dividend is expected in August 2013.

LBI hf (formerly Landsbanki)

As at the 31 March 2013 the Council received 49.65% 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 2013	7.50%	December 2017	7.50%
December 2014	7.50%	December 2018	7.50%
December 2015	7.50%	December 2019	5.35%
December 2016	7.50%		

Glitnir Bank hf

The Council received 100% of the recoverable amount during 2011-12.

The 100% recovery received £2.96m in Icelandic Kroner for Iceland-domiciled accounts during 2011-12. This is placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

Note 9. Material Items of Income and Expense

<u>Accounting Policy</u>

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.

Material Items of Income and Expense

The net loss on disposal of non-current assets of £98.5m includes £91.7m which relates to schools transferring to academy status.

Note 10. Adjustments between accounting basis and funding basis under regulations

31 March 2013	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	-108,230			108,230
Impairment charge where assets have been revalued in year*	-31,483			31,483
Revaluation losses on Property Plant and Equipment	-20,095			20,095
Movements in the fair value of Investment Properties	-909			909
Amortisation of intangible assets	-863			863
Capital Grants and contributions applied	143,399			-143,399
In year revenue expenditure funded from capital under statute	-73,953			73,953
Prior year revenue expenditure funded from capital under statute	-14807			14,807
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	-89,503			89,503
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	60,993			-60,993
Capital expenditure charged against the General Fund	27,992			-27,992
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement			-135,782	135,782
Application of grants to capital financing transferred to the Capital Adjustment Account			102,263	-102,263
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		-24,358		24,358

Note 10 - 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
Use of the Capital Receipts Reserve to finance new capital expenditure		5,673		-5,673
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	-8,965			8,965
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	-600			600
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-73,895			73,895
Employer's pensions contributions and direct payments to pensioners payable in the year	69,409			-69,409
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	-515			515
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	3,849			-3,849
Total Adjustments	**-118,176**	**-18,685**	**-33,519**	**170,380**

Note 10 - Adjustments between accounting basis & 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
Impairment charge where assets have been revalued in year*	-22,787			22,787
Revaluation losses on Property Plant and Equipment	-38,469			38,469
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
In year revenue expenditure funded from capital under statute	-86,110			86,110
Prior year revenue expenditure funded from capital under statute	-13004			13,004
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

Note 10 - 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
Use of the Capital Receipts Reserve to finance new capital expenditure		10,801		-10,801
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**

* Amounts held on assets under construction or spend incurred in year which relate to assets that have been revalued in 2012-13 have been written off directly to the CIES.

Notes 11, 12 and 13

Note 11. Other Operating Expenditure

	2012-13 £000's	2011-12 £000's
Levies	729	735
Gains/Losses on the disposal of non-current assets	98,468	97,728
	99,197	98,463

Note 12. Financing and investment income and expenditure

	2012-13 £000's	2011-12 £000's
Interest payable and similar charges	78,262	77,292
Pensions interest cost and expected return on pensions assets	20,550	8,062
Interest receivable and similar income	-6,632	-4,864
Income and expenditure in relation to investment properties and changes in their fair value	650	-4,220
Other investment income	-4,223	-4,333
	88,607	71,937

Note 13. Taxation and non specific grant incomes

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.

	2012-13 £000's	2011-12 £000's
Income from Council Tax	-579,639	-575,917
Non-ringfenced government grants	-487,230	-447,528
	-1,066,869	-1,023,445

Note 14. Grant Income

Accounting Policy

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.

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012-13:

	2012-13	2011-12
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-579,639	-575,917
Council Tax Freeze	-14,448	-14,342
Revenue Support Grant	-303,447	-315,987
Local Services Support Grant	-3,436	-3,125
Other DFES/DofH Grants	-90,713	
New Homes Bonus	-2,839	-1,379
Capital Government Grants and Contributions	-72,347	-112,695
Total	-1,066,869	-1,023,445
Credited to Services		
Dedicated Schools Grant	-724,412	-792,799
Young Persons Learning Agency/Education Funding Agency	-44,116	-57,619
Other DFES Grants	-99,922	-168,111
Department of Health Grants	-1,970	-38,126
Asylum	-13,454	-12,166
Other	-44,103	-32,289
Total	-927,977	-1,101,110

KCC's share of surplus on the Council Tax has reduced by £0.515m (2011-12 surplus increased by £0.237m). See the Collection Fund Adjustment Account detailed in Note 21.

Note 14 - Grant Income and Note 15 - Property, Plant and Equipment

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:

	2012-13	2011-12
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	-6,952	-11,817
Other Grants	-2,891	-2,265
Other Contributions	-14,044	-23,419
Total	-23,887	-37,501

Note 15. Property, Plant and Equipment

Accounting Policy

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.

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.

Note 15 - Property, Plant and Equipment

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	- 3-25 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.

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 17.

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.

Note 15 - Property, Plant and Equipment

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.

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.

Restatement to previous years Land and Buildings Note

In 2012-13 an extensive review of the Council's property asset registers was undertaken. This included reviewing the accounting treatment of every asset since April 2007 when the Revaluation Reserve was introduced. This work led to a different interpretation of how certain figures within Note 15, Property, Plant & Equipment are presented. Schools which have transferred to academy, foundation or voluntary aided status are now included within 'Derecognition - Disposal'. Previously this derecognition was included under 'Derecognition - Other'. We have therefore moved £105,661k from 'Derecognition - Other' to 'Derecognition - Disposals' in the disclosure note for 2011-12.

'Other Movements in cost or valuation' - this line includes transfers into or out of Property, Plant & Equipment or where an asset has moved between headings within the note. It also includes the reversal of the write out of depreciation upon revaluation where previously this had been included within the 'Revaluation increases/(decreases) recognised in the Revaluation Reserve'. The new presentation better reflects the actual revaluation movement to the Revaluation Reserve or Surplus/Deficit on the Provision of Services after depreciation has been written out. We have therefore moved -£15,334k from 'Revaluation increases/(decreases) recognised in the Revaluation Reserve' to 'Other Movements in cost or valuation' in the 2011-12 disclosure note.

We have removed £45,232k from 'Impairment (losses)/reversals recognised in the Revaluation Reserve' and £48,575k from 'Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services'. Previously we assumed that this meant downward valuations affecting the Revaluation Reserve and the CIES, but believe this is not the correct interpretation. This treatment also meant that we had to put the reverse of this value in 'Other movements in Depreciation and Impairment' to ensure that the note balanced, we have therefore removed -£93,807k from this line in the 2011-12 disclosure note.

These changes have no impact on the Balance Sheet for 2011-12.

Note 15. Property, Plant & Equipment
Movement on balances - Movements in 2012-2013

	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 2012	1,289,131	85,138	1,310,691	8,818	242,674	39,409	2,975,861	119,315
Additions	87,088	7,949	135,669	344	34,324	537	265,911	2,442
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	4,378					182	4,560	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-19,235					-818	-20,053	43
Derecognition - Disposals	-126,220	-4,280			-608	-1,105	-132,213	-10,466

Property, Plant & Equipment - Movements in 2012-2013

	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					-6,051		-6,051	
Assets reclassified (to) / from Held for Sale	-2,260					-548	-2,808	
Other Movements in cost or valuation	-24,052				-181,430	7,468	-198,014	
At 31 March 2013	**1,208,830**	**88,807**	**1,446,360**	**9,162**	**88,909**	**45,125**	**2,887,193**	**111,334**

Property, Plant & Equipment - Movements in 2012-2013

	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 2012	-77,923	-58,756	-626,566			-1,045	-764,290	-6,958
Depreciation Charge	-31,145	-10,053	-65,534			-1,530	-108,262	-2,682
Depreciation written out	16,169					438	16,607	
Impairment (losses) / reversals recognised in the Revaluation Reserve	-100						-100	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-4,859				-26,624		-31,483	

Note 15 - Property, Plant and Equipment

Property, Plant & Equipment - Movements in 2012-2013

	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	7,988	4,164				11	12,163	516
Derecognition - Other							0	
Other movements in Depreciation and Impairment	5,703	-110				-553	5,040	
At 31 March 2013	**-84,167**	**-64,755**	**-692,100**	**0**	**-26,624**	**-2,679**	**-870,325**	**-9,124**
Net Book Value								
At 31 March 2013	**1,124,663**	**24,052**	**754,260**	**9,162**	**62,285**	**42,446**	**2,016,868**	**102,210**
At 31 March 2012	**1,211,208**	**26,382**	**684,125**	**8,818**	**242,674**	**38,364**	**2,211,571**	**112,357**

Note 15. Property, Plant & Equipment
Comparative Movements in 2011-12

	Land and Buildings Restated £'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	38,284					230	38,514	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-36,783					-1,550	-38,333	
Derecognition - Disposals	-109,125	-5,605				-2,643	-117,373	

Property, Plant & Equipment - Comparative Movements in 2011-12

	Land and Buildings Restated £'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				-358	-8,879		-9,237	
Assets reclassified (to) / from Held for Sale	-798					-780	-1,578	
Other Movements in cost or valuation	666		-10,205		-209,612	571	-218,580	
At 31 March 2012	**1,289,131**	**85,138**	**1,310,691**	**8,818**	**263,080**	**39,409**	**2,996,267**	**119,315**

Property, Plant & Equipment - Comparative Movements in 2011-12

	Land and Buildings Restated £'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	15,334					1,892	17,226	
Impairment (losses) / reversals recognised in the Revaluation Reserve						4,959	4,959	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-2,251				-20,406	-130	-22,787	

Property, Plant & Equipment - Comparative Movements in 2011-12

	Land and Buildings Restated £'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	3,009	-113				-5,178	-2,282	
At 31 March 2012	**-77,923**	**-58,756**	**-626,566**	**0**	**-20,406**	**-1,045**	**-784,696**	**-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 15 - 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 and Adam Martin MRICS of Jones Lang Lasalle overseen by Andrew Bowyer 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	Investment Properties	Total
	£'000	£'000	£'000
Valued at current value in:			
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
2012-13	350,976	4,271	355,247

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 2012-13 all land and buildings which have not had a valuation within the last five years have now been valued, these include Adult Education Centres, Libraries and Youth Centres 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 asset classed as an investment property or asset held for sale 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.

Although the date of valuations on the valuation report is as at 1st April 2012, many of the valuations take place nearer the end of the financial year. We therefore assume that any spend incurred on these assets in prior years and held under assets under construction plus spend in the current year, has been included within the valuation figures. For completed projects it is therefore our policy to impair this spend and account for the valuation in accordance with IAS 16.

Contractual Liabilities

We are contractually committed to make the following payments over £10m in future years:

	2012 -13
	£000
The Duke of York's Royal Military School	24,346
St Augustine's Academy	14,093
Knole Academy	11,267

Note 16. Capital Expenditure and Financing

Accounting Policy

Government Grants and Contributions

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.

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.

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.

	2012-13 £000's	2011-12 £000's
Opening Capital financing requirement	1,495,873	1,518,146
Capital investment		
Property, Plant and Equipment	106,450	177,200
Intangible assets	826	385
Revenue expenditure funded from capital under statute	73,953	86,110
	1,677,102	1,781,841
Sources of finance		
Capital receipts	-7,290	-10,801
Government grants and other contributions	-115,866	-194,509
Direct revenue contributions	-27,992	-24,828
(MRP/loans fund principal)	-60,993	-55,830
Closing Capital Financing Requirement	1,464,961	1,495,873
Movement	**-30,912**	**-22,273**

	2012-13 £000's	2011-12 £000's
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)	-30,912	-22,273
Assets acquired under finance leases		
PFI/PPP contracts where no asset is acquired		
Increase/(decrease) in Capital Financing Requirement	**-30,912**	**-22,273**

Note 17. PFI and Similar Contracts

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
- 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

Note 17 - 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 (restated)**	**Swanscombe Schools**	**Westview/ Westbrook**	**Better Homes, Active Lives**	**TOTAL** £'000
As at 31 March 2012	27,176	20,669	9,842	47,319	105,006
Additions	1,422	401	343	276	2,442
Revaluations					
Transfer from/to WIP					
Impairment					
Depreciation	-493	-708	-234	-1,071	-2,506
Derecognition - disposal	-9,951				-9,951
Previous year adjustments				42	42
As at 31 March 2013	18,154	20,362	9,951	46,566	95,033

This note has been restated to reflect a late change to the 2011-12 accounts where PFI schools that were Foundation schools were written out of our books. This change was omitted from this disclosure note.

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 2012	76,109	8,971	14,137	58,255	63,999	221,471
Fair value of assets coming into use in-year						0
Liability repaid	-1,548	-133	-257	-958	-1,161	-4,057
As at 31 March 2013	74,561	8,838	13,880	57,297	62,838	217,414

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	1,415	6,510	3,001	815	11,741
Within 2-5 years	6,471	24,757	12,776	4,140	48,144
Within 6-10 years	10,677	27,547	17,851	7,019	63,094
Within 11-15 years	13,694	22,549	20,197	11,372	67,812
Within 16-20 years	22,140	15,343	22,851	10,376	70,710
Within 21-25 years	20,162	3,794	15,128	3,682	42,766

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 17 - PFI and Similar Contracts

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	194	1,265	582	345	2,386
Within 2-5 years	914	4,725	2,455	1,812	9,906
Within 6-10 years	2,589	4,887	3,409	1,789	12,674
Within 11-15 years	5,140	2,208	3,432	607	11,387

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	254	1,073	1,445	386	3,158
Within 2-5 years	1,532	4,050	6,207	1,224	13,013
Within 6-10 years	1,772	4,494	8,818	2,949	18,033
Within 11-15 years	2,770	3,654	10,176	3,091	19,691
Within 16-20 years	5,151	2,203	11,762	1,416	20,532
Within 21-25 years	2,403	186	0	0	2,589

The RPIx and AWE indices are both used as bases for indexation in the Westview/Westbrook PFI contract.
RPIx has been assumed to be at 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	1,067	4,069	0	235	5,371
Within 2-5 years	4,385	15,502	0	1,598	21,485
Within 6-10 years	6,514	17,536	0	2,805	26,855
Within 11-15 years	9,342	14,933	0	2,580	26,855
Within 16-20 years	12,924	11,001	0	2,930	26,855
Within 21-25 years	19,723	5,646	0	1,487	26,856
Within 26-30 years	3,343	237	0	0	3,580

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

Note 17 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,288	5,839	1,906	19	9,052
Within 2-5 years	5,513	22,122	8,111	1,210	36,956
Within 6-10 years	9,136	24,474	11,333	3,005	47,948
Within 11-15 years	11,276	19,801	12,822	7,509	51,408
Within 16-20 years	17,648	13,748	14,507	7,777	53,680
Within 21-25 years	17,975	3,583	7,362	1,906	30,826

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	4,218	18,756	6,934	1,800	31,708
Within 2-5 years	18,815	71,156	29,549	9,984	129,504
Within 6-10 years	30,688	78,938	41,411	17,567	168,604
Within 11-15 years	42,222	63,145	46,627	25,159	177,153
Within 16-20 years	57,863	42,295	49,120	22,499	171,777
Within 21-25 years	60,263	13,209	22,490	7,075	103,037
Within 26-30 years	3,343	237	0	0	3,580
Total	217,412	287,736	196,131	84,084	785,363

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.

Note 17 - PFI and Similar Contracts

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.

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 2012-13 the Council made payments of £3.6m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payments of £3.8m for 2013-14 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 2013-14 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 (£2.5m was paid in 2012-13). 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 340 units of which 275 units are Extra Care accommodation, 58 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 2012-13 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 18. Heritage Assets

Accounting Policy

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.

	Historic Buildings **£000s**	Artwork - Paintings & Sculptures **£000s**	Archives **£000s**	Historical & Archaeological Artefacts **£000s**	Civic Regalia **£000s**	Total Heritage Assets **£000s**
Cost or Valuation						
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**
Cost or Valuation						
At 1 April 2012	**1,114**	**2,342**	**2,408**	**100**	**16**	**5,980**
Additions	99					**99**
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		508	50		-	**558**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2013	**1,213**	**2,850**	**2,458**	**100**	**16**	**6,637**

£458k of the £508k revaluation increase on artwork, paintings and sculptures relates to the Kent Master Collection which was revalued by Christie's in July 2012.

Note 18 - Heritage Assets

Historic Environment & Monuments

Eight **windmills** are included in the balance sheet at a value of £1.102m, 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.

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 £1,464k and is currently held at the Kent History and Library Centre.

Kent Visual Arts Loan Service, a collection of c. 1500 pieces of original artwork, currently held in storage at Kings Hill, valued at £564k.

The **Antony Gormley Boulders Sculptures**, the sculptors' 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 out 7 collections) in storage in Kings Hill, valued at £258k.

KCC Sessions House collection, valued at £64k

Note 18 - Heritage Assets

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 organisation in the county. There are about 12kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the new Kent History 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):

General archive collections - £667k

Knatchbull/Brabourne Manuscripts £1,291k. 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 majority of the **HS 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 at Kent Commercial Services, Kings Hill and about half in 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 an biographical interest.

KCC owns **Scientific Calibration Equipment** dating back to the 1800s in the 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 19. Leases

Accounting Policy

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).
- 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.

The long term finance lease liability as at 31 March 2013 is £4.140m.

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.

Note 19 - Leases

The Council as Lessee

Operating Leases

Following a review on the materiality of lease values we found that only operating leases where the Council is the lessee were deemed to be material. The values are represented in the tables below.

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 2013 £'000	31 Mar 2012 £'000
Not later than one year	14,740	16,865
Later than one year and not later than five years	20,321	25,478
Later than five years	4,410	7,479
	39,471	49,822

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

	31 Mar 2013 £'000	31 Mar 2012 £'000
Minimum lease payments	17,976	19,645
Contingent rents	224	412
Sublease payments receivable	0	0
	18,200	20,057

Note 20. Usable Reserves

Accounting Policy

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.

Reserve	**Balance 1 April 2012 £'000**	**Net Movement in year £'000**	**Balance 31 March 2013 £'000**	**Purpose of Reserve**
Usable Capital Receipts	-14,897	-18,685	-33,582	Proceeds of fixed assets available to meet future Capital Expenditure
General Fund	-31,725	0	-31,725	Resources available to meet future unforeseen events
Capital Grants unapplied	-74,002	-33,519	-107,521	See note below
Earmarked Reserves*	-141,314	-22,386	-163,700	See Note 22
Schools Reserve*	-59,088	10,964	-48,124	See over page
Surplus on Trading Accounts*	-296	-708	-1,004	Commercial Services and Oakwood House
Total	**-321,322**	**-64,334**	**-385,656**	

Capital grants unapplied of £107.5m as at 31 March 2013 include schools capital reserves of £621k. This has reduced from the £1,975k held by schools as at 31 March 2012. The remainder reflects Government grants and contributions received in year for projects in progress.

Note 20 - Usable Reserves and Note 21 - Unusable Reserves

School Reserves

At 31 March 2013 funds held in school revenue reserves stood at £48,124k. These reserves are detailed in the table below.

	Balance at 1 April 2012 £'000	Movement £'000	Balance at 31 Mar 2013 £'000
School delegated revenue budget reserves - committed	-10,022	841	-9,181
School delegated revenue budget reserves - uncommitted	-26,720	-1,977	-28,697
Unallocated Schools budget	-21,990	12,059	-9,931
Community Focused Extended School Reserves	-356	41	-315
	-59,088	10,964	-48,124

Note 21. 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 2012 £'000	Net Movement in year £'000	Balance 31 March 2013 £'000	Purpose of Reserve
Revaluation Reserve	-308,497	24,124	-284,373	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-445,049	130,296	-314,753	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	16,321	-33	16,288	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-5,567	515	-5,052	Movement between the I & E and amount require by regulation to be credited to the General Fund
Deferred capital receipts	-8,965	8,965	0	
Pensions Reserves				Balancing account to allow
- KCC	864,182	27,886	892,068	inclusion of Pensions
- DSO	2,209	-197	2,012	Liability in Balance Sheet
Accumulated Absences Account	13,521	-2,038	11,483	This absorbs the differences on the General Fund from accruing for untaken annual leave
Post Employment Account	12,792	-1,811	10,981	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future
Total	**140,947**	**187,707**	**328,654**	

Note 21 - 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 . 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.

	2012-13		2011-12	
	£'000		£'000	
Balance as at 1st April		-308,497		-292,362
Upward revaluation of assets	-40,333		-89,464	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	35,315		47,172	
Correcting entries to previous year Revaluation Reserve	-225			
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-5,243		-42,292
Difference between fair value depreciation and historical cost depreciation	7,823		8,955	
Accumulated gains on assets sold or scrapped	36,138		17,202	
Amount written off to the Capital Adjustment Account		43,961		26,157
Amount relating to previous years written off to the Capital Adjustment Account		-14,594		
Balance at 31 March		-284,373		-308,497

Note 21 - 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 10 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2012-13 £'000		2011-12 £'000	
Balance at 1 April		-445,049		-514,218
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	139,713		126,167	
- Revaluation losses on Property, Plant and Equipment	20,095		38,469	
- Amortisation of intangible assets	863		498	
- Revenue expenditure funded from capital under statute	88,760		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	122,826		103,093	
		372,257		367,341
Adjusting amounts written out of the Revaluation Reserve		-29,367		-26,157
Net written out amount of the cost of non-current assets consumed in the year		-102,159		-173,034
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure *	-14,638		-1,607	

Note 21 - Unusable Reserves

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-65,075		-172,420	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-44,804		-13,211	
- Statutory provision for the financing of capital investment charged against the General Fund	-60,993		-55,830	
- Capital expenditure charged against the General Fund	-27,992		-24,828	
		-213,502		-267,896
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		909		-4,119
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		-314,752		-445,049

* £7.29m relates to in year capital receipt funding and the balance includes a correction to prior years deferred capital receipts.

Note 21 - 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.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April		16,321		17,437
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
		917		-166
Balance at 31 March		16,288		16,321

Note 21 - 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.

	2012-13	2011-12
	£'000	£'000
Balance at 1 April	866,391	539,124
Actuarial gains or losses on pensions assets and liabilities	23,203	358,817
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	73,895	41,524
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,409	-73,074
Balance at 31 March	894,080	866,391

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.

	2012-13	2011-12
	£'000	£'000
Balance at 1 April	-5,567	-5,330
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	515	-237
Balance at 31 March	-5,052	-5,567

Note 21 - 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.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April	-8,965			-3,600
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			-8,965	
Transfer to the Capital Receipts Reserve upon receipt of cash	8,965		3,600	
Balance at 31 March		0		-8,965

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.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April		13,521		20,548
Settlement or cancellation of accrual made at the end of the preceding year	-13,521		-20,548	
Amounts accrued at the end of the current year	11,483		13,521	
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		-2,038		-7,027
Balance at 31 March		11,483		13,521

Note 21 - Unusable Reserves and Note 22- Earmarked Reserves

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.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April		12,793		9,015
Settlement or cancellation of accrual made at the end of the preceding year	-4,245		-3,250	
Amounts accrued at the end of the current year	2,434		7,028	
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		-1,811		3,778
Balance at 31 March		10,982		12,793

Note 22. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2011-12 and 2012-13 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 2013-14 budget setting process and as a result a further draw down of reserves is planned for 2013-14. 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 or 31 March 2013, the sum of which are shown in the tables on pages 73.

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.

Note 22 - Earmarked Reserves

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.

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 2011-12 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.

Council Tax Equalisation Reserve

The reserve will be called upon each year to smooth the impact of the 2012-13 Council Tax freeze plus any amounts need to pay for agreements with individual district councils regarding the impact of Council Tax Support claimants.

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.

Note 22 - Earmarked Reserves

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 Clinical Commissioning Groups continue to work together to agree jointly appropriate areas for investment which are funded from this reserve.

Drug & Alcohol Treatment Reserve

This reserve is funding from the National Treatment Agency which is to be spent on the provision of substance misuse treatment as qualifying expenditure is incurred.

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 by-elections. A contribution is made to the reserve each year in order to even the impact upon the council tax.

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 2012-13.

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 2013-15 includes support from 2012-13 underspending, which was transferred into this earmarked reserve during 2012-13 to be drawn down in 2013-14.

Note 22 - Earmarked Reserves

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.

Commuted Sums Reserve

This reserve has been created to hold the commuted sums which are provided under the Highways Act 1980. The commuted sums are received from developers and used to cover maintenance of the highway infrastructure that has a higher maintenance cost than conventional materials or items. The reserve will be drawn down upon annually to fund additional maintenance costs.

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 2013-14 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 22 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2012	Movement	Balance at 31 Mar 2013
	£'000	£'000	£'000
VPE reserve	-5,535	118	-5,417
Special funds	-4,166	680	-3,486
School Maintenance Indemnity schemes	-795	795	0
Kings Hill development smoothing reserve	-1,096	2,000	904
Swanscombe School PFI equalisation reserve	-2,398	532	-1,866
Six schools PFI	-1,527	841	-686
Three schools PFI	-3,721	-739	-4,460
Westview/Westbrook PFI equalisation reserve	-2,153	-252	-2,405
Better Homes Active Lives PFI equalisation reserve	-2,855	-34	-2,889
Reserve for projects previously classified as capital - now revenue	-2,847	1,063	-1,784
Economic Downturn reserve	-16,621	-4,528	-21,149
Council Tax Equalisation reserve	0	-7,500	-7,500
Corporate Restructuring reserve	-1,938	-4,207	-6,145
Supporting People reserve	-2,133	46	-2,087
NHS Support for Social Care reserve	-12,900	1,517	-11,383
Drug & Alcohol Treatment reserve	0	-5,257	-5,257
Environmental initiatives reserve	-2,074	-191	-2,265
Rolling budget reserve	-20,242	1,930	-18,312
Emergency Conditions reserve	-809	0	-809
Elections reserve	-832	-580	-1,412
Dilapidations reserve	-2,520	-855	-3,375
Workforce Reduction reserve	-4,363	-2,680	-7,043
Libraries/IT PFI grant settlement reserve	-1,689	1,689	0
KPSN Re-procurement reserve	-528	-150	-678
IT Asset Maintenance reserve	-4,642	-2,365	-7,007
Earmarked Reserve to support next years budget	-3,512	3,512	0
Prudential Equalisation reserve	-9,707	-2,087	-11,794
Dedicated Schools Grant - Central Expenditure	-8,608	-1,666	-10,274
Turner Contemporary Investment reserve	-2,090	271	-1,819
Social Care Supported Living Costs reserve	-2,001	1,594	-407
Commuted Sums reserve	0	-4,558	-4,558
Public Inquiries reserve	-699	-34	-733
Other	-3,767	1,200	-2,567
Total	-128,768	-19,895	-148,663
Insurance Reserve			
KCC	-3,630	-1,994	-5,624
	-132,398	**-21,889**	**-154,287**
Commercial Services Earmarked Reserves	-3,936	-497	-4,433
EKO	-4,980	0	-4,980
Total Earmarked Reserves	**-141,314**	**-22,386**	**-163,700**

£9.8m of the increase in earmarked reserves for 2012-13 relates to the Drugs and Alcohol Reserve and Commuted Sums Reserve which had previously been treated as a receipt in advance.

Note 22 - 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 23. Provisions

Accounting Policy

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. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

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	Post Employment	Accumulated Absences	Other Provisions	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short Term					
Balance at 1 April 2012	-5,976	-6,706	-13,521	-3,174	-29,377
Additional Provisions made in 2012-13	-3,923	-4,843	-8,216	-1,243	-18,225
Amounts used in 2012-13	4,464	6,292	10,254	892	21,902
Unused amounts reversed in 2012-13		237		769	1,006
Balance at 31 March 2013	**-5,435**	**-5,020**	**-11,483**	**-2,756**	**-24,694**
Long Term					
Balance at 1 April 2012	-9,348	-8,548			-17,896
Additional/Reduction in Provisions made in 2012-13	-109	-89		-1,375	-1,573
Amounts used in 2012-13					0
Unused amounts reversed in 2012-13		2,173			2,173
Balance at 31 March 2013	**-9,457**	**-6,464**	**0**	**-1,375**	**-17,296**
Total Provisions at 31 March 2013	**-14,892**	**-11,484**	**-11,483**	**-4,131**	**-41,990**

Insurance

Included within the insurance provision is £600k for the MMI provision.

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 2013. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

A provision of £1,171k for Carbon Reduction Commitment is include within Other provisions. All other provisions are individually insignificant.

Note 24 - Amounts owed to the Council by debtors

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.

	At 31 March 2013 £000's	At 31 March 2012 £000's
Long Term debtors:		
Medway Council (transferred debtor)	43,528	45,342
Public bodies	1,550	1,842
Other	14,681	13,988
	59,759	61,172
Other debtors:		
Government Departments	22,491	33,804
Other Local Authorities	8,348	7,734
NHS Bodies	1,058	1,866
General debtors	110,276	105,590
Payments in advance	21,362	21,788
EKO	213	234
	163,748	171,016

Capital debtors amounting to £3.6m are included in the Accounts at 31 March 2013 (£11.7m in 2011-12). Capital debtors relate to grants and external funding towards capital expenditure incurred in 2012-13 which had not been received by 31 March 2013.

Note 25 - Creditors and Note 26 - Cash and Cash Equivalents

Note 25. Amounts owed by the Council to creditors

	At 31 March 2013 £000's	At 31 March 2012 £000's
Central government bodies	11,412	10,831
Other local authorities	4,695	5,402
NHS bodies	330	4,551
General creditors	187,982	203,632
Receipts in advance	19,184	32,951
Deferred income	2,635	2,624
Kent and Essex Inshore Fisheries & Conservation Authority	1,268	918
EKO	75	99
	227,581	261,008
Creditors due after 1 year	27,970	3895

Capital creditors amounting to £27m are included in the Accounts at 31 March 2013 (£43m in 2011-12).

Note 26. Cash and Cash Equivalents

<u>Accounting Policy</u>

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.

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

	At 31 March 2013 £000's	At 31 March 2012 £000's
Bank current accounts	1,198	13,411
Call accounts (same day access funds)	213,860	126,010
Total Cash and Cash Equivalents	215,058	139,421

Notes 27 and 28 - Cash Flow - Non Cash Adjustments and Operating Activities

Note 27. Cash Flow - Non Cash Adjustments

	2012-13	2011-12
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-4,486	31,550
Carrying amount of non-current assets sold	-124,436	-123,171
Amortisation of fixed assets	-863	-498
Depreciation of fixed assets	-108,230	-103,380
Impairment & downward valuations	-51,578	-61,258
Increase/(decrease) debtors	766	-24,673
(Increase)/decrease creditors	-5,805	6,263
Increase/(decrease) stock	-538	312
Movement on investment properties	-909	4,118
REFCUS	-88,760	-99,114
Other non-cash items charged to the net surplus/deficit on the Provision of Services	8,721	4,587
	-376,118	-365,264
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	25,968	25,443
Capital grants applied	143,399	198,841
	169,367	224,284
	-206,751	-140,980

Note 28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2012-13	2011-12
	£'000	£'000
Interest received	-6,495	-4,546
Interest paid	78,828	77,254
Employee Costs	890,940	979,135
Income from Council Tax	-579,639	-575,917
Government Grants	-1,415,206	-1,448,767

Notes 29 and 30 - Cash Flow - Investing and Financing Activities

Note 29. Cash Flow Statement - Investing Activities

	2012-13	2011-12
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	196,221	291,280
Purchase of short-term and long-term investments	1,382,770	3,347,481
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-25,968	-25,443
Proceeds from short-term and long-term investments	-1,467,160	-3,355,654
Other receipts from investing activities	-161,512	-244,459
Net cash flows	-75,649	13,205

Note 30. Cash Flow Statement - Financing Activities

	2012-13	2011-12
	£'000	£'000
Cash receipts of short- and long-term borrowing	0	-50,000
Other receipts from financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	22,097	21,184
Repayments of short- and long-term borrowing	77,021	57,024
Other payments for financing activities	1,600	15,473
Net cash flows from financing activities	100,718	43,681

Note 31. 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 2013					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-89,277	-113,484	-30,055	-55,079	-56,291	-344,186
Government Grants	-752,727	-25,003	-2,045	-1,133	-99,367	-880,275
Total Income	-842,004	-138,487	-32,100	-56,212	-155,658	-1,224,461
Employee expenses	588,025	153,549	22,465	57,113	72,135	893,287
Other operating expenses	279,489	459,195	161,502	70,976	225,143	1,196,305
Support Service recharges	17,100	11,287	1,830	5,474	4,662	40,353
Total operating expenses	884,614	624,031	185,797	133,563	301,940	2,129,945
Net Cost of Services	42,610	485,544	153,697	77,351	146,282	**905,484**

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

	£000's
Cost of Services in service analysis	905,484
Add services not included in main analysis	
Add amounts not reported to management	228,997
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-143,786
Net Cost of Services in Comprehensive Income & Expenditure Statement	**990,695**

Note 31 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2013				
	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	-344,186		-2,025	15,791	-150,633
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-880,275		1,296	90,713	
Total Income	**-1,224,461**	**0**	**-729**	**106,504**	**-150,633**
Employee expenses	893,287		-16,064		
Other service expenses	1,196,305		85,118	-250,290	150,633
Support Service recharges	40,353				
Depreciation, amortisation and impairment			160,672		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,129,945**	**0**	**229,726**	**-250,290**	**150,633**
Surplus or deficit on the provision of services	**905,484**	**0**	**228,997**	**-143,786**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	**£000's**	**£000's**
Fees, charges & other service income	-481,053		**-481,053**
Surplus or deficit on associates and joint ventures			**0** **0**
Interest and Investment Income		4,760	**4,760**
Income from council tax		-579,639	**-579,639**
Government grants and contributions	-788,266	-487,230	**-1,275,496**
Total Income	**-1,269,319**	**-1,062,109**	**-2,331,428**
Employee expenses	877,223		**877,223**
Other service expenses	1,181,766		**1,181,766**
Support Service recharges	40,353		**40,353**
Depreciation, amortisation and impairment	160,672		**160,672**
Interest payments		78,262	**78,262**
Precepts & Levies		729	**729**
Gain or Loss on Disposal of Fixed Assets		98,468	**98,468**
Total operating expenses	**2,260,014**	**177,459**	**2,437,473**
Surplus or deficit on the provision of services	**990,695**	**-884,650**	**106,045**

Note 31 - Amounts Reported for Resource Allocation Decisions

	Year ended 31 March 2012					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£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**

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**

Note 31 - Amounts Reported for Resource Allocation Decisions

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**
			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 32. Trading Operations

The results of the various trading operations for 2012-13 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover £'000	Expenditure £'000	Surplus/ Deficit(-) 2012-13 £'000	Surplus/ Deficit(-) 2011-12 £'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	50,632	48,343	2,289	3,084
Facilities & Technical Services Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT	7,213	6,701	512	572
Brokerage Services 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	254,694	252,213	2,481	3,288
County Print Graphic design and general printing	2,051	2,081	-30	17
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	16,269	16,142	127	1,055
Landscape Services Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment	6,764	6,558	206	412
Oakwood House Conference centre	2,158	2,158	0	-3
Total surplus	339,781	334,196	5,585	8,425

Note 33. Audit Costs

In 2012-13 the following fees were paid relating to external audit and inspection :

	2012-13 £'000	2011-12 £'000
Fees payable to the Audit Commission / Grant Thornton for external audit services carried out by the appointed auditor	208	319
Fees payable to the Audit Commission / Grant Thornton in respect of statutory inspection		
Fees payable to the Audit Commission / Grant Thornton for the certification of grant claims and returns	6	11
Fees payable in respect of other services provided by the appointed auditor	6	32
	220	362

Note : A rebate of £18,400 was received from the Audit Commission in 2012-13 in respect of the 2011-12 Audit fees and this is not included in the figures above.

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 2012-13 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2012-13 before Academy recoupment			975,887
Academy figure recouped for 2012-13			251,475
Total DSG after Academy recoupment for 2012-13			724,412
Brought forward from 2011-12			26,508
Carry Forward to 2013-14 agreed in advance			0
Agreed initial budget distribution in 2012-13	109,599	641,321	750,920
In year adjustments	-7,217	7,217	0
Final budgeted distribution in 2012-13	102,382	648,538	750,920
Less actual central expenditure	85,894		
Less Actual ISB deployed to schools		648,538	
Plus Local Council contribution for 2012-13	0	0	0
Carry Forward to 2013-14	16,488	0	16,488 *

Notes *
The total carry forward to 2013-14 of £16,488k represents a carry forward of £10,274k on the centrally retained DSG budget and £6,214k on the schools' unallocated budget. The schools unallocated reserve now stands at over £9m, and its use is determined by the Schools' Funding 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 spent in 2013-14.

Note 35. 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 31 on reporting for resources allocation decisions.

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.

The Council's Director of Public Health is a joint appointment with East Kent & Coastal and West Kent PCTs. During 2012-13 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 36 on pages 87 to 92 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 £2.673m and cash held by the Pension fund on behalf of KCC is £0.168m.

Payments to other local authorities and health bodies, excluding precepts, totalled £66.8m.

Receipts from other local authorities and health bodies totalled £19.8m.

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 40.

Payments made to Kent Top Temps Ltd (KTT) amounted to £31m. The loan remains at £0.2m. KCC received £0.011m of interest. KTT made £2.5m of purchases from KCC.

Payments made to Kent County Facilities Ltd (KCF) amounted to £0.73m. KCF made purchases from KCC amounting to £0.040m.

Kent County Supplies Ltd (KCS) repaid the loan of £0.15m during 2012-13.

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 2012-13.

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

Active companies with less than 50% control	Payments made in 12-13
Association of Tourist Attractions in Kent	-
Groundwork Kent and Medway	£74,497
Aylesham and district Community Workshop Trust	£6,436
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	£1,200
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	£585,468
Locate in Kent Ltd (as amended on 5/5/2000)	£782,000
Trading Stds South East Ltd	£58,043
Business Support Kent Community Interest	£215,149
East Kent Spatial Development Company	-
Goetec Ltd	£60,872
Active companies with greater than 50% control	
Kent County Trading (KCT)	-
Produced in Kent (PINK) Ltd	£111,114
Kent Cultural Trading Limited	£1,261
Commercial Services Kent Ltd	-
Dormant companies	
Kentish Fare Ltd	-
Invicta Services Ltd	-
Dissolved companies	
Kent Training Centres Ltd	-
Invicta Innovations Ltd	-
Kent Access Ltd	-

Note 36. Pension Costs

Note 36a - 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 2012-13 Kent County Council paid £40.8m (£42.6m in 2011-12), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 14.1% 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 2012-13 these amounted to £4.5m (£4.3m in 2011-12), representing 1.6% (1.3% in 2011-12) of pensionable pay.

Note 36b. 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 through the Movement in Reserves Statement.

Note 36 - Pensions Costs

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	
	2012-13	2011-12
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-61,912	-50,015
• Past service costs and curtailments	8,567	16,553
Financing and Investment Income and Expenditure		
• Interest cost	-106,569	-108,811
• Expected return on assets in the scheme	86,019	100,749
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-73,895	-41,524
• Actuarial gains and losses	-23,203	-358,817
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-97,098	-400,341
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	73,895	41,524
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-69,409	-73,074

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 2012-13 Kent County Council paid an employer's contribution of £69.4m (£73.1m in 2011-12) into the Pension Fund, representing 24% (23% in 2011-12) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2012-13 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 £130k capital value of discretionary increases in pension payments (i.e. discretionary added years) agreed by the Council in 2012-13 (£0k in 2011-12). The capital value of payments agreed in earlier years is £121m (£116m in 2011-12).

Note 36 - Pensions Costs

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2012-13	**2011-12**
	£000's	**£000's**
1 April	1,498,893	1,471,303
Expected rate of return	86,019	100,749
Actuarial gains and (losses)	129,161	-64,518
Employer contributions	74,080	77,592
Contributions by scheme participants	19,691	21,175
Benefits paid inc unfunded benefits	-95,726	-95,492
Receipt /payment of bulk transfer values	-6,101	-11,916
31 March	1,706,017	1,498,893

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 £215,180k (2011-12 : £36,231k)

Reconciliation of present value of the scheme liabilities:

	Liabilities: Local Government Pension Scheme	
	2012-13	**2011-12**
	£000's	**£000's**
1 April	2,363,075	2,008,308
Current service cost	61,912	50,015
Interest cost	106,569	108,811
Contributions by scheme participants	19,691	21,175
Actuarial (gains) and losses	159,244	298,727
Benefits paid	-95,726	-95,492
Liabilities extinguished on settlements	-19,751	-35,097
Past service costs	5,083	6,628
31 March	2,600,097	2,363,075

Scheme History

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Present value of liabilities:					
• Local Government Pension Scheme	-1,706,200	-2,473,567	-2,008,308	-2,363,075	-2,600,097
Fair value of assets in the Local Government Pension Scheme	966,300	1,344,338	1,471,303	1,498,893	1,706,017
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-739,900	-1,129,229	-537,005	-864,182	-894,080

Note 36 - Pensions Costs

Net Pension assets as at	**31 Mar 2013**	**31 Mar 2012**	**31 Mar 2011**
	£000's	**£000's**	**£000's**
Present value of funded obligation	2,537,711	2,302,631	1,950,959
Fair value of scheme assets (bid value)	1,706,017	1,498,893	1,471,303
Net Liability	**831,694**	**803,738**	**479,656**
Present value of unfunded obligation	62,386	60,444	57,349
Net Liability in Balance Sheet	**894,080**	**864,182**	**537,005**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £894m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative movement of £29.9m

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 1.3% to 1.0% 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 2012 levels then the pensions deficit would have been £159,244,000 less at £734,836,000. 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 2014 is £65,168k, this is in line with the revised IAS19 Standard

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 36 - Pensions Costs

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
		Restated
	2012-13	**2011-12**
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	20.1 years	20.0 years
Women	24.1 years	24.0 years
Longevity at 65 for future pensioners:		
Men	22.1 years	22.0 years
Women	26.0 years	25.9 years
Rate of inflation	3.4%	3.3%
Rate of increase in Consumer Price Index	2.6%	2.5%
Rate of increase in salaries	3.9%	3.8%
Rate of increase in pensions	2.6%	2.5%
Rate for discounting scheme liabilities	4.4%	4.6%
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 2013	**March 2012**
	%	**%**
Equity Investments	71%	74%
Gilts	0%	1%
Bonds	13%	10%
Property	8%	9%
Cash	4%	4%
Target Return Portfolio	4%	2%
	100%	100%

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2012-13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008-09 as restated	**2009-10**	**2010-11**	**2011-12**	**2012-13**
	%	%	%	%	%
Differences between the expected and actual return on assets	-32.2	20.7	0.9	-4.3	7.6
Experience gains and losses on liabilities	-0.1	-0.4	-5.3	0.1	0.1

Analysis of Amount Recognised in the Comprehensive Income and Expenditure Statement

	2012-13	2011-12	2010-11
	£000's	£000's	£000's
Actuarial Gains/Losses	-27,874	-363,388	380,650
Increase / Decrease in irrecoverable surplus from membership fall and other factors	4,671	4,571	2,574
Actuarial gain / (loss) recognised	-23,203	-358,817	383,224

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £2m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2013 in accordance with IAS19.

Note 37. Financial Instruments

Accounting Policy

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.

Note 37 - Financial Instruments

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.

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

The Council's financial liabilities held during the year are measured at amortised cost and comprised of:

- long-term loans from the Public Works Loan Board and commercial lenders
- overdraft with NatWest Bank
- finance leases on land and buildings
- Private Finance Initiative contracts detailed in Note 17

Financial Assets

The financial assets held by the Council during the year are held under the following two classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising of:

- cash
- bank accounts
- fixed term deposits with the DMO
- fixed term deposits with banks and building societies
- impaired investments in Icelandic banks
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising of:

- certificates of deposit issued by banks and building societies
- treasury bills and gilts issued by the UK Government

Note 37 - 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 2013	**31 Mar 2012**	**31 Mar 2013**	**31 Mar 2012**
	£000's	**£000's**	**£000's**	**£000's**
Borrowing	1,023,575	1,025,805	2,018	77,534
EKO			309	309
	1,023,575	**1,025,805**	**2,327**	**77,843**
Other Creditors	27,970	3,895	194,349	214,602
PFI/Finance Lease Liabilities	217,333	221,795	4,462	4,852
Government Grants			11,412	10,831
	245,303	**225,690**	**210,223**	**230,285**
Total Financial Liabilities	**1,268,878**	**1,251,495**	**212,550**	**308,128**
Investments		11,320	64,961	134,681
Cash equivalents at amortised cost			213,860	126,010
Cash and Bank Accounts			1,198	13,411
	0	**11,320**	**280,019**	**274,102**
Debtors	59,759	61,172	137,429	144,960
Total Financial Assets	**59,759**	**72,492**	**417,448**	**419,062**

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

	Long Term		Current	
	31 Mar 2013	**31 Mar 2012**	**31 Mar 2013**	**31 Mar 2012**
	£000's	**£000's**	**£000's**	**£000's**
Loans at amortised cost				
Nominal Amount	1,010,273	1,012,288	2,325	77,330
Accrued Interest	13,302	13,358	3	513
Unamortised Discounts / (Premiums) on Modified Loans		159		
Total Borrowings as per Balance Sheet	**1,023,575**	**1,025,805**	**2,328**	**77,843**
Investments:				
Principal Amount		10,000	71,140	145,330
Fire and Pension Fund cash			-5,679	-7,352
Accrued Interest		1,320	4,605	2,035
Impairment charge for Iceland			-5,105	-5,332
Total Investments	**0**	**11,320**	**64,961**	**134,681**
Cash equivalents at amortised cost			213,860	126,010
Cash and Bank Accounts			1,198	13,411
Total Investments and Cash as per Balance Sheet	**0**	**11,320**	**280,019**	**274,102**

Note 37 - Financial Instruments

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

	2012-13		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest expense - Debt	-56,581		-56,581
Losses on derecognition	-950		-950
Impairment losses		227	227
	-57,531	**227**	**-57,304**
Interest expense - Finance leases	-20,575		-20,575
Interest expense - PFI	-1,525		-1,525
Interest payable and similar charges	**-79,631**	**227**	**-79,404**
Interest income		6,500	6,500
Gains on derecognition		159	159
Interest and investment income	**0**	**6,659**	**6,659**
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	**-79,631**	**6,886**	**-72,745**

Financial Instruments - Fair Values

The Council's 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.

Their fair values have been estimated by calculating the new present value of the remaining contractual cash flows at 31 March 2013, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new certainty rate loans arranged on 31 March
- other long-term loans and investments have been discounted at the market rates for similar instruments on 31 March
- no early repayments or impairment is recognized
- the fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount

The fair values calculated are as follows:

	31 March 2013		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	£000's	£000's	£000's
PWLB debt	579,347	773,970	657,042	846,139
Non-PWLB debt	446,246	630,288	446,297	441,800
EKO temporary loan	310	310	309	309
Total Borrowings	1,025,903	1,404,568	1,103,648	1,288,248
Creditors	233,731	233,731	229,329	229,329
Total Financial Liabilities	**1,259,634**	**1,638,299**	**1,332,977**	**1,517,577**
Long Term Investments			11,320	11,654
Short Term Investments	64,961	64,961	134,681	134,681
Cash equivalents at amortised cost	213,860	213,860	126,010	126,010
Cash	1,198	1,198	13,411	13,411
Total Investments and Cash	280,019	280,019	285,422	285,756
Debtors	197,188	197,188	206,132	206,132
Total Financial Assets	**477,207**	**477,207**	**491,554**	**491,888**

The movement in short term investments between 2012-13 and 2011-12 is due to maturing deposits being invested in call accounts which is included in cash equivalents at amortised cost.

The fair value of financial liabilities is higher 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 38. Nature and Extent of Risks Arising from Financial Instruments

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.

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.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

Credit Risk: Investments

The Council manages credit risk by ensuring that investments are placed with the organisations of high quality as set out in the Treasury Management Strategy.

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.
• Publicised credit ratings for institutions (excluding the DMO).
• Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.
• 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.
• Minimum long-term credit rating of A-.

Limits are placed on the amount of money that can be invested with a single counterparty: DMO £450m, UK banks and building societies £50m with a group limit of £75m, Australian and Canadian banks £25m with a country limit of £50m. The maximum duration for any new deposit is twelve months.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £400m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	**31 Mar 2013 £000's**	**31 Mar 2012 £000's**
AAA	0	0
AA+	0	0
AA	0	39,600
AA-	0	0
A+	0	0
A	244,400	221,000
A-	0	0
Total Investments	244,400	260,600

All deposits outstanding as at 31 March 2013 met the Council's credit rating criteria on 31 March 2013.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £9m.

Credit Risk: Receivables

The Council does not generally allow credit for its debtors, as such £1.056m of the £142,385m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2013 £000's	**31 Mar 2012 £000's**
One to three months	374	195
Three to six months	204	1,115
Six months to one year	385	336
More than one year	93	257
	1,056	**1,903**

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 2013 was £28m.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

Liquidity risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and at higher rates from banks. There is no perceived risk that the Council 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 or to finance future debt maturities

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity Years	31 Mar 2013 £000's	31 Mar 2012 £000's
Not over 1	2,015	77,021
Over 1 but not over 2	26,193	2,015
Over 2 but not over 5	95,002	89,194
Over 5 but not over 10	92,003	108,003
Over 10 but not over 20	106,005	97,006
Over 20 but not over 30	148,470	173,470
Over 30 but not over 40	130,800	130,800
Over 40	216,100	241,800
Uncertain date *	195,700	170,000
Total	**1,012,288**	**1,089,309**

* The Council has £195.7m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely repay these loans. The maturity date is therefore uncertain.

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 2013, 80.7% of the debt portfolio was held in fixed rate instruments, and 19.3% 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.

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	1,957
Increase in interest receivable on variable rate investments	(1,894)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**63**
Decrease in fair value of fixed rate investment assets	
Impact on Other Comprehensive Income and Expenditure	**0**
Decrease in fair value of fixed rate borrowings / liabilities*	**76,136**

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

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

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 currently has approximately £3m in Icelandic Krona held in escrow pending the relaxation of capital controls by the Icelandic Government, and is therefore exposed to the risk of adverse movements in the exchange rate.

Note 39. Contingent Liabilities

Accounting Policy

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.

Employment

There are 13 claims relating to discrimination and breach of contract in employment. Of these, ten are limited to unfair dismissal and two are against schools and one is a discrimination case. In addition to the 13 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 £365k 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 287 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 14 such cases of which legal costs for 11 of these are expected to exceed £165k in total. Of the three remaining cases one is in relation to KCC tenancies of which the financial risk should the claimant be successful would be approximately £370k. The second is in relation to disputes over rental agreements, the claims are significant and range from £25k to £350k. The third relates to procurement disputes with one particular claim potential being several hundred thousand pounds.

Note 39 - Contingent Liabilities

Asylum, Ordinary Residence & Judicial review cases

There is one judicial review case of age assessment for which the cost is likely to exceed £10k. There are four further cases, three of which, if successful, would exceed £10k each. The fourth case claim has been withdrawn but KCC have agreed to pay legal costs which will exceed £10k. There are five Ordinary Residence claims which if successful may 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 40. Subsidiary Undertakings

Accounting Policy

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.

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. The travel operation is in the process of winding down and is expected to cease trading by November 2013.

In 2012-13 KTT had a turnover of £38.3m with a net profit of £22k before tax. In 2012-13 its net assets were £1.5m. The loan remains at £0.2m set against the net indebtedness of the authority to KTT at the year end of £5.5m.

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. Additional business activities which KCF undertakes include waste management and transport servicing and repairs. In 2012-13 KCF had a turnover of £3.8m, a net profit of £158k before tax and its net assets were £1.7m. The indebtedness of the authority to KCF is £301k. KCF will be trading from the 1 April 2013 under the name of Commercial Service Trading Ltd.

Note 40 - Subsidiary Undertakings

Kent County Supplies Ltd (KCS) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on 7th April 2010 and transferred its trading operations to fellow subsidiary Kent Top Temps Ltd on 1st April 2012. The loan of £0.150m provided by Commercial Services was repaid during 2012-13. KCS was dormant during the year ended 31st March 2013 but has started operating again from 1st April 2013 under the name Commercial Services Kent Ltd.

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 1 of the Local Government Act 2000. In 2012-13, 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 £0.20m.

Collectively the subsidiaries do not have a material impact on the Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2012-13. This situation is reviewed on an annual basis.

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

Note 41. Trust Funds

Funds which KCC acts as custodian trustee

2012-13	**Income**	**Expenditure**	**Assets**	**Liabilities**
	£'000	**£'000**	**£'000**	**£'000**
Hildenborough 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	6	205	0
Jim Petrie Memorial Fund Pupils/students in secondary schools and colleges. To encourage appreciation of country life.	0	0	3	0
Joan Kemsley Memorial Fund Countywide. Reflection of opera experience/attending opera at Glyndebourne	0	1	1	0
J A Tapping Trust Provision of comforts for needy children in the Deal area.	0	0	6	0
Grace Say Charity Provision of comforts for needy people in the Dartford area.	1	0	36	0
Total	**9**	**7**	**252**	**0**

Note 41 - Trust Funds

2011-12	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Hildenborough 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**

Other Funds

	2011-12 Capital Value to fund £'000	2012-13 Capital Value to fund £'000
Criminal Injuries Compensation Awards	852	278
Maidstone Grammar Schools Endowment Fund	220	249
W H Petty Testimonial Fund	6	8
	1078	535

Note 42 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 105 - 127.

The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2012-13.

Pension Fund Accounts

The following financial statements are taken from the Fund's Annual Report and Accounts 2013 at the Kent Pension Fund website at www.kentpensionfund.co.uk. Alternatively a copy can be obtained from the Treasury and Investments team, email: investmentsteam@kent.gov.uk, telephone: 01622 694625.

Description of the Fund

General

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 pension scheme and is contracted out of the State Second Pension.

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

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

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the scheme or to make personal arrangements outside the scheme. 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.

There are 370 employing bodies participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2013	31 Mar 2012	31Mar 2013	31 Mar 2012	31Mar 2013	31 Mar 2012
Kent County Council	21,384	21,752	17,993	17,213	20,887	19,768
Other Employers	21,170	19,671	15,738	15,045	16,948	15,662
Total	42,554	41,423	33,731	32,258	37,835	35,430

Funding

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 2013. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations 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 last such valuation was at 31 March 2010.

The 2010 valuation certified a common contribution rate of 20.8% of pensionable pay to be paid by each employing body participating in the Kent County Council Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer’s contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Kent Pension Fund website.

Benefits are index linked to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS 2014

A new Scheme (LGPS 2014) is being introduced with effect from 1st April 2014. It will apply to all service that builds up on and after 1 April 2014 and all pensions in payment or built up before April 2014 will be protected.

The table below shows the main provisions of the proposed new Scheme (LGPS 2014) for membership compared with those of the current scheme (LGPS 2008) .

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Prices Index (CPI)	Based on Final Salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee Contribution Rates	See LGPS 2014 Employee Contribution Rate below	See LGPS 2008 Employee Contribution Rate below
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age	65
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65) Tier 3 - Temporary payment of pension for up to 3 years

	LGPS 2014	LGPS 2008
Indexation of Pension in Payment	CPI	CPI (RPI for pre-2011 increases)
Vesting Period	2 years	3 months

Future Scheme Cost Management

If the costs of the LGPS change beyond certain limits still to be agreed, there will be negotiations between unions, employers and government about how to meet those cost changes.

Pension Protection on Transfer

LGPS members who are compulsorily transferred will be able to retain membership of the Scheme.

Future Contribution Rates

LGPS 2014 Rates payable 2014-15			**LGPS 2008** Rates payable 2013-14		
From	**To**	**Gross Rate %**	**From**	**To**	**Gross Rate %**
Up to £13,500		5.5	Up to £13,700		5.5
£13,501	£21,000	5.8	£13,701	£16,100	5.8
£21,001	£34,000	6.5	£16,101	£20,800	5.9
£34,001	£43,000	6.8	£20,801	£34,700	6.5
£43,001	£60,000	8.5	£34,701	£46,500	6.8
£60,001	£85,000	9.9	£46,501	£87,100	7.2
£85,001	£100,000	10.5	More than £87,100		7.5
£100,001	£150,000	11.4			
More than £150,000		12.5			
Average		**6.5**	**Average**		**6.5**

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2012-13 £000's	2011-12 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	213,713	214,037
Transfers In from other pension funds	6	8,840	11,561
		222,553	225,598
Benefits	7	-192,463	-187,903
Payments to and on account of leavers	8	-7,591	-8,090
Administrative and other expenses	9	-2,922	-2,954
		-202,976	-198,947
Net additions from dealings with Members		**19,577**	**26,651**
Returns on Investments			
Investment Income	10	72,971	76,835
Taxes on Income		-2,686	-2,897
Profits and losses on disposal of investments and changes in the market value of investments	13a	424,192	19,038
Investment Management Expenses	12	-11,944	-11,481
Net Return on Investments		**482,533**	**81,495**
Net increase in the Net Assets Available for benefits during the year		**502,110**	**108,146**
Opening Net Assets of the Scheme at 1 April		3,310,588	3,202,442
Closing Net Assets of the Scheme at 31 March		**3,812,698**	**3,310,588**

Net Assets Statement as at 31 March

	Notes	31 Mar 2013 £000's	31 Mar 2012 £000's
Investment Assets		3,680,068	3,176,020
Cash Deposits		108,532	98,850
Total Investments		**3,788,600**	**3,274,870**
Investment Liabilities	13	-1,610	-173
Net Investments		**3,786,990**	**3,274,697**
Current Assets	21	38,402	45,890
Current Liabilities	22	-12,694	-9,999
Net Assets available to fund benefits at the period end		**3,812,698**	**3,310,588**

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in note 20 to the accounts.

Notes to the Pension Fund Account

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2012-13 financial year and its position at 31 March 2013.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 20 of these accounts.

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 stock lending income on securities and rental income on property 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. A large number of the Fund's investments are held in income accumulating funds that do not distribute income. The accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and 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 HM Revenue and Customs 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 interest 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. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.
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. Costs relating to Kent County Council staff involved in the administration of the Fund are incurred by the Kent County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

g) Financial assets

Financial assets other than debtors are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as other investment assets or liabilities. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2013.

- Fixed interest securities are recorded at net market value based on their current yields

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager

- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.

- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund

- 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 last valuation had been undertaken by Colliers International, as at 31 December 2012. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2013.

- Debtors / receivables are measured at amortised cost using the effective interest rate method, as required by IAS 39.

h) Derivatives

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Currently the Fund only holds forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

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 rate 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 Kent County Council or other fund managers are included in investments. All other cash is included in Current Assets.

k) Financial Liabilities

The Fund recognises financial liabilities other than creditors 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. Creditors are measured at amortised cost using the effective interest rate method, as required by IAS 39.

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. 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 Net Assets Statement (Note 20)

3. Judgements and Assumptions made in applying accounting policies

Item	**Uncertainties**	**Effect if actual results differ from assumption**
Actuarial present value of promised retirement benefits	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 Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £0.63m. A 0.25% increase in assumed earning inflation would increase the value of liabilities by approx. £0.17m, and a one year increase in assumed life expectancy would increase the liability by approx. £0.23m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £59m. There is a risk that this investment may be under-or-over stated in the accounts.

4. Events after the Balance Sheet date

There have been no events since 31 March 2013, up to the date when these accounts were authorised, that require any adjustment to these accounts.

5. Contributions Receivable

		2012-13 £000's	2011-12 £000's
Employers		168,282	167,318
Members		45,431	46,719
		213,713	**214,037**
Analysis by Employer	Kent County Council	85,295	91,056
	Scheduled Bodies	115,984	111,258
	Admitted Bodies	12,434	11,723
		213,713	**214,037**

6. Transfers In

	2012-13	2011-12
	£000's	£000's
Individual	8,840	9,680
Group	0	1,881
	8,840	11,561

7. Benefits Payable

	2012-13	2011-12
	£000's	£000's
Pensions	150,713	136,263
Retirement Commutation and lump sum benefits	38,553	47,728
Death benefits	3,197	3,912
	192,463	**187,903**

Analysis by Employer	Kent County Council	89,473	87,550
	Scheduled Bodies	94,606	92,176
	Admitted Bodies	8,384	8,177
		192,463	**187,903**

8. Payments to and on account of leavers

	2012-13	2011-12
	£000's	£000's
Individual transfers	7,590	8,031
Refunds of contributions	1	59
	7,591	**8,090**

9. Administrative and other Expenses

	2012-13	2011-12
	£000's	£000's
Internal Administration	2,522	2,455
Actuarial Fees	169	240
Audit Fee	28	45
Legal and Other Professional Fees	150	157
Other miscellaneous expenses	53	57
	2,922	2,954

10. Summary of Income from Investments

	Notes	2012-13 £000's	2012-13 %	2011-12 £000's	2011-12 %
Fixed Interest Securities		2,135	3.0	685	0.9
Equities		35,411	48.5	37,161	48.4
Pooled Investments		15,343	21.0	15,350	20.0
Private Equity / Infrastructure		3,153	4.3	3,014	3.9
Property	11	12,366	17.0	11,345	14.8
Pooled Property Investments		3,934	5.4	3,959	5.1
Total Income From Investments		**72,342**	**99.2**	**71,514**	**93.1**
Cash Deposits		374	0.5	5,103	6.6
Sub-Underwriting Commission/other					
Stock Lending		255	0.3	218	0.3
Total		**72,971**	**100.0**	**76,835**	**100.0**

11. Property Income and Expenditure

	2012-13 £000's	2012-13 £000's	2011-12 £000's	2011-12 £000's
Rental Income from Investment Properties		12,366		11,345
Management Fees		-743		-686
Direct Operating Expenses on investment properties generating rental income				
- Miscellaneous property expenses	-854		-819	
- Insurance net of recovered	6		-126	
- Disbursements paid	-641		-630	
- Other expenses recovered	849		711	
		-640		-864
Net operating income from Property		**10,983**		**9,795**

12. Investment Management Expenses

	2012-13 £000's	2011-12 £000's
Investment Managers	11,041	10,354
Custody fees	128	114
Actuarial (Investment Consultancy)	79	97
Performance Measurement	56	52
Direct Operating Expenses on investment properties generating rental income (note 11)	640	864
	11,944	**11,481**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

13. Analysis of Change in Market Value of Investments

	Market Value as at 31 March 13 £000's	Market Value as at 31 March 12 £000's
Investment Assets		
Fixed Interest Securities	280,104	34,990
Equities	1,264,169	1,057,570
Pooled Investments	1,764,778	1,720,756
Private Equity/Infrastructure	58,952	45,360
Property	222,027	222,576
Pooled Property Investments	78,000	88,074
Derivatives contracts - Forward Currency contracts	2,666	0
Cash Deposits	108,532	98,850
Investment Income due	8,505	6,654
Amounts receivable for sales	867	40
Total Investment Assets	**3,788,600**	**3,274,870**
Investment Liabilities		
Amounts payable for purchases	-1,610	-173
Total Investment Liabilities	**-1,610**	**-173**
Net Investment Assets	**3,786,990**	**3,274,697**

13a. Analysis of Change in Market Value of Investments and derivatives

	Market Value as at 31 March 12 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 13 £000's
Fixed Interest Securities	34,990	360,360	-127,074	11,828	280,104
Equities	1,057,570	293,407	-256,143	169,335	1,264,169
Pooled Investments	1,720,756	188,937	-389,109	244,194	1,764,778
Private Equity/Infrastructure	45,360	13,602	0	-10	58,952
Property	222,576	18,108	-24,250	5,593	222,027
Pooled Property Investments	88,074	0	-7,360	-2,714	78,000
	3,169,326	874,414	-803,936	428,226	3,668,030
Derivative contracts					
- Forward Currency contracts	0	752,599	-745,899	-4,034	2,666
	3,169,326	**1,627,013**	**-1,549,835**	**424,192**	**3,670,696**
Other Investment balances					
- Cash Deposits	98,850				108,532
- Debtors - Outstanding Sales	40				867
- Creditors - Outstanding Purchases	-173				-1,610
- Investment Income due	6,654				8,505
Net Investment Assets	**3,274,697**			**424,192**	**3,786,990**

	Market Value as at 31 March 12 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 13 £000's
Fixed Interest Securities	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
	3,084,739	**388,504**	**-322,955**	**19,038**	**3,169,326**
Derivative contracts					
- Forward Currency contracts	0				0
	3,084,739	**388,504**	**-322,955**	**19,038**	**3,169,326**
Other Investment balances					
- Cash Deposits	72,972				98,850
- Debtors - Outstanding Sales	656				40
- Creditors - Outstanding Purchases	0				-173
- Investment Income due	4,433				6,654
Net Investment Assets	**3,162,800**			**19,038**	**3,274,697**

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 £965,610 (2011-12 £880,221). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

14. Analysis of Investments (excluding derivative contracts)

	Market Value as at 31 March 13 £'000's	Market Value as at 31 March 12 £'000's
FIXED INTEREST SECURITIES		
UK		
Public Sector Quoted	0	34,990
Corporate Quoted	20,205	0
OVERSEAS		
Public Sector Quoted	50,524	0
Corporate Quoted	209,375	0
	280,104	**34,990**
EQUITIES		
UK		
Quoted	656,558	555,603
OVERSEAS		
Quoted	607,611	501,967
	1,264,169	**1,057,570**
POOLED FUNDS - Additional Analysis		
UK		
Fixed Income Unit Trusts	215,772	343,487
Unit Trusts	689,334	612,887
OVERSEAS		
Fixed Income Unit Trusts	0	76,790
Unit Trusts	859,672	687,592
	1,764,778	**1,720,756**
PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE		
Property		
UK	222,027	222,576
Property Unit Trusts		
UK	63,001	72,111
Overseas	14,999	15,963
Private Equity Funds		
UK	3,912	3,574
Overseas	14,465	5,334
Infrastructure		
UK	8,209	8,441
Overseas	32,366	28,011
	358,979	**356,010**
TOTAL	**3,668,030**	**3,169,326**

14a. Analysis of Investments - Derivative Contracts

Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager fully hedges the overseas, excluding emerging markets, exposure of the portfolio. This is approximately 75% of the portfolio managed by Goldman Sachs.

Settlement	Currency bought £000's	Local value £000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,664	USD	-2,521	3	
Up to one month	GBP	6,692	USD	-10,030	87	
Up to one month	GBP	2,333	USD	-3,481	41	
Up to one month	GBP	731	EUR	-836	23	
Up to one month	GBP	1,854	USD	-2,815		0
Up to one month	GBP	89	USD	-135	0	
One to six months	GBP	1,047	USD	-1,574	10	
One to six months	GBP	100,427	USD	-150,948	1,016	
One to six months	GBP	100,460	USD	-150,948	1,049	
One to six months	GBP	16,957	EUR	-19,562	413	
One to six months	GBP	1,646	CHF	-2,332	24	
					2,666	
Net forward currency contracts at 31 March 2013						**2,666**

Prior year comparative

	Asset value £000's	Liability value £000's
Open forward currency contracts at 31 March 2012	0	0
Net forward currency contracts at 31 March 2012		**0**

14b. Property Holdings

	Year ending 31 March 13 £000's	Year ending 31 March 12 £000's
Opening Balance	222,576	190,955
Additions	18,108	31,268
Disposals	-24,250	0
Net increase in market value	5,593	353
Closing Balance	**222,027**	**222,576**

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2013		Market Value as at 31 Mar 2012	
	£000's	%	£000's	%
Baillie Gifford	699,449	18.5	582,654	17.8
DTZ	300,027	7.9	310,651	9.5
GMO	220,778	5.8	192,010	5.9
Goldman Sachs	296,954	7.9	270,503	8.3
HarbourVest	14,465	0.4	5,334	0.2
Henderson	8,209	0.2	8,441	0.3
Impax	26,251	0.7	23,517	0.7
Invesco	479,239	12.7	398,911	12.2
Partners Group	32,366	0.8	28,011	0.8
Pyrford	153,450	4.1	80,354	2.4
Schroders	1,005,812	26.6	874,007	26.8
State Street Global Advisors	474,052	12.6	441,211	13.5
YFM	3,912	0.1	3,574	0.1
Kent County Council Investment Team	64,262	1.7	49,000	1.5
	3,779,226	100	3,268,177	100

All the external fund managers above are registered in the United Kingdom. The Fund Manager totals exclude investment debtor and creditors.

15a. Single investments 5% or more by value of their asset class

	31 March 2013	
Asset Class / Investments	£000's	% (of asset class)
POOLED FUNDS		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	109,729	6
SISF Strategic Bond GBP Hedged	106,043	6
UK Unit Trusts		
Invesco Perpetual Income Fund	479,239	27
MPF UK Equity Index Sub-Fund	183,531	10
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	153,450	9
GMO Developed World Equity Investment (U.S.$)	216,701	12
MPF International Equity Index Sub-Fund	290,521	16
Schroder GAV Unit Trust	168,670	10
PROPERTY UNIT TRUSTS		
L & G Leisure	7,713	10
Henderson Shopping Centre	4,222	5
Falcon	6,760	9
Hercules	9,309	12
Quercus	5,204	7
Airport Fund	9,085	12
Lothbury	7,880	10
Welput	10,754	14
Aurora	14,999	19

Asset Class / Investments		31 March 2013 £000's	% (of asset class)
PRIVATE EQUITY AND INFRASTRUCTURE FUNDS			
Private Equity			
UK			
Chandos Fund (YFM)		3,912	7
Overseas			
HIPEP VI- Cayman		7,393	13
HarbourVest Partners IX		7,072	12
Infrastructure			
UK			
Henderson Secondary PFI Fund I		5,432	10
Overseas			
Partners Group Global Infrastructure 2009		28,192	48
Partners Group Direct Infrastructure 2011		4,174	7
PROPERTY			
Location	**Type of Property**		
3-5 Charing Cross Road, London	Office	20,476	9
102 - 114 Wardour Street, London	Mixed Use	13,117	6
Drury House, London	Office	22,189	10
49/59 Battersea Park Road, London	Industrial	16,227	7
Hertsmere Industrial Estate, Borehamwood	Industrial	13,731	6
Kings Park, Manchester	Industrial	11,229	5

Properties purchased during the year		Date of purchase	Purchase Cost £000's
Vine Hill and Wren House	Office	03/10/2012	16,715
Millbrook Estate Plot 1904	Industrial	01/09/12	439
Additions / Cost adjustments to existing properties			953

Properties sold during the year

	Date of sale	Sale Value £000's
14-15 Conduit Street, London	15/08/12	24,250

16. Stock Lending

The Custodians undertake a conservative programme of stock lending to approved UK counterparties against non cash collateral mainly comprising of Sovereigns and Treasury Bonds.

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**	**Collateral Value**	**Collateral type**
	£000's	**£000's**	
Equities	59,031	62,710	Sovereigns and Treasury Bonds
Corporate Bonds - Euro	770	797	Sovereigns and Treasury Bonds
	59,801	63,507	

17. Financial Instruments

17a. 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 13			31 March 12		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Financial Assets						
Fixed Interest Securities	280,104			34,990		
Equities	1,264,169			1,057,570		
Pooled Investments	1,764,778			1,720,756		
Property Pooled Investments	78,000			88,074		
Private Equity/Infrastructure	58,952			45,360		
Derivative contracts	2,666			0		
Cash		109,214			104,307	
Other Investment Balances	9,372			6,694		
Debtors/ Receivables		37,720			40,433	
	3,458,041	**146,934**	**0**	**2,953,444**	**144,740**	**0**
Financial Liabilities						
Other Investment balances	-1,610			-173		
Creditors			-12,694			-9,999
	-1,610	**0**	**-12,694**	**-173**	**0**	**-9,999**
Total	**3,456,431**	**146,934**	**-12,694**	**2,953,271**	**144,740**	**-9,999**

17b. Net Gains and Losses on Financial Instruments

	31 March 13	31 March 12
Financial assets	£000's	£000's
Fair value through profit and loss	418,599	18,684
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	**418,599**	**18,684**

17c. 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 13		31 March 12	
	Carrying value	Fair Value	Carrying value	Fair Value
	£000's	£000's	£000's	£000's
Financial assets				
Fair value through profit and loss	3,458,041	2,458,041	2,953,444	2,953,444
Loans and receivables	146,934	146,934	144,740	144,740
Total financial assets	**3,604,975**	**2,604,975**	**3,098,184**	**3,098,184**
Financial liabilities				
Fair value through profit and loss	-1,610	-1,610	-173	-173
Financial liabilities at amortised cost	-12,694	-12,694	-9,999	-9,999
Total financial liabilities	**-14,304**	**-14,304**	**-10,172**	**-10,172**

17d. Valuation of Financial Instruments carried at Fair Value

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted 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. These techniques use inputs that are based significantly on observable market data.

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.

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.

Values at 31 March 2013	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
Financial assets at fair value through profit and loss	3,321,089	78,000	58,952	3,458,041
Financial liabilities at fair value through profit and loss	-1,610			-1,610
Net financial assets at fair value through profit and loss	**3,319,479**	**78,000**	**58,952**	**3,456,431**

Values at 31 March 2012	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
Financial assets at fair value through profit and loss	2,820,010	88,074	45,360	2,953,444
Financial liabilities at fair value through profit and loss	-173			-173
Net financial assets at fair value through profit and loss	**2,819,837**	**88,074**	**45,360**	**2,953,271**

18. 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.

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. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a strategic allocation to Equities at 64% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

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.

Other price risk - sensitivity analysis

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 2013-14 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	11.43%
Overseas Equities	12.25%
Global Pooled inc UK	12.41%
Bonds	3.29%
Alternatives	5.13%

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):

Notes to the Pension Fund Account

Asset Type	Value as at 31 March 13	Percentage change	Value in increase	Value on decrease
	£000's	%	£000's	£000's
Cash and cash equivalents	108,532	0.00	108,532	108,532
Investment portfolio assets:				
UK Equities	656,558	11.43	731,603	581,513
Overseas Equities	607,611	12.25	682,044	533,179
Global Pooled inc UK	1,842,778	12.41	2,071,466	1,614,089
Bonds	280,104	3.26	289,235	270,972
Private Equity	18,377	5.13	19,320	17,434
Infrastructure Funds	40,575	5.13	42,657	38,494
Net derivative assets	2,666	0.00	2,666	2,666
Investment income due	8,505	0.00	8,505	8,505
Amounts receivable for sales	867	0.00	867	867
Amounts payable for purchases	-1,610	0.00	-1,610	-1,610
Total assets available to pay benefits	**3,564,963**		**3,955,285**	**3,174,641**

Asset Type	Value as at 31 March 12	Percentage change	Value on increase	Value on decrease
	£000's	%	£000's	£000's
Cash and cash equivalents	98,850	0.00	98,850	98,850
Investment portfolio assets:				
UK Equities	555,603	11.43	619,108	492,097
Overseas Equities	501,967	12.25	563,458	440,476
Global Pooled inc UK	1,808,830	12.41	2,033,306	1,584,354
Bonds	34,990	3.26	36,131	33,849
Private Equity	8,908	5.13	9,365	8,451
Infrastructure Funds	36,452	5.13	38,322	34,582
Net derivative assets	0	0.00	0	0
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**		**3,405,061**	**2,699,180**

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. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 13	31 March 12
	£000	£000
Cash and cash equivalents	108,532	98,850
Fixed Interest Securities		
- Directly held securities	280,104	34,990
- Pooled Funds	215,772	420,277
Total	**604,408**	**554,117**

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 13	Change in year in the net assets available to pay benefits	
	£000's	£000's	£000's
Cash and cash equivalents	108,532	1,085	-1,085
Fixed Interest Securities			
- Directly held securities	280,104	2,801	-2,801
- Pooled Funds	215,772	2,158	-2,158
Total change in assets available	**604,408**	**6,044**	**-6,044**

Asset Type	Carrying amount as at 31 March 12	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	98,850	989	-989
Fixed Interest Securities			
- Directly held securities	34,990	350	-350
- Pooled Funds	420,277	4,203	-4,203
Total change in assets available	**554,117**	**5,542**	**-5,542**

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. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than £UK, the functional currency of the Fund. Most of these assets are not hedged for currency risk . The Fund is exposed to currency risk on these financial instruments. However, a large part (£209m) of the assets managed by Goldman Sachs Asset Management held in non £UK currencies is hedged for currency risk through forward currency contracts. 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 excluding the hedged investments as at 31 March 2013 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 13	Asset value as at 31 March 12
	£000's	£000's
Overseas Equities	607,611	501,967
Overseas Pooled Funds	874,671	780,345
Overseas Bonds	50,524	0
Overseas Private Equity and Infrastructure	46,831	33,345
Non GBP Cash	47,374	38,873
Total overseas assets	**1,627,011**	**1,354,530**

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 2013-14 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:

Currency exposure - asset type	Asset value as at 31 March 13	Percentage change	Change to net assets available to pay benefits	
	£000's	%	£000's	£000's
Overseas Equities	607,611	5.08	638,478	576,745
Overseas Pooled Funds	874,671	5.08	919,104	830,238
Overseas Bonds	50,524	5.08	53,091	47,958
Overseas Private Equity and Infrastructure	46,831	5.08	49,210	44,452
Non GBP Cash	47,374	5.08	49,781	44,968
Total change in assets available	**1,627,011**		**1,709,664**	**1,544,361**

Currency exposure - asset type	Asset value as at 31 March 12	Percentage change	Change to net assets available to pay benefits	
	£000's	%	£000's	£000's
Overseas Equities	501,967	5.08	527,467	476,467
Overseas Pooled Funds	780,345	5.08	819,987	740,703
Overseas Bonds	0	5.08	0	0
Overseas Private Equity and Infrastructure	33,345	5.08	35,039	31,651
Non GBP Cash	38,873	5.08	40,848	36,898
Total change in assets available	**1,354,530**		**1,423,341**	**1,285,719**

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. The Fund's cash was held with the following institutions:

Summary	Rating	Balance as at 31 March 13 £000's	Balance as at 31 March 12 £000's
Funds Managed under Internal Treasury arrangements			
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAA**	0	17,088
JP Morgan Dollar Liquidity Fund	**AAA**	0	20,230
Blackrock Sterling Government Liquidity Fund	**AAA**	63	3,100
Blackrock USD Fund	**AAA**	16,205	0
Goldman Sachs Sterling Government Fund	**AAA**	0	2,952
SWIP Global GBP Liquidity Fund	**AAA**	6,337	0
Insight Sterling Liquidity Fund	**AAA**	19,911	0
		42,516	**43,370**
Bank Deposit Accounts			
NatWest SIBA	**A**	19,835	3,809
		62,351	**47,179**
Bank Current Accounts			
Natwest Current Account	**A**	50	84
Natwest Current Account - Euro	**A**	29	2,767
Barclays - DTZ client monies account	**A**	603	2,606
		682	**5,457**
Total		**63,033**	**52,636**

	Rating	Balance as at 31 March 13 £000's	Balance as at 31 March 12 £000's
Funds Managed by fund Managers			
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAA**	9,060	47,674
Goldman Sachs Sterling Liquidity Reserve	**AAA**	14,010	0
Bank Current Accounts			
JP Morgan Chase - Current Account	**A+**	23,111	3,996
Total		46,181	51,670

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 2013 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.

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next such valuation will take place as at 31 March 2013.

The key elements of the funding policy are:
- Ensure the long-term solvency of the Fund
- Ensure that sufficient funds are available to meet all the benefits as they fall due for payment
- Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the taxpayer

- Maximise the returns from investments within reasonable risk parameters.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a time period.

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 were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate
Rate of return on investments	6.6% p.a.
Rate of general pay increases	5.0% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	3.0% p.a.

The actuarial valuation has been 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 differences in the value of accrued liabilities and the market value of assets.

20. 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 IAS 19 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.

The actuarial present value of promised retirement benefits as at 31 March 2013 was £6,044.4m (31 March 2012: £5,490.5m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 63% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

Notes to the Pension Fund Account

The liability above is calculated on an IAS 19 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 a market rate.

Assumptions used:	**% p.a.**
Salary	4.8%
Pensions increase rate	2.6%
Discount rate	4.5%

21. Current Assets

	2013		2012	
	£000's	£000's	£000's	£000's
Debtors				
- Contributions due - Employees	3,611		3,530	
- Contributions due - Employers	26,976		26,141	
- Sundry debtors	1,944	32,531	738	30,409
Amounts due from Kent County Council		5,189		10,024
Cash		682		5,457
		38,402		45,890
Analysis of debtors				
Central Government Bodies		0		262
Other Local Authorities		27,491		27,268
Other Entities and individuals		5,040		2,879
		32,531		30,409

22. Current Liabilities

	2013	2012
	£000's	£000's
Benefits Payable	-3,688	-4,291
Sundry Creditors	-6,957	-5,708
Prepaid income	-1,881	0
Owing to Kent County Council	-168	0
Total	-12,694	-9,999
Analysis of creditors		
Central Government Bodies	-40	0
Other Local Authorities	-3,301	-2,976
Public Corporations	0	-11
Other Entities and individuals	-9,353	-7,012
Total	-12,694	-9,999

23. 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 Kent County Council members and paid over to the AVC providers was: £580,538 (£811,233 in 2011-12). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April	5,028	4,390	2,035	2,058	975	1,136
Value at 31 March	5,335	5,028	2,045	2,035	936	975
Contributions paid	1,209	1,309	132	188	4	7

24. 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.

	2012-13	2011-12
	£000's	£000's
The Council is the largest single employer of members of the Pension Fund and during the year contributed:	66,300	70,943
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website at:www.kentpensionfund.co.uk		
Transactions between the Kent County Council Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,673	2,612
Year end balance due (to)/from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-168	3,313

Key management personnel

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Kent County Council under the information for officers' remuneration and members' allowances.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2013 totalled £97m (31 March 2012: £109m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

26. Contingent Assets

34 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.

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

Opinion on the Council's Financial statements

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

Scope of the audit of the financial statements

Opinion on financial statements

Opinion on other matters

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

Matters on which I report by exception

Opinion on the pension fund financial statements

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

Scope of the audit of the financial statements

Opinion on financial statements

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

Opinion on other matters

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

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

Conclusion

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

Report by exception

Delay in certification of completion of the audit

Darren Wells
Director
Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

24 July 2013

Scope of Responsibility

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. 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 economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including the management of risk.

Kent County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework guidance: Delivering Good Governance in Local Government. 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 of internal control.

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values by which the Council is directed and controlled. The Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control.

All Corporate Directors have a range of duties to ensure that their directorates are run efficiently, effectively and with proper risk management and governance arrangements, including a sound system of control. As part of the AGS process, each Corporate Director is specifically required to confirm that this system is in place. They are also required to review internal controls to ensure they are adequate and effective taking into account the following:

(i) Outcomes from risk assessment and evaluation
(ii) Self-assessment of key service areas within the directorate
(iii) Internal audit reports and results of follow ups regarding implementation of recommendations
(iv) Outcomes from reviews of services by other bodies, including Inspectorates, external auditors, etc.
(v) Linkage between business planning and the management of risk

Separate submissions are provided by the Statutory Officers (the Head of Paid Service, the Monitoring Officer and the Section 151 Officer) in respect of issues that they are aware of for the Council as a whole. Corporate Directors put in place an action plan for each issue detailed in their AGS submission as soon as that issue is identified. Their action plans must include:

(i) an accountable officer
(ii) a specific timescale
(iii) the detailed action to be taken
(iv) updates on progress throughout the year

In addition, the Director of Governance & Law completed the annual review of the Code of Corporate Governance during 2012-13. The Code of Corporate Governance is included at Appendix 10 of the Constitution.

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 achievement of Kent County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place within Kent County Council for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts.

The Governance Framework

The Council sets out clearly its vision and purpose, with clarity on outcomes for residents. It engages with stakeholders to ensure robust public accountability through the following actions:

(i) Members and Officers working for a common purpose with clearly defined functions and roles

(ii) Promoting values for the whole organisation and demonstrating good governance through behaviours

(iii) Taking informed transparent decisions subject to scrutiny and managing risk

(iv) Developing the capacity and capability of the Members and officers to be effective

The Council's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework. For each principle we have described the Councils relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism	Assurances Received
1. Identifying and communicating the Council's vision and purpose	Good governance means focussing on the organisation's purpose and outcomes from residents and service users: · Members, working with officers, have developed a clear vision of their purpose and intended outcomes for citizens and service users. · The Vision for Kent Sustainable Community Strategy sets out the 10 year vision for the county. · Kent Forum (comprising the democratic leaders of all Kent's districts and county councils) works to the shared vision and oversees the delivery boards that are tasked with leading on specific themes within the strategy. · The Corporate Plan – Bold Steps for Kent – sets out the Council's ambitions and priorities, its determination to transform how the council works and engages with the communities it serves and its partners in the public, private and voluntary sectors. · Delivering Bold Steps for Kent is the overarching delivery framework and sets out 16 priorities central to achieving the Council's vision and priorities. · Delivery Boards: Safer Communities Board, Children's Trust Board and Health and Wellbeing Board meet and lead on the development of integrated services around specific themes. · Service plans set out the consultation, communication and marketing activity to be done in order that the service can be better planned to meet the needs of the customer or user in future.	Performance Management Framework – information is published quarterly against corporate priorities and targets and reported to the Cabinet Committees and Cabinet. Externally reported data; Government Single Data list; and CIPFA benchmarking. Strategic and service data published online to enable residents to hold the Council to account. Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement. Employment appraisals linked to the Council's strategic objectives. Results of consultations e.g. Kent Joint Health and Wellbeing Strategy, various school expansions, Kent Lane Rental Scheme, Making Kent Quicker (broadband) and many others are set out on a dedicated web page

Principle	Description of Governance Mechanism	Assurances Received
2. Members and Officers working for a common purpose with clearly defined functions and roles	Elected members are collectively responsible for the governance of the Council. Decision making and scrutiny of decisions is separated through the executive arrangements introduced by the Local Government Act 2000. · The Constitution includes a statement on the roles of the Executive and clarifies the Scheme of Delegation in place. · The roles and duties of the Statutory Officers are documented within the Constitution. The Head of Paid Service works with Members and Corporate Directors to deliver the council's objectives. · The Chief Finance Officer (s.151 Officer) has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and maintaining an effective system of internal financial control. · The Monitoring Officer is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with. · A new governance structure was approved by Council in March 2012. · Formal procedures and rules govern the Council's business: Constitution, Schemes of Delegation, Financial Regulations and Contract Procedure Rules. · The Selection & Member Services Committee monitors and recommends changes to the Constitution to Council. · A pay policy 2012-13 is published in accordance with section 38(1) of the Localism Act and the Personnel Committee reviews pay, policy conditions of service and appointments. · Arrangements exist within services and corporate performance to evaluate value for money. Benchmark information is collated and reported quarterly along with an overall corporate value for money indicator.	The Head of Internal Audit has given adequate assurance for risk management and internal control and substantial assurance for the Governance Framework. Performance reporting through the Policy & Resources Cabinet Committee on a regular basis provides information regarding value for money. Most recent staff survey shows improvements in how staff view the organisation compared with last year. Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee/full Council.
3. Promoting values for the whole organisation and demonstrating good governance through behaviours	Good governance means performing effectively in clearly defined functions and roles. It 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 to be: open; invite contribution and challenge; and to be accountable. They are intended to shape the culture and define the character of the organisation now and in the future. · The Kent Code of Member Conduct sets out the members' obligations, how Disclosable Pecuniary Interests and Other Significant Interests are managed and the Seven Principles of Public Life. All Members receive training on the Code as part of their induction process, which is monitored by the Standards Committee.	Monitoring Officer reports to the Corporate Management Team and Corporate Board. Standards Committee minutes and decisions. Minutes and decisions of all committees are observed by the Monitoring and/or Head of Democratic Services. Annual Performance Review for staff explicitly links to achievement of objectives.

Principle	Description of Governance Mechanism	Assurances Received
	· Although the Localism Act 2011 allowed for the removal of local standards committees, the Council decided to retain this mechanism to ensure high standards of Member conduct are promoted and maintained. · The Code of Conduct for Employees is published on the Council's intranet and is in the Constitution. Staff are made aware of the Code through the corporate induction process. · The Council has a Whistleblowing Policy and an Anti Fraud and Corruption Policy in place. · The Director of Governance and Law is the Monitoring Officer and is responsible for ensuring that the Council acts in accordance with the Constitution and supports the Standards Committee. · Corporate Directors have primary responsibility for ensuring that decisions are properly made under the terms of the Constitution and the Schemes of Delegation. · The Council developed new equality objectives last year in relation to how and where it plans, procures, commissions and delivers services. · The Council takes a whole organisation approach to addressing issues of equality in relation to providing services and the way it manages and develops its workforce. These two areas are not only interlinked, but also ultimately impact the Council's ability to deliver public sector equality duties.	Equalities Impact Assessments carried out for the 2011-12 and 2012-13 budget proposals were undertaken without legal challenge. Member training and development programme provides focus on, and assurance of, appropriate skills and capability. The numbers of staff grievances and appeals is low given the level of change and the authority has not lost any Employment Tribunal cases.
4. Taking informed transparent decisions subject to scrutiny and managing risk	Good governance means taking informed, transparent decisions and managing risk. · The Council has formally stated the types of decisions that are the responsibility of the Executive, those reserved to full Council and those delegated to committees and officers. · There are processes in place to demonstrate that decision makers followed due process, the decisions were properly documented and taken having regard to all relevant considerations. · Decision making is supported by adequate risk management arrangements, with the Risk Management Strategy and Policy Statement reviewed annually by the Governance & Audit Committee and approved by the Policy & Resources Cabinet Committee. · Key and other significant decisions to be taken are published in the Council's Forthcoming Executive Decision (FED) list which covers a six-month period (two months more than required by statute). · In March 2012, the Council established six Cabinet Committees whose remit includes pre-consideration of decisions to be taken by Cabinet/Cabinet Members. · The Council has a Scrutiny Committee and a Health Overview and Scrutiny Committee with membership drawn from non-executive members.	Delegations set out in the Council's Constitution. Governance & Audit Committee work plan and terms of reference stipulate the way in which responsibility is discharged. Internal Audit review on risk management arrangements 2012-13. Annual review of Anti-Fraud and Corruption strategy. External audit VFM opinion, which considers governance, risk and performance management Internal Audit Annual Report 2012-13. Complaints Annual Report. RIPA – Commissioner Office Surveillance control. Ofsted reports.

Principle	Description of Governance Mechanism	Assurances Received
	· Governance & Audit Committee provides effective, independent assurance of the adequacy of the internal control environment and oversee the financial reporting process. · The Head of Internal Audit supports the Governance & Audit Committee and reviews its effectiveness on an annual basis. · Corporate Risks are considered quarterly by the Policy & Resources Cabinet Committee, Governance & Audit Committee and officer groups. Operational day to day risk management exists at an officer level with Member involvement at key trigger points. · Internal Audit operates in line with the Code of Practice for Internal Audit in Local Government. The Head of Internal Audit reports to the Corporate Director – Finance & Procurement and has direct access to both the Corporate Management Team, the Head of Paid Service, Members and the Chairman of Governance & Audit Committee. · The Constitution makes it clear that managers have responsibility for operating a sound system of internal control. Internal Audit works collaboratively with services to recommend improvements to the control environment. · There are designated Whistleblowing officers in each directorate. · There is an Anti-Fraud and Corruption Strategy in place to prevent and detect fraud. There was an increase in the level of reporting in 2012-13 compared with previous years, indicating increased awareness of the potential for fraud, rather than actual levels of fraud. · The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures and a structure of delegation and accountability. The Medium Term Financial Strategy is updated and agreed by full Council each year and includes a risk assessment of budget options. · The Council has an open data and transparency programme which meets and often exceeds the expectations of central government. · Open data available includes: corporate directors' salaries and expenses; register of gifts and hospitality; Council spending; Member's allowances and expenses; invoices over £500 and Kent area profiles.	Forthcoming Executive Decision (FED) list published on website. Medium Term Financial Strategy and signed Statement of Accounts. Zero tolerance approach to irregularities. All irregularities reported are investigated. Regular reports about complaints to Governance & Audit Committee.
5. Developing the capacity and capability of the Members and officers to be effective	Good governance means developing the capacity and capability of the governing body to be effective. · Member development is delivered under the Member Development Charter (awarded in 2010) and the Member Development Charter Plus (achieved in 2011). · All Members receive training on the Code of Member Conduct.	Attendance at Member development sessions and regular reports to Selection & Member Services Committee.

Principle	Description of Governance Mechanism	Assurances Received
	· Other tailored training is provided to support Members work on specific committees (e.g. Planning Applications, Personnel, etc) as well as generic leadership and personal development programmes. · All officers are subjected 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 and delivery of corporate and directorate objectives. · The Change to Keep Succeeding transformation programme reinforces the expectation that all staff have an appreciation of the Council's values and expected behaviours. · The Organisation and People Plan includes a training strategy covering the development of professional and generic skills for all employees. · The Kent Manager Standard accredited by Edexcel is mandatory for all staff at KR9 or above.	Individual performance review ratings give assurances that staff are carrying out their work in accordance with Council priorities and objectives. Updates to Governance & Audit Committee regarding the Change to keep Succeeding programme. 39% of eligible staff have started the Kent Manager programme and regular reports are provided to Personnel Committee.
6. Engaging with local people and stakeholders	Good governance means engaging stakeholders and making accountability real. It is important for the Council to consult, involve and listen to its citizens to improve services and plan for the future. The Council is committed to publishing the results of consultations and explain how the results will be used. · Service plans set out what consultation, communication and marketing activity is to be undertaken and the Council has a webpage bringing all public consultations together. · Services engage with their users using various methods, e.g. service user groups, mystery shopping and peer to peer engagement. · The Council has a dedicated Community Engagement Officer (CEO) for each district in Kent. They provide a link between local people, local organisations and decision-makers in Kent. Each CEO works with the local Member to arrange regular local community meetings in each district. · Kent residents have the right to vote and sign a petition to request a referendum for an alternative form of constitution and to submit or sign a petition on any issue of concern. · A Complaints Procedure is in place with regular reports going to the Governance & Audit Committee. · The Kent Compact, bringing together representatives from the public, private and community sectors to encourage closer working is in place and is underpinned by four protocols. · Kent Volunteering Charter is in place to promote and support volunteering across the county.	Results of consultations (e.g. Kent Joint Health and Wellbeing Strategy, various school expansions, Kent Lane Rental Scheme and Making Kent Quicker (broadband)) are set out on a dedicated web page on the Council's website. Regular reports of complaints and compliments are made to Governance & Audit Committee.

Review of Effectiveness

Every year, a return is submitted for each part of each Directorate (as well as by Statutory Officers) reviewing the effectiveness of its governance framework, including the system of internal control. Attached to each return is the appropriate evidence to support the statements in that return. The returns and their supporting evidence are the background information, in light of which the Corporate Director/Statutory Officer completes their Statement of Assurance.

The Returns cover each directorate's progress on implementing the actions/areas of improvement identified in the 2011-12 AGS. They also detail any new issues that have arisen since 1 April 2012, which have a significant impact on risk management or governance, including details of the sources used to identify such issues. Finally, they provide assurance that Corporate Directors have ensured compliance with the Constitution and Financial Regulations and whether any further actions/areas of improvement are required.

It is for each Corporate Director to decide the level of evidence that provides sufficient assurance that actions/improvements identified in the 2011/12 AGS have been implemented. In respect of all outstanding matters there is confirmation that a detailed action plan is in place, and the name of the responsible officer.

Internal Audit has concluded overall, based on the findings of work that it has performed and taking into account the individual strengths and weaknesses identified, that adequate assurance can be given for risk management and the system of internal control and substantial assurance can be given for the governance framework. This has been further endorsed through the performance management framework and external audit assurance.

The assurance level in relation to risk management arrangements reflects substantial improvements to formalising risk management processes, including:

(i) the issue of policies and guidance
(ii) provision of workshops and Member training
(iii) evidence of proper discussion of risks at Divisional, Directorate and Corporate management levels
(iv) improvements to the collection and handling of risk information

There are, however, areas that need further improvement to fully embed formalised risk management within all divisions, including:

(i) improved monitoring of implementation of agreed actions
(ii) identification of owners and action dates for all risks
(iii) more formalised consideration of risks when making decisions

The Council confirms that its financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Governance issues identifies in 2011-12 – Progress Update

The table below describes the governance issues identified in the 2011-12 Annual Governance Statement and the progress made against these during 2012-13:

Issue	Proposed Action	Owner	Update on Progress
Maintaining standards of governance and service in the face of budget demands/pressures	Proceed in accordance with existing action plans and keep under review	Corporate Management Team	See Corporate Directors' 2012-13 statements of assurance
Service transformation is incomplete in some areas	Continue with existing action plans and keep under review	Corporate Management Team	Organisational design model adopted to support its structures

Issue	Proposed Action	Owner	Update on Progress
Concerns regarding delivery of children's services and related data quality	Full implementation of the action plans already in place	Corporate Director Families and Social Care	

Significant Governance Issues for 2012-13

The following issues have been identified and assessed as being significant for the purpose of this annual governance statement. Some actions have been have been taken, others are in progress and will continue to be monitored in 2013-14:

Directorate	Issue	Actions
Business Strategy & Support (on behalf of the whole authority)		
	Limited opinion on KCC's risk management.	Concerns addressed by new Risk Management team. Initial feedback has highlighted significant progress reflected by an improved assurance level and an increase in the organisation's risk maturity.
	Risks identified as result of re-structuring, including the risk of fraud in remote services, which may not be sufficiently identified, monitored or rectified.	Issues are being prioritised with appropriate Directorate Management Teams. Furthermore, Internal Audit are continuing with a programme of establishment audits to review financial controls, inspection standards and safety and security of these remote services.
	Governance and running of KCC companies	Ensure robust legal and governance arrangements are in place before, during and after the creation of such companies.
	Strengthen compliance with declaration of outside commitments and personal interests	Declaration of outside commitments and personal interests will form part of the annual appraisal meeting.
	Manually intensive payment processes can lead to input error. Exacerbated by system issues, staff turnover in the originating departments and reduced resource levels.	Planned introduction of eInvoicing and expansion of Oracle iProcurement reducing manual intervention on core payments programme. The Foster Payments System is also due to be replaced. Improved management arrangements and staff knowledge as the new Finance & Procurement structure beds down in its second year of operation. Continued emphasis on staff performance management.
	Implementation and governance processes to support the new capital strategy.	Processes developed and implemented to support new capital strategy, including revised business case template with weighted criteria to support Bold Steps and ensure fiscal indicator is not exceeded over the five year capital programme. The new process is designed to streamline the decision making activity.
	Council Tax Collection Rates – the risk/impact of people not paying (given the changes to the Council Tax Benefit System).	This is being monitored by the Section 151 Officer through the Head of Financial Strategy.

Directorate	Issue	Actions
	Increased number of complaints to the Information Commissioner's Office (ICO) regarding information security incidents and alleged DPA breaches.	KCC's Senior Information Risk Owner (Director of Governance & Law) is overseeing work to improve corporate information governance and assurance and establish Information Risk Management as a core business activity, including mandatory IG training for all employees.
	Increased number of challenges to procurement processes run by the Council.	The Strategic Sourcing and Procurement team are engaging/must engage with Legal Services to ensure that all legally complex elements of procurement processes are dealt with.
	Multiple transformation programmes planned for 2013-15, placing increased demands on ICT.	Development of a single integrated technical architecture will be critical to controlling cost of technical investment.
	The Basic Need Programme is a national programme for providing additional school places with a very tight timescale. There is a risk that Property may not be able to deliver what is required within the timescale.	To ensure delivery, Basic Need Programme has been prioritised and will be regularly reviewed.
	There is a need for reducing the cost of the KCC operational office estate by implementing a modernised fit for purpose workplace environment.	New Ways of Working strategy approved by P&R Cabinet Committee, programme funding structure and management established and regularly monitored. Implementation now ongoing.
	The Corporate Programme Office has identified capacity and capability gaps in parts of the council's delivery of change project and programmes, which limit its ability to provide necessary assurance to CMT and Cabinet.	In order to improve project and programme governance and discipline, it will be necessary to improve the council's overall approach to change management. Options for enhanced arrangements for the delivery of strategic change projects and programmes will be considered and approved by CMT and Cabinet in spring/summer 2013.
	As part of the ongoing strengthening of compliance with KCC Procurement Standards, we will closely monitor Public Health's compliance.	This will be addressed by Public Health staff working closely with the Corporate Procurement team on any procurement they undertake. Monitored by the Director of Public Health and the Corporate Director of Finance.
Customer & Communities		
	Kent Cultural Trading.	Actions identified by Internal Audit carried out. Company ceased trading. Company to be dissolved. Robust monitoring systems in place.
	Implementation of the Customer Service Strategy has identified weaknesses in CRM and the County Council's website.	These are being addressed.
	Actions identified by Internal Audit to improve financial controls in Community Learning & Skills require to be addressed.	Ian Forward, Head of Service for Community Learning & Skills, will implement all necessary measures during 2013-14

Directorate	Issue	Actions
	No Communications Strategy.	Strategy agreed. Team restructured. Account management teams for each directorate in place.
	Council's website platform due to expire March 2013.	New platform purchased. Work underway to build new content due for completion by end of 2013.
	Transfer of public health.	Support in place including account manager. Scoping future needs that require resources.
	Engagement strategy to be improved.	Options to be presented in Summer 2013.
	Troubled Families business cases to be managed against clear criteria of outcome and sustainability.	Troubled Families roll out prioritised across Kent
Education, Learning & Skills		
	Support and intervention to schools: Financial consequence of school restructuring and the impact on schools not significantly improving to good or outstanding.	A school improvement strategy is in place to reduce the risk of schools going into an Ofsted category and to ensure that more schools attain a judgement of good.
	SEN Transport Funding: A saving of £750k to be achieved from the SEN Transport Budget in 2013-14 and again in 2014-15.	Saving to be delivered by personalising budgets and creating behavioural changes in parental practice. Pilot underway from March 2013, following evaluation this will be rolled out to the rest of the County.
	SEN Provision and Places: Demand for specialist provision and placement for pupils with statements of SEN exceeds the availability of places in Kent maintained schools.	Development of the Kent SEND strategy – currently out to consultation.
	Academies Independence from KCC: Schools seeking to convert to Academy status without a 3 way Commercial Transfer Agreement (CTA).	Dialogue with DfE ongoing regarding the rationale for Kent's CTA template and to ensure that any school converting to academy status has a requirement to comply with the Kent CTA.
	School Provision Planning: A significant expansion of schools is required to accommodate major population growth in the short to medium term (primary) and long term (Secondary)	The development and annual review of the Kent Commissioning Plan for School Places will ensure that forecast expansions is mapped and costed. The school expansion programme is under member scrutiny and reviewed by relevant Education and Property programmes/
	Schools with potential deficit budgets: Impact of a the third year of flat cash DSG settlement for schools together with major national changes to school funding and formula will put a significant pressure on a number of schools in the short to medium term.	Issue is continually raised with DfE, schools and governors, Joint work is underway with school improvement colleagues to identify those schools at most risk as result of the financial changes so that a joint Finance / School Improvement approach to supporting schools is developed.

Directorate	Issue	Actions
Enterprise & Environment		
	Work closely with corporate colleagues to manage the highway tree risk associated with the Ash Die Back to mitigate the environmental and economic impact.	A strategic co-ordinating group has been established to focus on the issue of Ash Dieback. Highways & Transportation are represented on this group.
	Review the outcomes from the Internal Audit of the Enterprise Term Maintenance Contract to identify any improvements of delivery or outcomes.	Highways & Transportation await the outcomes of the Enterprise Term Maintenance Contract Internal Audit. A compliance strategy has been in place since the start of the contract, which measures governance procedures and processes.
	Ensure the successful first year operation of the new Consultancy Contract with Amey and drive benefit from the Operational Performance Measures put in place to drive service improvement and value for money.	We are 2 months into this contract and the operational metrics are already showing promising levels of performance; a measurement strategy applies to this contract.
	Business continuity plan testing showed the need to be clearer about the information contained in the Mataco (web based business continuity planning tool) version of the plan.	Plans are in place to enhance this information.
Commercial Services		
	All CS Policies need to be reviewed & revised to suit the new operation and recognise the organisational distinction between KCC & CS.	The Corporate Director – Enterprise & Environment, as the Chair of the Commercial Services Shareholder Board, will monitor and oversee the activities of the companies, and complete the transformation of its governance arrangements with the appointment of independent non-Executive Directors.
	Rights & responsibilities of KCC as Shareholder of the new companies need to be codified and agreed by both parties.	
	Governance of the new companies to be improved to comply with best practice, including NEDs and relevant Committees.	
Families & Social Care		
	Kent Integrated Children's Services Board	This has been set up with ELS and Communities to ensure that there is clear oversight of all services to children and to ensure delivery of the statutory functions of the Lead Member for Children Services and Director of Children Services.
	Adult Social Care Transformation: redesigning how adult social care is delivered to improve outcomes for people while building a sustainable social care market.	The programme has identified key steps to deliver these and associated savings.
	Improving Specialist Children's Services: implementation of the Children's Services Improvement Plan.	Move to Phase 3 to ensure long term basis for providing excellent services to vulnerable children.

Directorate	Issue	Actions
	Safeguarding Vulnerable Adults: audits of safeguarding investigations in both KCC and partner organisations to ensure best practice consistently delivered.	Areas identified where key internal controls need to be enhanced or where resource constraints may have a significant impact: · Financial management · Impact of the new NHS architecture · Information governance

Appendix A: Published Sources of Assurance

Code of Corporate Governance (Appendix 10 of the Constitution)
Vision for Kent County Council
Kent Forum reports and minutes
Bold Steps for Kent Corporate Plan 2012
Business Plans
Quarterly Performance Reports
Internal Audit Annual Plan 2012-13
Internal Audit Annual Report 2012-13
Pay Policy 2012-13
External Audit Annual Audit Letter 2011-12
Task and Finish Group reports
Governance and Audit Committee Terms of Reference and work plan 2012-13
Ofsted Reports
Statement of Accounts and Medium Term Financial
Committee minutes, agendas and reports 2012-13
Annual report on complaints

Paul Carter
Leader
On behalf of Kent County Council

David Cockburn
Head of Paid Service

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.