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Notes to the Accounting Statements index

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2013-14 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 2013-14 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 144 and 145.

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 2014.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 13.
- Notes to support the above primary statements, pages 14 to 102.
- The Pension Fund Accounts are on pages 103 to 129.

Revenue Budget and Outturn

In February 2013 the Council approved a net revenue budget for 2013-14 of £954.304m. In addition £16.081m of 2012-13 underspending was rolled forward and added to the budget. During the year, the Government announced changes to our funding levels of an additional £6.006m, largely one-off, which was also 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.

DIRECTORATE	Budget	Outturn	Variance
	£000's	£000's	£000's
Education, Learning & Skills	38,358	36,530	-1,828
Families and Social Care:			
- Specialist Children's Services	152,996	158,121	5,125
- Adult Social Care	327,919	327,453	-466
Enterprise and Environment	151,250	154,580	3,330
Customer and Communities	76,254	69,936	-6,318
Business Strategy and Support:			
- Public Health	384	-32	-416
- Regeneration & Economic Development	3,882	3,766	-116
- Business Strategy & Support Core Services	75,988	73,019	-2,969
Financing Items	149,360	142,644	-6,716
	976,391	966,017	-10,374
Delegated Schools Budgets	0	2,394	2,394
	976,391	968,411	-7,980

Foreword

	Budget	Outturn	Variance
FUNDED BY:-	£000's	£000's	£000's
Reserves	-16,081	-16,081	0
Formula Grant	-248,224	-248,223	1
Council Tax	-511,875	-511,875	0
Council Tax Freeze Grant	-5,776	-5,776	0
Retained Business Rates	-45,804	-45,811	-7
Business Rate Top Up	-118,329	-118,329	0
Small Business Rate Compensation Grant	-1,013	-1,013	0
New Homes Bonus Grant & Top Up	-5,864	-5,865	-1
Education Services Grant	-21,006	-20,490	516
Local Services Support Grant	-2,419	-2,419	0
Total Funding	-976,391	-975,882	509
NET OUTTURN POSITION	0	-7,471	-7,471

The net underspending within the directorates of £9.865m (excluding £2.394m delegated schools overspend) has been carried forward and will be added to the 2014-15 budget to support the re-scheduling of projects and to fund County Council and Cabinet decisions affecting the 2014-15 and future year's budgets.

Schools

In total, schools overspent against their delegated budgets by £2.394m, which has been drawn down from school reserves. This includes a £1.904m drawdown from school reserves as a result of 26 schools converting to new style academy status which allows them to take their reserves with them, and a £3.524m underspend against delegated budgets for the remaining Kent schools. In addition, there was £4.014m of overspending on the unallocated schools budget, largely due to £2.5m of schools collaboration work; £1.578m revenue contribution to capital for joint funded capital projects with schools in order to keep them warm, safe and dry; £0.889m for schools broadband; £0.3m for schools finance training, offset by an underspend on growth funding of -£0.934m and other minor variances of -£0.319m. Schools now have some £39.813m of revenue reserves and there is £5.917m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2014 is £31.725m, which is unchanged from the position as at 31 March 2013.

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. In 2013-14 the Heritable claim was paid to the expected 94% and there were repayments from Landsbanki. Latest indications suggest that we will recover 100% from Landsbanki as outlined in LAAP82 Update 8. In real terms this means a recovery of 98% 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 £219m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education, Learning and Skills	121,376	96,274	-25,102
Adult Social Care and Public Health	5,018	4,209	-809
Environment, Highways & Waste	62,193	55,438	-6,755
Customer and Communities	4,531	3,139	-1,392
Regeneration & Enterprise	29,649	15,167	-14,482
Business Strategy, Performance and Health Reform	32,402	29,485	-2,917
Specialist Children's Services	1,925	344	-1,581
	257,094	204,056	-53,038
Devolved Capital to Schools	11,878	15,401	3,523
	268,972	219,457	-49,515
Property Enterprise Fund 1			0
Property Enterprise Fund 2		1	1
TOTAL	268,972	219,458	-49,514

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £53.038m less than cash limits. Of this, -£53.337m reflected re-phasing of capital expenditure plans across all services and +£0.299m was due to real variations on a small number of projects. These unspent capital resources will be carried forward into 2014-15 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2013-14 was £15.401m and the variance will be carried forward to 2014-15 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 provides 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.

Both PEF 1 and PEF2 have served their purpose for KCC and will be closed as at 1st April 2014.

Details of the financing of capital expenditure are on page 48.

Capital Reserves

At 31 March 2014 the Council has earmarked and other capital reserves of £153.7m as shown on page 59.

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 2014 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 74.

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

There have been amendments to IAS 19 for 2013-14. One amendment is that the expected rate of return and the interest cost has been replaced with a single net interest cost, this effectively sets the expected return equal to the discount rate. The other amendment requires that administration costs are recognised in the Comprehensive Income and Expenditure Statement.

The 2013-14 IAS 19 report shows that the Pension Fund now has a deficit of £1,029m. This is an increase in the deficit of £135m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2013-14, earlier years and for future years. The balance currently stands at £1,283.1m 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 2013-14 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 2014 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 2014.

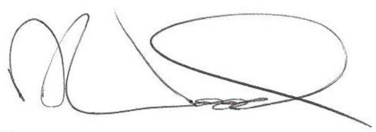
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

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 2014.

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
15 July 2014

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.

	Restated Year ended 31 March 2013				
	General Fund Balance	**Earmarked GF Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2012	**-31,725**	**-200,698**	**-14,897**	**-74,002**	**-321,322**
Movement in reserves during 2012-13					
Surplus or (Deficit) on Provision of Services	124,681				**124,681**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**124,681**	**0**	**0**	**0**	**124,681**
Adjustments between accounting basis & funding basis under regulations - Note 10	-136,811		-18,685	-33,519	**-189,015**
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**
	Year ended 31 March 2014				
Balance at 31 March 2013 carried forward	**-31,725**	**-212,828**	**-33,582**	**-107,521**	**-385,656**
Movement in reserves during 2013-14					
Surplus or (Deficit) on Provision of Services	157,318				**157,318**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**157,318**	**0**	**0**	**0**	**157,318**
Adjustments between accounting basis & funding basis under regulations - Note 10	-154,543		-1,125	-11,446	**-167,114**
Net increase/Decrease before Transfers to Earmarked Reserves	**2,775**	**0**	**-1,125**	**-11,446**	**-9,796**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	-2,775	2,775			**0**
Increase/Decrease (movement) in Year	**0**	**2,775**	**-1,125**	**-11,446**	**-9,796**
Balance at 31 March 2014 carried forward	**-31,725**	**-210,053**	**-34,707**	**-118,967**	**-395,452**

Movement in Reserves Statement

	Restated Year ended 31 March 2013		
	Total Usable Reserves	**Unusable reserves**	**Total Council Reserves**
	£'000	**£'000**	**£'000**
Balance at 31 March 2012	**-321,322**	**140,948**	**-180,374**
Movement in Reserves during 2012-13			
Surplus or (Deficit) on Provision of Services	124,681		124,681
Other Comprehensive Expenditure and Income (total of *'s on CIES)		-1,310	-1,310
Total Comprehensive Expenditure and Income	**124,681**	**-1,310**	**123,371**
Adjustments between accounting basis & funding basis under regulations	-189,016	189,016	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	**-64,334**	**187,706**	**123,371**
	Year ended 31 March 2014		
Balance at 31 March 2013 carried forward	**-385,656**	**328,654**	**-57,002**
Movement in reserves during 2013-14			
Surplus or (Deficit) on Provision of Services	157,318		157,318
Other Comprehensive Expenditure and Income (total of *'s on CIES)		57,585	57,585
Total Comprehensive Expenditure & Income	**157,318**	**57,585**	**214,903**
Adjustments between accounting basis & funding basis under regulations	-167,114	167,114	0
	-9,796	**224,699**	**214,903**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-9,796**	**224,699**	**214,903**
Balance at 31 March 2014 carried forward	**-395,452**	**553,353**	**157,901**

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.

Service	Notes	Year ended 31 March 2014 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural and Related Services		48,577	10,262	38,315
Environmental and Regulatory Services		93,090	17,311	75,779
Planning Services		19,651	4,243	15,408
Central Services to the public		2,758	577	2,181
Children's and Education Services		1,335,673	993,873	341,800
Highways and Transport Services		176,777	24,599	152,178
Adult Social Care		501,855	119,695	382,160
Public Health		53,701	54,193	-492
Corporate and Democratic Core		41,439	24,969	16,470
Non Distributed Costs		18,860	24,030	-5,170
Cost of Services		**2,292,381**	**1,273,752**	**1,018,629**
Other operating Expenditure	**11**			108,651
Net Surplus on trading accounts	**32**			-6,755
Financing and Investment Inc and Exp	**12**			93,937
Taxation and Non Specific Grant Income	**13**			-1,057,144
(Surplus) or deficit on Provision of Services				**157,318**
(Surplus)/deficit arising on revaluation of non current assets		*		-61,656
Remeasurement of the net defined benefit liability		*		120,217
(Surplus)/deficit on revaluation of available for sale financial assets		*		-976
Other Comprehensive Income and Expenditure				**57,585**
Total Comprehensive Income and Expenditure				**214,903**

Comprehensive Income and Expenditure Statement

Service	Notes	Restated Year ended 31 March 2013 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural and Related Services		42,369	5,282	37,087
Environmental and Regulatory Services		87,620	9,513	78,107
Planning Services		23,075	5,390	17,685
Central Services to the public		2,845	475	2,370
Children's and Education Services		1,255,703	969,773	285,930
Highways 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		20,522	13,650	6,872
Cost of Services		**2,174,873**	**1,182,865**	**992,008**
Other operating Expenditure	**11**			99,197
Net Surplus on trading accounts	**32**			-5,585
Financing and Investment Inc and Exp	**12**			105,930
Taxation and Non Specific Grant Income	**13**			-1,066,869
(Surplus) or deficit on Provision of Services				**124,681**
(Surplus)/deficit arising on revaluation of non current assets			*	-5,244
Remeasurement of the net defined benefit liability			*	4,567
(Surplus)/deficit on revaluation of available for sale financial assets			*	-633
Other Comprehensive Income and Expenditure				**-1,310**
Total Comprehensive Income and Expenditure				**123,371**

The Comprehensive Income and Expenditure Statement for 2012-13, along with the Movement in Reserves Statement and the Cash Flow, has been restated due to amendments in IAS 19 - Employment Benefits which requires a new class of components for pension cost to be recognised in the financial statements. These new class of components have had no impact on the Total Comprehensive Income and Expenditure amount reported last year.

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 2014		31 March 13
	Notes	**£'000**	**£'000**	**£'000**
Property Plant & Equipment	**15**	1,860,130		2,016,868
Heritage Assets	**18**	7,134		6,637
Investment Property		33,956		22,322
Intangible assets		3,694		2,899
Long-term investments	**37**	22,194		0
Long-term debtors	**24**	73,309		59,759
Total long-term assets			2,000,417	2,108,485
Inventories		5,087		6,467
Assets held for sale (<1yr)		3,385		5,016
Short term debtors	**24**	165,025		163,748
Short-term investments	**37**	187,425		64,961
Cash and Cash equivalents	**26**	107,405		215,058
Total current assets			468,327	455,250
Temporary borrowing	**37**	-26,826		-2,327
Short term Lease Liability	**37**	-4,799		-4,462
Short term provisions	**23**	-22,879		-24,694
Creditors	**25**	-233,291		-227,581
Total Current liabilities			-287,795	-259,064
Creditors due after one year	**25**	-14,152		-27,970
Provisions	**23**	-16,568		-17,296
Long-term borrowing	**37**	-997,168		-1,023,575
Other Long Term Liabilities	**19/24/36**	-1,283,154		-1,154,942
Capital Grants Receipts in Advance	**14**	-27,808		-23,887
Long Term Liabilities			-2,338,850	-2,247,670
Net Assets			-157,901	57,001
Usable Reserves	**20**	-395,452		-385,656
Unusable Reserve	**21**	553,353		328,655
Total Reserves			157,901	-57,001

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	2013-2014 £'000	Restated 2012-2013 £'000
Net (Surplus) or deficit on the provision of services		157,318	124,681
Adjustments to net surplus or deficit on the provision of services for non cash movements	**27**	-404,110	-394,754
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**27**	181,788	169,367
Net cash flows from operating activities	**28**	-65,004	-100,706
Investing Activities	**29**	168,822	-75,649
Financing Activities	**30**	3,835	100,718
Net increase(-) or decrease in cash and cash equivalents		107,653	-75,637
Cash and cash equivalents at the beginning of the reporting period		215,058	139,421
Cash and cash equivalents at the end of the reporting period	**26**	107,405	215,058

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 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.

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 2013-14 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

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- 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.

- Where revenue and expenditure have 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.

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.

Note 2 - Accounting Policies

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.

IAS 19 Employment Benefits - there has been a change to the accounting standard relating to post employment benefits. The impact of these changes are detailed in Note 6 on page 19.

Accounting for Schools

The accounting policies for Schools are in line with the Council's and therefore are compiled 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 it 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 - Accounting Policies

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 2013-14 (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 finished on 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.

Transfer of Public Health function

A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place giving the date of transfer, the name of the transferring body and the effect on the financial statements.

Public Health Services is about helping people to stay healthy, and protecting them from threats to their health. This service was transferred on the 1 April 2013 from Eastern and Coastal Kent PCT and West Kent PCT. There is a new service line on the Comprehensive Income and Expenditure Statement and there is no effect on the Balance Sheet.

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

For 2013-14 there are amendments to the following accounting standards:

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosures of Interests in Other Entities
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures

The above amendments relate to the accounting treatment for entities in which the Authority has an interest. The decision on the appropriate accounting treatment is based on the measurement of control. There may be an impact for us when these standards are adopted.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Obligations
IAS 1 Presentation of Financial Statements

The impact of the above amendments will be reflected in the 2014-15 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.

- The Council has a policy to revalue its land and buildings on a rolling five year basis and undertakes an annual review to ensure that the carrying amount of assets not revalued in year is not materially different to their fair value at the balance sheet date. The main class of asset in the 13-14 tranche was primary schools which represented 49% of the total land and buildings net book value as at 31 March 2013. The net valuation increase on these assets was 5%. Applying this percentage increase to assets that have not been revalued in the past 2 years would result in an increase of £23m. The Council is therefore confident that the carrying amount of these assets as at 31 March 2014 is not materially different to their fair value as at 31 March 2014. For the assets that were revalued in 2013-14 the valuation date is as at the 1 April 2013. However, our impairment review has confirmed no significant changes to the value of the portfolio. The council is therefore confident that the carrying amount of these assets is not materially different to their fair value as at 31 March 2014.

- 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 2014-15 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.

- Five Community/Voluntary Controlled schools which were on balance sheet as at 31 March 2014 converted to academy status between 1 April 2014 and 1 July 2014. The net book value of these assets as at 31 March 2014 is £12.1m. A further 13 schools are due to convert to academy status between 1 August 2014 and 1 January 2015. The net book value of these assets as at 31 March 2014 is £20.9m. An additional £0.5m included in the balance sheet as at 31 March 2014 relates to playing fields at Voluntary Aided schools that have or will convert to academy status in 2014-15.

- Commercial Services released a provision of £2.5m as a prior year adjustment. The Council has decided to treat the £2.5m as an in year adjustment which follows the Council's policy on the release of unused reserves and provisions.

- The wholly owned subsidiaries and jointly controlled entities are reviewed on an annual basis as to whether group accounts are required. Based on the level of profits for these entities and that the majority of the transactions are between the Council and the subsidiaries, the Council has judged that Group Accounts are not required.

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

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

The items in the Council's Balance Sheet at 31 March 2014 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 £2.05m 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 £10.25m - 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 2013-14 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 componentisation Youth & Community Centres: no componentisation	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £5.375m. Over 5 years this would give a difference of £26.88m - this 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 a single net interest cost (which effectively sets the expected return equal to the discount rate) on Pension Fund Assets.	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 1.0% to 0.8% 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 2013-14, the Council's actuaries advised that the net pensions liability had increased by £43.7m as a result of estimates being corrected due to experience and increased by £148m attributable to the updating of the assumptions.

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 £1,018k the effect of the estimation is not material.

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 in exchange for those benefits and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the cost for restructuring.

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 and NHS Staff**

The Council contributes to the Teachers' Pension Scheme and the NHS Pension Scheme at rates set by the schemes actuary and advised by the Schemes Administrator. The schemes pay benefits on the basis of pre-retirement salaries of teaching staff and NHS staff. While the schemes are of the Defined Benefit type, they are accounted for as Defined Contribution Schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

- **Other employees**

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

Note 6 - Officers Remuneration

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 the following components:

Service cost comprising:
– current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

– past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provison of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

– net interest on the net defined benefit liability (asset), i.e. the net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (assets) during the period as a result of contribution and benefit payments.

Remeasurement comprising:
– net return on plan assets –excluding amounts included in net interest on the defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

– 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 – charged 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.

Impact of amendments to IAS 19 on the Comprehensive Income and Expenditure Statement

The table below show the original and restated 2012-13 figures.

	2012-13	**Restated 2012-13**
	£'000	**£'000**
Expected return on assets in the scheme	-86,019	0
Interest on pension scheme liabilities	106,569	0
Net Interest in the Defined Liability	0	37,873
Non Distributed Costs - Administration Costs	0	1,313
Reversal of net charges made for retirement benefits in accordance with IAS 19	-73,895	-92,531
Total	**-53,345**	**-53,345**

Note 6 - Officers Remuneration

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2013 to 31 March 2014

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 2013-14, 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 2014	Schools 31 March 2014	Non-Schools 31 March 2013	Schools 31 March 2013
50,000 - 54,999	164	209	143	216
55,000 - 59,999	95	154	115	182
60,000 - 64,999	60	93	43	96
65,000 - 69,999	33	62	33	55
70,000 - 74,999	29	23	33	29
75,000 - 79,999	7	19	4	16
80,000 - 84,999	8	13	6	16
85,000 - 89,999	6	10	5	12
90,000 - 94,999	9	7	8	6
95,000 - 99,999	3	8	3	10
100,000 - 104,999	4	6	5	4
105,000 - 109,999	5	3	4	2
110,000 - 114,999	3	0	3	1
115,000 - 119,999	3	2	1	0
120,000 - 124,999	3	0	1	0
125,000 - 129,999	1	1	0	1
130,000 - 134,999	0	0	1	0
135,000 - 139,999	1	0	1	0
140,000 - 144,999	0	0	0	0
145,000 - 149,999	0	0	0	0
150,000 - 154,999	1	0	1	0
155,000 - 159,999	1	0	1	0

Note 6 - Officers Remuneration

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2014	Schools 31 March 2014	Non-Schools 31 March 2013	Schools 31 March 2013
160,000 - 164,999	1	0	2	0
165,000 - 169,999	2	0	0	0
170,000 - 174,999	0	0	0	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	0	0
185,000 - 189,999	1	0	1	0
Total	**440**	**610**	**414**	**646**

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 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 2013-14 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		198,849					198,849	41,758	240,607
Corporate Director Education Learning & Skills - Patrick Leeson		160,711		7,070			167,781	35,234	203,015
Corporate Director Families & Social Care - Andrew Ireland		167,292					167,292	35,131	202,423
Corporate Director Customer & Communities - Amanda Honey		163,711					163,711	34,379	198,090
Corporate Director Enterprise & Environment - Mike Austerberry		155,136					155,136	0	155,136

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2013-14 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		136,252					136,252	28,143	164,395
Corporate Director Finance & Procurement - Andy Wood		126,048					126,048	26,470	152,518
Corporate Director Human Resources - Amanda Beer		117,225					117,225	24,617	141,842
Corporate Director Public Health - Meradin Peachey		91,839	3,079			352	95,270	14,085	109,355
Interim Corporate Director Public Health - Andrew Scott-Clark	1	6,550					6,550	917	7,467

1 Mr Scott-Clark has been the interim Corporate Director Public Health since 8 March 2014.

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		134,594		2,610			137,204	28,813	166,017
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 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 58% 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 2013-14 of £2.8m includes schools and commitments in 2014-15.

(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	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £	2013/14 £
100,001-450,000	0	0	0	0	0	0	0	0
80,001-100,000	0	0	0	0	0	0	0	0
40,001-80,000	3	2	2	2	5	4	247,670	188,801
20,001-40,000	27	24	23	17	50	41	1,414,497	1,121,776
0-20,000	208	118	178	85	386	203	2,252,577	1,504,663
Total	**238**	**144**	**203**	**104**	**441**	**248**	**3,914,744**	**2,815,240**

Note 7. Members Allowances

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

	2013-14 £'000	2012-13 £'000
Salaries	0	0
Allowances	1,609	1,646
Expenses	121	139
Total	**1,730**	**1,785**

In 2013-14 the cost of the County Cars were £44k.

Note 8. Deposits in Icelandic banks

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.

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	1,422
Heritable	2,000	6.19	2,113	1,987
Heritable	2,000	5.6	2,010	1,890
Heritable	3,250	6.1	3,253	3,058
Heritable	4,600	5.9	4,717	4,434
Heritable	5,000	6.25	5,004	4,704
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	1,125
LBI hf	5,000	6	5,300	2,807
LBI hf	5,000	5.96	5,291	2,802
LBI hf	5,000	5.93	5,028	2,663
Total	**50,350**		**51,992**	**42,088**

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

Heritable

As at the 31 March 2014 the Council has received 94% of the recoverable amount as per LAAP Bulletin 82 update 8. The most recent information is that a full 100% recovery from Heritable will now be made, with the final dividend paid in the autumn.

LBI hf (formerly Landsbanki)

As at the 31 March 2014 the Council received 54.67% 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 2014	7.50%	December 2018	7.50%
December 2015	7.50%	December 2019	7.83%
December 2016	7.50%		
December 2017	7.50%		

Glitnir Bank hf

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

As part of the 100% recovery we 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

Accounting Policy

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 £107.7m includes £63.1m which relates to schools transferring to academy status and £35m which relates to schools transferring to foundation status.

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

31 March 2014	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	-120,702			120,702
Impairment charge where assets have been revalued in year*	-37,266			37,266
Revaluation losses on Property Plant and Equipment and Assets held for Sale	-40,390			40,390
Movements in the fair value of Investment Properties	8,524			-8,524
Amortisation of intangible assets	-1,415			1,415
Capital Grants and contributions applied	103,279			-103,279
In year revenue expenditure funded from capital under statute	-92,806			92,806
Prior year revenue expenditure funded from capital under statute	-11,733			11,733
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*	-115,389			115,389
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	64,237			-64,237
Capital expenditure charged against the General Fund	19,952			-19,952
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	69,622		-69,622	0
Application of grants to capital financing transferred to the Capital Adjustment Account			58,933	-58,933
Correction to prior year capital receipt			-757	
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	7,661	-7,661		0

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
Cash sale proceeds from disposal of investment properties	1226	-1,226		
Use of the Capital Receipts Reserve to finance new capital expenditure		7,005		-7,005
Correction to prior year capital receipt		757		
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	-1,595			1,595
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-84,764			84,764
Employer's pensions contributions and direct payments to pensioners payable in the year	69,858			-69,858
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	2,802			-2,802
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	4,356			-4,356
Total Adjustments	**-154,543**	**-1,125**	**-11,446**	**167,114**

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

Restated 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	67,016			-67,016
In year revenue expenditure funded from capital under statute	-73,953			73,953
Prior year revenue expenditure funded from capital under statute	-14,807			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	-122,826			122,826
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	76,383		-76,383	0
Application of grants to capital financing transferred to the Capital Adjustment Account			42,864	-42,864
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		0

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
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	-92,531			92,531
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	**-136,812**	**-18,685**	**-33,519**	**189,016**

* Amounts held on assets under construction or spend incurred in year which relate to assets that have been revalued in 2013-14 have been written off directly to the CIES.

Notes 11, 12 and 13

Note 11. Other Operating Expenditure

	2013-14 £000's	2012-13 £000's
Levies	719	729
Gains/Losses on the disposal of non-current assets	107,728	98,468
Assets held for Sale - revaluation movements	204	
	108,651	99,197

Note 12. Financing and investment income and expenditure

	2013-14 £000's	Restated 2012-13 £000's
Interest payable and similar charges	76,487	78,262
Net interest on the net defined benefit liability	37,033	37,873
Interest receivable and similar income	-5,429	-6,632
Income and expenditure in relation to investment properties and changes in their fair value	-10,065	650
Other investment income	-4,089	-4,223
	93,937	105,930

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 and Non-Domestic Rating income, transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of Council Tax and Non-domestic Rates 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.

Revenue relating to such things as Council Tax and Non-Domestic Rates, are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

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 and Non-domestic Rates 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 and Non-domestic Ratepayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

Part of the arrangement for the retention of business rates is that authorities will assume the liablity for refunding ratepayers that have successfully appealed against the ratable value of their property. At the end of 31 March 2014 the Council's estimated share of these liabilities is £2.6m.

	2013-14 £000's	2012-13 £000's
Income from Council Tax	-515,981	-579,639
Non-domestic rates income and expenditure	-44,507	
Non-ringfenced government grants	-496,656	-487,230
	-1,057,144	-1,066,869

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 2013-14:

	2013-14	2012-13
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-515,981	-579,639
Business Rates	-44,507	
Council Tax Freeze	-5,776	-14,448
Revenue Support Grant	-366,552	-303,447
Local Services Support Grant	-2,419	-3,436
Other Grants	-22,360	-90,713
New Homes Bonus	-5,865	-2,839
Business Rate Compensation Grant	-1,013	
Capital Government Grants and Contributions	-92,670	-72,347
Total	-1,057,143	-1,066,869
Credited to Services		
Dedicated Schools Grant	-728,221	-724,412
Education Funding Agency	-35,736	-44,116
Other DFES Grants	-118,353	-99,922
Department of Health Grants	-3,035	-1,970
Asylum	-12,927	-13,454
Other	-59,170	-44,103
Total	-957,442	-927,977

KCC's share of surplus on the Council Tax has increased by £4,106m (2012-13 surplus reduced by £0.515m). For 2013-14 there is a deficit on the Business Rate Collection Fund of £1,304m. See the Collection Fund Adjustment Account detailed in Note 21.

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:

	2013-14	2012-13
	£'000	**£'000**
Capital Grants Receipts in Advance		
Department for Education	-5,345	-6,952
Other Grants	-4,368	-2,891
Other Contributions	-18,095	-14,044
Total	-27,808	-23,887

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 18.

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.

Schools transferring to academy status within the financial year are derecognised. On transfer the full carrying value is derecognised as an asset disposal for nil consideration. The net loss on disposal of non-current assets of £107.7m includes £63.1m which relates to schools transferring to academy status and £35m which relates to schools transferring to foundation status.

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.

Note 15. Property, Plant & Equipment
Movement on balances - Movements in 2013-2014

	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 2013	1,208,830	88,807	1,446,360	9,162	62,285	45,125	2,860,569	111,334
Additions	22,090	7,370	44,980	320	37,474	299	112,533	858
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	61,613					-83	61,530	517
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-40,075					-111	-40,186	-2,054
Derecognition - Disposals	-105,841	-7,330			-5,755	-3,567	-122,493	-20,071

Property, Plant & Equipment - Movements in 2013-2014

	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						-3,938	-3,938	
Assets reclassified (to) / from Held for Sale							0	
Other Movements in cost or valuation*	-53,821	412	-1,675		-54,257	3,762	-105,579	-1,454
At 31 March 2014	**1,092,796**	**89,259**	**1,489,665**	**9,482**	**39,747**	**41,487**	**2,762,436**	**89,130**

* This line shows a movement of -£105,579k which includes the reversal of the write-out of depreciation upon revaluation (-£49,591k) so that the movements against the 'Revaluation increases/(decreases) recognised in the Revaluation Reserve' and 'Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services' reflect the actual revaluation movements to the Revaluation Reserve or Surplus/Deficit on the Provision of Services after depreciation has been written out. Also included within this line is -£54,257k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Property, Plant & Equipment - Movements in 2013-2014

	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 2013	-84,167	-64,755	-692,100	0	0	-2,679	-843,701	-9,124
Depreciation Charge	-37,951	-9,192	-72,234			-1,325	-120,702	-2,506
Depreciation written out	49,553					38	49,591	1,454
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-6,209				-31,057		-37,266	

Note 15 - Property, Plant and Equipment

Property, Plant & Equipment - Movements in 2013-2014

	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	5,953	6,051				143	12,147	2,308
Derecognition - Other						441	441	
Other movements in Depreciation and Impairment	6,595	-182			31,057	-286	37,184	
At 31 March 2014	**-66,226**	**-68,078**	**-764,334**	**0**	**0**	**-3,668**	**-902,306**	**-7,868**
Net Book Value								
At 31 March 2014	**1,026,570**	**21,181**	**725,331**	**9,482**	**39,747**	**37,819**	**1,860,130**	**81,262**
At 31 March 2013	**1,124,663**	**24,052**	**754,260**	**9,162**	**62,285**	**42,446**	**2,016,868**	**102,210**

Note 15. Property, Plant & Equipment
Comparative Movements in 2012-13

	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 - Comparative Movements in 2012-13

	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				-208,054	7,468	-224,638	
At 31 March 2013	**1,208,830**	**88,807**	**1,446,360**	**9,162**	**62,285**	**45,125**	**2,860,569**	**111,334**

Property, Plant & Equipment - Comparative Movements in 2012-13

	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	

Property, Plant & Equipment - Comparative Movements in 2012-13

	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			26,624	-553	31,664	
At 31 March 2013	**-84,167**	**-64,755**	**-692,100**	**0**	**0**	**-2,679**	**-843,701**	**-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 and Equipment

Valuations of Property, Plant and Equipment 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 as at 1 April 2013 were carried out by Oliver Chivers MRICS of Montagu Evans, overseen by Gary Howes MRICS and Rob Bower MRICS, both of Montagu Evans. The basis for valuation is set out in the statement of accounting policies, and further explained below.

		Land and buildings £'000
Valued at current value as at:		
	1 April 2009	777,493
	1 April 2010	223,774
	1 April 2011	424,096
	1 April 2012	350,976
	1 April 2013	687,985

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 2013-14 all land and buildings which have not had a valuation within the last five years have been valued, with the main class of asset in this year's tranche being primary schools.

The following methods/assumptions have been applied in estimating the fair values:
- Market Value for assets where a market exists and comparisons can be considered for example investment properties;
- Existing Use Value where the property is not specialised and is owner occupied for example county offices;
- Depreciated Replacement Cost where no market exists for a property, which may be rarely sold or it is a specialised asset for example schools.

We have considered and analysed the assets which are outside of the 2013-14 revaluation tranche and are confident that the carrying amount of these assets as at 31 March 2014 is not materially different to their fair value as at 31 March 2014.

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 1 April 2013, 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:

	2013-14 £000
Broadband	19,870
Dover Christ Church Academy	10,091

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.

	2013-14 £000's	2012-13 £000's
Opening Capital financing requirement	1,464,961	1,495,873
Capital investment		
Property, Plant and Equipment	133,801	106,450
Intangible assets	1,373	826
Revenue expenditure funded from capital under statute	92,806	73,953
	1,692,941	1,677,102
Sources of finance		
Capital receipts	-7,005	-7,290
Government grants and other contributions	-166,483	-115,866
Direct revenue contributions	-19,953	-27,992
(MRP/loans fund principal)	-64,237	-60,993
Closing Capital Financing Requirement	1,435,263	1,464,961
Movement	**-29,698**	**-30,912**

	2013-14 £000's	2012-13 £000's
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	-405	
Increase in underlying need to borrow (unsupported by Government financial assistance)	-29,293	-30,912
Assets acquired under finance leases		
PFI/PPP contracts where no asset is acquired		
Increase/(decrease) in Capital Financing Requirement	**-29,698**	**-30,912**

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	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	TOTAL £'000
As at 31 March 2013	18,154	20,362	9,951	46,566	95,033
Additions	154	84	385	235	858
Revaluations	-1,538				-1,538
Transfer from/to WIP					
Impairment					
Depreciation	-563	-447	-242	-1,076	-2,328
Derecognition - disposal		-17,763			-17,763
Previous year adjustments					
As at 31 March 2014	16,207	2,236	10,094	45,725	74,262

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 2013	74,561	8,838	13,880	57,297	62,838	217,414
Fair value of assets coming into use in-year						0
Liability repaid	-1,415	-190	-254	-1,067	-1,288	-4,214
As at 31 March 2014	73,146	8,648	13,626	56,230	61,550	213,200

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	1,559	6,391	3,087	805	11,842
Within 2-5 years	6,686	24,212	13,141	4,722	48,761
Within 6-10 years	11,199	26,646	18,360	7,851	64,056
Within 11-15 years	15,064	21,370	20,773	11,340	68,547
Within 16-20 years	24,383	13,389	23,503	10,076	71,351
Within 21-25 years	14,254	1,982	10,244	1,919	28,399

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	303	1,325	677	261	2,566
Within 2-5 years	983	4,938	2,907	2,179	11,007
Within 6-10 years	3,154	4,905	4,111	1,544	13,714
Within 11-15 years	4,208	1,689	3,199	1,148	10,244

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	271	1,053	1,484	399	3,207
Within 2-5 years	1,418	3,931	6,372	1,657	13,378
Within 6-10 years	2,024	4,358	9,050	2,845	18,277
Within 11-15 years	3,131	3,439	10,439	2,870	19,879
Within 16-20 years	6,783	1,805	9,506	884	18,978
Within 21-25 years	0	0	0	0	0

The RPIx and Average Weekly Earnings (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	1,118	3,994	0	259	5,371
Within 2-5 years	4,292	15,190	0	2,002	21,484
Within 6-10 years	6,708	17,073	0	3,074	26,855
Within 11-15 years	10,337	14,269	0	2,249	26,855
Within 16-20 years	13,855	10,083	0	2,917	26,855
Within 21-25 years	19,920	4,245	0	899	25,064
Within 26-30 years	0	0	0	0	0

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	1,415	5,719	1,960	11	9,105
Within 2-5 years	5,623	21,610	8,342	1,762	37,337
Within 6-10 years	9,681	23,625	11,656	3,556	48,518
Within 11-15 years	12,007	18,753	13,188	8,230	52,178
Within 16-20 years	19,731	12,108	14,921	7,168	53,928
Within 21-25 years	13,091	1,912	4,254	753	20,010

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	4,666	18,482	7,208	1,735	32,091
Within 2-5 years	19,002	69,881	30,762	12,322	131,967
Within 6-10 years	32,766	76,607	43,177	18,870	171,420
Within 11-15 years	44,747	59,520	47,599	25,837	177,703
Within 16-20 years	64,754	37,385	47,930	21,045	171,114
Within 21-25 years	47,265	8,139	14,498	3,571	73,473
Within 26-30 years	0	0	0	0	0
Total	213,200	270,014	191,174	83,380	757,768

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. In September 2013 Swan Valley Community School converted into Ebbsfleet Academy.

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 Catholic School, Thamesview School and Northfleet Technology College) under a Private Finance Initiative (PFI) which formed part of the Building Schools for the Future programme. All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010 upon the opening of the three schools, 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 2013-14 the Council made payments of £3.76m 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 £3.87m for 2014-15 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 2014-15 the Council is committed to making payments estimated at £2.68m 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 (£2.59m was paid in 2013-14). 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 accommodation 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 2013-14 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 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**
Cost or Valuation						
At 1 April 2013	**1,213**	**2,850**	**2,458**	**100**	**16**	**6,637**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		68	57		-	**125**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
Other movements in cost or valuation		372				**372**
At 31 March 2014	**1,213**	**3,290**	**2,515**	**100**	**16**	**7,134**

The other movements in valuation relate to the Glass Screen by Chris Ofilli and Kent History Tree and Leaves which were not previously recognised on the balance sheet - further details are provided on the following page.

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 £1,506k and 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 Sessions House, Maidstone, valued at £580k.

The **Antony Gormley Boulders Sculpture**, the sculptors' first professional commission, valued at £500k. The sculpture is a single piece, in that the two parts are inextricably linked. The hollow bronze piece is a facsimile of the granite stone. The work represents the "old and the new" sitting side by side in harmony and is located at the Kent History and Library Centre.

Glass Screen by Chris Ofilli, valued at £292k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

Kent History Tree & Leaves, valued at £80k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condron. It is an 8 metre stainless steel tree, adorning the front of the building, with translucent mosaic at its base and 17 steel and mosaic leaves changing from green to red blowing along the pillars.

Note 18 - Heritage Assets

Contemporary collection of c. 200 paintings (6 out of 7 collections) in storage in Sessios House, valued at £266k.

KCC Sessions House collection, valued at £66k.

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 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 - £686k

Knatchbull/Brabourne Manuscripts £1,329k. 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, Larkfield 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 around 100 artefacts kept at **Ramsgate Museum** including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

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

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

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 2014 £'000	31 Mar 2013 £'000
Not later than one year	10,291	14,740
Later than one year and not later than five years	15,008	20,321
Later than five years	16,717	4,410
	42,016	39,471

KCC sub-lets some properties held as operating leases. In most cases the amount charged to the tenants for sub-leases is nil. For those where we do charge, the future minimum sub-lease payments expected to be received by the Authority is £18.8m over the life of the 25 year lease.

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

	31 Mar 2014 £'000	31 Mar 2013 £'000
Minimum lease payments	11,256	17,976
Contingent rents	255	224
Sublease payments receivable	-162	0
	11,349	18,200

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 2013 £'000	Net Movement in year £'000	Balance 31 March 2014 £'000	Purpose of Reserve
Usable Capital Receipts	-33,582	-1,125	-34,707	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	-107,521	-11,446	-118,967	See note below
Earmarked Reserves*	-163,700	2,901	-160,799	See Note 22
Schools Reserve*	-48,124	2,394	-45,730	See over page
Surplus on Trading Accounts*	-1,004	-2,520	-3,524	Commercial Services and Oakwood House
Total	**-385,656**	**-9,796**	**-395,452**	

Capital grants unapplied of £119m as at 31 March 2014 include schools capital reserves of £414k. This has reduced from the £621k held by schools as at 31 March 2013. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2014 funds held in school revenue reserves stood at £45,730k. These reserves are detailed in the table below.

	Balance at 1 April 2013 £'000	Movement £'000	Balance at 31 Mar 2014 £'000
School delegated revenue budget reserves - committed	-9,181	986	-8,195
School delegated revenue budget reserves - uncommitted	-28,697	-2,589	-31,286
Unallocated Schools budget	-9,931	4,014	-5,917
Community Focused Extended School Reserves	-315	-17	-332
	-48,124	2,394	-45,730

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.

Reserve	Balance 1 April 2013 £'000	Net Movement in year £'000	Balance 31 March 2014 £'000	Purpose of Reserve
Revaluation Reserve	-284,373	-29,244	-313,617	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-314,753	125,359	-189,394	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	16,288	645	16,933	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-5,052	-2,802	-7,854	Movement between the I & E and amount required by regulation to be credited to the General Fund
Deferred capital receipts	0		0	
Pensions Reserves				Balancing account to allow inclusion of Pensions Liability in Balance Sheet
- KCC	892,068	135,123	1,027,191	
- DSO	2,012		2,012	
Available for Sale Financial Instruments	0	-26	-26	
Accumulated Absences Account	11,483	-958	10,525	This absorbs the differences on the General Fund from accruing for untaken annual leave

Note 21 - Unusable Reserves

Reserve	Balance 1 April 2013 £'000	Net Movement in year £'000	Balance 31 March 2014 £'000	Purpose of Reserve
Post Employment Account	10,981	-3,398	7,583	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	**328,654**	**224,699**	**553,353**	

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.

	2013-14 £'000		2012-13 £'000	
Balance as at 1st April		-284,373		-308,497
Upward revaluation of assets	-100,522		-40,333	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	38,866		35,315	
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		-61,656		-5,243
Difference between fair value depreciation and historical cost depreciation	9,952		7,823	
Accumulated gains on assets sold or scrapped	22,460		36,138	
Amount written off to the Capital Adjustment Account		32,412		43,961
Amount relating to previous years written off to the Capital Adjustment Account				-14,594
Balance at 31 March		-313,617		-284,373

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.

	2013-14 £'000		2012-13 £'000	
Balance at 1 April		-314,752		-445,049
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	157,968		139,713	
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	40,390		20,095	
- Amortisation of intangible assets	1,415		863	
- Revenue expenditure funded from capital under statute	104,539		88,760	
- 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	115,389		122,826	
		419,701		372,257
Adjusting amounts written out of the Revaluation Reserve		-32,412		-29,367
Net written out amount of the cost of non-current assets consumed in the year		72,537		-102,159
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	-7,005		-14,638	

Note 21 - Unusable Reserves

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-103,279		-67,016	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-58,933		-42,863	
- Statutory provision for the financing of capital investment charged against the General Fund	-64,237		-60,993	
- Capital expenditure charged against the General Fund	-19,953		-27,992	
		-253,407		-213,502
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-8,524		909
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		-189,394		-314,752

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.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		16,288		16,321
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	
		-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		1,595		917
Balance at 31 March		16,933		16,288

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.

	2013-14	2012-13
		Restated
	£'000	£'000
Balance at 1 April	894,080	866,391
Remeasurement of the net defined liability/(asset)	120,217	4,567
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	84,764	92,531
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,858	-69,409
Balance at 31 March	1,029,203	894,080

Collection Fund Adjustment Account

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

	2013-14	2012-13
	£'000	£'000
Balance at 1 April	-5,052	-5,567
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	-2,802	515
Balance at 31 March	-7,854	-5,052

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.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April			-8,965	
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
Transfer to the Capital Receipts Reserve upon receipt of cash			8,965	
Balance at 31 March		0		0

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.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		11,483		13,521
Settlement or cancellation of accrual made at the end of the preceding year	-11,483		-13,521	
Amounts accrued at the end of the current year	10,525		11,483	
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		-958		-2,038
Balance at 31 March		10,525		11,483

Note 21 - Unusable 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.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		10,981		12,792
Settlement or cancellation of accrual made at the end of the preceding year	-4,608		-4,245	
Amounts accrued at the end of the current year	1,210		2,434	
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements		-3,398		-1,811
Balance at 31 March		7,583		10,981

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		0		0
Upward revaluation of investments	-109			
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Service	83			
		-26		0
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income				
Balance at 31 March		-26		0

Note 22. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2013-14 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 2014-15 budget setting process and as a result a further draw down of reserves is planned for 2014-15. 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 2013 or 31 March 2014, the sum of which are shown in the tables on pages 72 and 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.

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.

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.

Note 22 - Earmarked Reserves

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 2013-14 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 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.

NHS Support for Social Care Reserve

Kent PCT funding transferred 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.

Public Health reserve

As set out in the Local Authority Circular issued for the Public Health grant, any unused funds at the end of the financial year have been placed into a reserve and are to be used to meet eligible public health spend in future years.

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.

Flood reserve

After the severe weather in 2013-14 a sum of money has been set aside to meet these and future costs associated with flooding.

Note 22 - Earmarked Reserves

Safety Camera reserve

This reserve is funding from Kent Police and Medway Council for use by the Kent & Medway Safety Camera Partnership and is to fund the digitalisation of speed cameras.

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.

Finance Business Solution reserve

This reserve will assist in the technology changes required to improve systems to meet the needs of self-sufficient budget managers.

Earmarked Reserve to support next year's budget

The approved medium term plan for 2014-15 includes support from 2013-14 underspending, which was transferred into this earmarked reserve during 2013-14 to be drawn down in 2014-15.

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

Note 22 - Earmarked Reserves

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 2014-15 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 2013**	**Movement**	**Balance at 31 Mar 2014**
	£'000	£'000	£'000
VPE reserve	-5,417	-5,663	-11,080
Special funds	-3,486	940	-2,546
Kings Hill development smoothing reserve	904	-7,500	-6,596
Swanscombe School PFI equalisation reserve	-1,866	507	-1,359
Six schools PFI	-686	465	-221
Three schools PFI	-4,460	-1,387	-5,847
Westview/Westbrook PFI equalisation reserve	-2,405	-227	-2,632
Better Homes Active Lives PFI equalisation reserve	-2,889	-25	-2,914
Reserve for projects previously classified as capital - now revenue	-1,784	439	-1,345
Economic Downturn reserve	-21,149	2,063	-19,086
Council Tax Equalisation reserve	-7,500	-3,037	-10,537
Corporate Restructuring reserve	-6,145	-814	-6,959
Supporting People reserve	-2,087	144	-1,943
NHS Support for Social Care reserve	-11,383	6,329	-5,054
Drug & Alcohol Treatment reserve	-5,257	1,123	-4,134
Public Health reserve	0	-2,906	-2,906
Environmental initiatives reserve	-2,265	337	-1,928
Rolling budget reserve	-18,312	7,393	-10,919
Emergency Conditions reserve	-809	809	0
Flood Repairs reserve	0	-3,344	-3,344
Safety Camera Partnership reserve	0	-605	-605
Elections reserve	-1,412	1,412	0
Dilapidations reserve	-3,375	-811	-4,186
Workforce Reduction reserve	-7,043	-170	-7,213
KPSN Re-procurement reserve	-678	110	-568
IT Asset Maintenance reserve	-7,007	2,115	-4,892
Finance Business Solutions reserve	-179	-850	-1,029
Earmarked reserve to support next year's budget	0	-4,000	-4,000
Prudential Equalisation reserve	-11,794	2,801	-8,993
Dedicated Schools Grant - Central Expenditure	-10,274	348	-9,926
Turner Contemporary Investment reserve	-1,819	274	-1,545
Commuted Sums reserve	-4,558	4,128	-430
Public Inquiries reserve	-733	-125	-858
Other	-2,794	323	-2,471
Total	-148,662	596	-148,066
Insurance Reserve			
KCC	-5,624	0	-5,624
	-154,286	**596**	**-153,690**
Commercial Services Earmarked Reserves	-4,433	2,305	-2,128
EKO	-4,981		-4,981
Total Earmarked Reserves	**-163,700**	**2,901**	**-160,799**

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 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 2013	-5,436	-5,020	-11,483	-2,756	-24,695
Additional Provisions made in 2013-14	-4,786	-4,821	-7,258	-1,300	-18,165
Amounts used in 2013-14	4,601	4,948	8,216	1,836	19,601
Unused amounts reversed in 2013-14		4		376	380
Balance at 31 March 2014	**-5,621**	**-4,889**	**-10,525**	**-1,844**	**-22,879**
Long Term					
Balance at 1 April 2013	-9,456	-6,464	0	-1,375	-17,295
Additional/Reduction in Provisions made in 2013-14	-1,400	-22		-1,115	-2,537
Amounts used in 2013-14				53	53
Unused amounts reversed in 2013-14		2,798		413	3,211
Balance at 31 March 2014	**-10,856**	**-3,688**	**0**	**-2,024**	**-16,568**
Total Provisions at 31 March 2014	**-16,477**	**-8,577**	**-10,525**	**-3,868**	**-39,447**

Insurance

Included within the insurance provision is £50k 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 2014. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

There are provisions of £1,115k for Carbon Reduction Commitment and £1,300k for adoption underpayments which are included 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 2014 £000's	At 31 March 2013 £000's
Long Term debtors:		
Medway Council (transferred debtor)	41,787	43,528
Public bodies	1,259	1,550
Other	30,263	14,681
	73,309	59,759
Other debtors:		
Government Departments	23,342	22,491
Other Local Authorities	3,525	8,348
NHS Bodies	1,098	1,058
General debtors	119,453	110,276
Payments in advance	17,291	21,362
EKO	316	213
	165,025	163,748

Capital debtors amounting to £2.9m are included in the Accounts at 31 March 2014 (£3.6m in 2012-13). Capital debtors relate to grants and external funding towards capital expenditure incurred in 2013-14 which had not been received by 31 March 2014.

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

Note 25. Amounts owed by the Council to creditors

	At 31 March 2014 £000's	At 31 March 2013 £000's
Central government bodies	12,461	11,412
Other local authorities	4,819	4,695
NHS bodies	2,146	330
General creditors	193,748	187,982
Receipts in advance	17,640	19,184
Deferred income	691	2,635
Kent and Essex Inshore Fisheries & Conservation Authority	1,729	1,268
EKO	57	75
	233,291	227,581
Creditors due after 1 year	14,152	27,970

Capital creditors amounting to £33m are included in the Accounts at 31 March 2014 (£27m in 2012-13).

Note 26. Cash and Cash Equivalents

Accounting Policy

Cash is represented by cash in hand/overdraft 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 2014 £000's	At 31 March 2013 £000's
Bank current accounts	7,405	1,198
Call accounts (same day access funds)	100,000	213,860
Total Cash and Cash Equivalents	107,405	215,058

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

Note 27. Cash Flow - Non Cash Adjustments

	2013-14	Restated 2012-13
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-14,906	-23,122
Carrying amount of non-current assets sold	-115,389	-124,436
Amortisation of fixed assets	-1,415	-863
Depreciation of fixed assets	-120,702	-108,230
Impairment & downward valuations	-77,656	-51,578
Increase/(decrease) debtors	1,990	766
(Increase)/decrease creditors	12,973	-5,805
Increase/(decrease) stock	-1,380	-538
Movement on investment properties	8,524	-909
REFCUS	-104,539	-88,760
Other non-cash items charged to the net surplus/deficit on the Provision of Services	8,390	8,721
	-404,110	-394,754
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	8,887	25,968
Capital grants applied	172,901	143,399
	181,788	169,367
	-222,322	-225,387

Note 28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2013-14	2012-13
	£'000	£'000
Interest received	-5,976	-6,495
Interest paid	76,384	78,828
Employee Costs	-981,932	890,940
Income from Council Tax	-560,488	-579,639
Government Grants	-1,415,465	-1,415,206

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

Note 29. Cash Flow Statement - Investing Activities

	2013-14	2012-13
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	217,859	196,221
Purchase of short-term and long-term investments	1,747,524	1,382,770
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-8,887	-25,968
Proceeds from short-term and long-term investments	-1,603,568	-1,467,160
Other receipts from investing activities	-184,106	-161,512
Net cash flows	168,822	-75,649

Note 30. Cash Flow Statement - Financing Activities

	2013-14	2012-13
	£'000	£'000
Cash receipts of short- and long-term borrowing	0	0
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities	0	0
relating to finance leases and on-balance sheet PFI contracts	1,820	22,097
Repayments of short- and long-term borrowing	2,015	77,021
Other payments for financing activities	0	1,600
Net cash flows from financing activities	3,835	100,718

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 2014					
	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	-37,915	-115,453	-30,390	-41,193	-68,732	-293,683
Government Grants	-802,881	-30,862	-6,792	-17,754	-44,379	-902,668
Total Income	-840,796	-146,315	-37,182	-58,947	-113,111	-1,196,351
Employee expenses	566,714	155,787	23,511	56,224	74,186	876,422
Other operating expenses	293,972	464,118	166,269	67,107	253,130	1,244,596
Support Service recharges	16,640	11,983	1,982	5,552	5,193	41,350
Total operating expenses	877,326	631,888	191,762	128,883	332,509	2,162,368
Net Cost of Services	36,530	485,573	154,580	69,936	219,398	**966,017**

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

	£000's
Cost of Services in service analysis	966,017
Add services not included in main analysis	
Add amounts not reported to management	256,124
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-203,513
Net Cost of Services in Comprehensive Income & Expenditure Statement	**1,018,628**

Note 31 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2014 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	-293,683		154	26,338	-113,185
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-902,668		12,439	20,490	
Total Income	**-1,196,351**	**0**	**12,593**	**46,828**	**-113,185**
Employee expenses	876,422		-22,127		
Other service expenses	1,244,596		196,954	-250,341	113,185
Support Service recharges	41,350				
Depreciation, amortisation and impairment			198,764		
IAS 19 Adjustments			-22,127		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets			-107,933		
Total operating expenses	**2,162,368**	**0**	**243,531**	**-250,341**	**113,185**
Surplus or deficit on the provision of services	**966,017**	**0**	**256,124**	**-203,513**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	£000's	£000's
Fees, charges & other service income	-380,376		**-380,376**
Surplus or deficit on associates and joint ventures			**0** **0**
Interest and Investment Income		-26,337	**-26,337**
Income from council tax		-560,488	**-560,488**
Government grants and contributions	-869,739	-496,657	**-1,366,396**
Total Income	**-1,250,115**	**-1,083,482**	**-2,333,597**
Employee expenses	854,295		**854,295**
Other service expenses	1,304,394		**1,304,394**
Support Service recharges	41,350		**41,350**
Depreciation, amortisation and impairment	198,764		**198,764**
IAS 19 Adjustments	-22,127	37,033	**14,906**
Interest payments		76,487	**76,487**
Precepts & Levies		719	**719**
Gain or Loss on Disposal of Fixed Assets	-107,933	107,933	**0**
Total operating expenses	**2,268,743**	**222,172**	**2,490,915**
Surplus or deficit on the provision of services	**1,018,628**	**-861,310**	**157,318**

Note 31 - Amounts Reported for Resource Allocation Decisions

	Restated 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	230,310
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-143,786
Net Cost of Services in Comprehensive Income & Expenditure Statement	**992,008**

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**

Note 31 - Amounts Reported for Resource Allocation Decisions

Employee expenses	893,287		-14,751		
Other service expenses	1,196,305		85,118	-250,290	150,633
Support Service recharges	40,353				
Depreciation, amortisation and impairment			160,672		
IAS 19 Adjustments					
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,129,945**	**0**	**231,039**	**-250,290**	**150,633**
Surplus or deficit on the provision of services	**905,484**	**0**	**230,310**	**-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		22,083	**22,083**
Income from council tax		-579,639	**-579,639**
Government grants and contributions	-788,266	-487,230	**-1,275,496**
Total Income	**-1,269,319**	**-1,044,786**	**-2,314,105**
Employee expenses	878,536		**878,536**
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	**2,261,327**	**177,459**	**2,438,786**
Surplus or deficit on the provision of services	**992,008**	**-867,327**	**124,681**

Note 32. Trading Operations

The results of the various trading operations for 2013-14 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover £'000	Expenditure £'000	Surplus/ Deficit(-) 2013-14 £'000	Surplus/ Deficit(-) 2012-13 £'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	53,963	51,067	2,896	2,289
Facilities & Technical Services Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT	2,141	1,941	200	512
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	272,259	269,126	3,133	2,481
County Print Graphic design and general printing	106	5	101	-30
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	1,068	644	424	127
Landscape Services Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment	17	16	1	206
Oakwood House Conference centre	2,095	2,095	0	0
Total surplus	331,649	324,894	6,755	5,585

The trading surplus excludes the wholly owned subsidiaries. Information on these can be found in Note 40 on page 101.

Note 33. Audit Costs

In 2013-14 the following fees were paid relating to external audit and inspection :

	2013-14 £'000	2012-13 £'000
Fees payable to the Audit Commission / Grant Thornton for external audit services carried out by the appointed auditor	209	208
Fees payable to the Audit Commission / Grant Thornton in respect of statutory inspection	0	
Fees payable to the Audit Commission / Grant Thornton for the certification of grant claims and returns	0	6
Fees payable in respect of other services provided by the appointed auditor	10	6
	219	220

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 2013-14 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2013-14 before Academy recoupment			1,012,884
Academy figure recouped for 2013-14			284,663
Total DSG after Academy recoupment for 2013-14			728,221
Brought forward from 2012-13			16,488
Carry Forward to 2014-15 agreed in advance			0
Agreed initial budget distribution in 2013-14	110,560	634,149	744,709
In year adjustments	-9,733	9,733	0
Final budgeted distribution in 2013-14	100,827	643,882	744,709
Less actual central expenditure	88,359		
Less Actual ISB deployed to schools		643,882	
Plus Local Council contribution for 2013-14	0	0	0
Carry Forward to 2014-15	12,468	0	12,468 *

Notes *

The total carry forward to 2014-15 of £12,468k represents a carry forward of £9,927k on the centrally retained DSG budget and £2,541k on the schools' unallocated budget. The schools unallocated reserve now stands at over £5.9m, 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 the majority will be spent in 2014-15.

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.

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 86 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 £2.910m and cash held by the KCC on behalf of the Pension fund is £1.736m.

Payments to other local authorities and health bodies, excluding precepts, totalled £43.6m.

Receipts from other local authorities and health bodies totalled £65.5m.

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 £2.2m. The loan of £0.2m was repaid in December 2013. KCC received £0.008m of interest. KTT made £0.3m of purchases from KCC.

Kent County Trading Ltd is the holding company of Commercial Services Trading Ltd (CST) and Commercial Services Kent Ltd (CSK). KCC holds £4m shares in the company.

CST sales amounted to £4.5m. CST made purchases from KCC amounting to £1.0m.

CSK sales to KCC amounted to £35.4m. CSK made purchases from KCC amounting to £1.0m.

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 2013-14.

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

Active companies with less than 50% control	Payments made in 13-14
Association of Tourist Attractions in Kent	-
Groundwork Kent and Medway	2,800
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	-
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	393,542
Locate in Kent Ltd (as amended on 5/5/2000)	1,102,034
Trading Stds South East Ltd	120,586
Business Support Kent Community Interest	85,832
East Kent Spatial Development Company	-
Goetec Ltd	106,506
Kent PFI Holdings Company 1 Ltd	
TRN	
Shearwater Systems	
Active companies with greater than 50% control	
Produced in Kent (PINK) Ltd	80,390
Dormant	
Kentish Fare Ltd - Transferred to Produced in Kent (PINK) Ltd	-
Dissolved	
Invicta Services Ltd	-
Kent Cultural Trading 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 2013-14 Kent County Council paid £38.5m (£40.8m in 2012-13), 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 2013-14 these amounted to £4.6m (£4.5m in 2012-13), representing 1.7% (1.6% in 2012-13) of pensionable pay.

Public Health staff employed by the Authority are members of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. The Authority is not able to identify the underlying scheme assets and liablities for the staff transferred. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 Kent County Council paid £0.2m, to the NHS Pension Scheme in respect of public health pension costs, which represented 14% of employees pensionable pay.

Note 36 - Pensions Costs

Note 36b. Defined Benefit Pension Scheme

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Authority participates in one post-employment schemes
- The Local Government Pension Scheme, administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

- The Kent County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Kent County Council Superannuation Fund Committee, a committee of Kent County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Dinance and Procurement of Kent County Council and external Investment Fund managers (for details of investment fund managers see note 15 of the Pension Fund Accounts).

- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

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.

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	
		Restated
	2013-14	**2012-13**
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-68,603	-61,912
• Past service costs	-1,728	-5,083
• (Gain)/loss from settlements	24,030	13,650
• Administration expenses	-1,430	-1,313
Financing and Investment Income and Expenditure		
• Net interest expenses	-37,033	-37,873
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-84,764	-92,531

Note 36 - Pensions Costs

	2013-14	Restated 2012-13
	£000's	£000's
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expenses)	66,597	147,797
• Actuarial gains and losses arising on changes in demographic assumptions	-61,311	
• Actuarial gains and losses arising on changes in financial assumptions	-86,524	-156,618
• Other	-38,980	4,254
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**-120,218**	**-4,567**
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	84,764	92,531
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-69,858	-69,409

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 2013-14 Kent County Council paid an employer's contribution of £69.9m (£69.4m in 2012-13) into the Pension Fund, representing 20% (24% in 2012-13) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2013-14 was based on the review carried out as at 31 March 2013. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

In addition Kent County Council is responsible for all pension payments relating to added years' benefits it has awarded, together with the related increases. However, Medway Council is required to contribute towards the liabilities incurred prior to reorganisation on 1 April 1998. Kent County Council is required to disclose the capital cost of the discretionary pension payments it has made using a formula recommended by CIPFA. There is zero capital value of discretionary increases in pension payments (i.e. discretionary added years) agreed by the Council in 2013-14 (£130k in 2012-13). The capital value of payments agreed in earlier years is £124m (£121m in 2012-13).

Pension Assets and Liabilities in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme £'000	
	2013-14	Restated 2012-13
Present value of the defined benefit obligation	2,773,605	2,537,711
Fair value of plan assets	-1,808,316	-1,706,017
Sub-total	965,289	831,694
Other movements in the liability/(asset)	63,914	62,386
Net liability arising from defined benefit obligation	**1,029,203**	**894,080**

Note 36 - Pensions Costs

Reconciliation of Movements in the Fair Value of the Scheme (Plan) Assets:

	Local Government Pension Scheme £'000 2013-14	Local Government Pension Scheme £'000 Restated 2012-13
Opening fair value of scheme assets	1,706,017	1,498,893
Interest income	73,728	68,696
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	62,624	147,797
• Other	3,973	
Contributions from employer	74,536	74,080
Contributions from employees into the scheme	19,635	19,691
Benefits paid	-98,194	-95,726
Other	-34,003	-7,414
Closing fair value of scheme assets	**1,808,316**	**1,706,017**

The actual return on scheme assets in the year was £136,352k (2012-13 : £216,493k)

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit) Obligation:

	Liabilities: Local Government Pension Scheme £'000 2013-14	Liabilities: Local Government Pension Scheme £'000 Restated 2012-13
Opening balance at 1 April	2,600,097	2,363,075
Current service cost	68,603	61,912
Interest cost	110,761	106,569
Contribution from scheme participants	19,635	19,691
Remeasurement gains/(losses):		
• Actuarial gains and losses arising on changes in demographic assumptions	61,311	
• Actuarial gains and losses arising on changes in financial assumptions	86,524	156,618
• Other	38,979	-2,045
Past service costs	1,728	5,083
Benefits paid	-93,516	-91,055
Liabilities extinguished on settlements	-56,603	-19,751
Closing balance at 31 March	**2,837,519**	**2,600,097**

Note 36 - Pensions Costs

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets
	2013-14
	£'000
Cash and cash equivalents	54,249
Equity instruments:	
By industry type	
• Consumer	131,876
• Manufacturing	89,652
• Energy and utilities	122,860
• Financial institutions	165,753
• Health and care	68,707
• Information technology	88,453
Sub-total equity	667,301
Bonds:	
By sector	
• Corporate	74,472
• Government	18,083
• Collateralised	29,514
• Corporate Fixed Interest Pooled Funds	94,929
Sub-total bonds	216,998
Property:	
By type	
• Retail	73,045
• Offices	26,235
• Industrial	29,200
Sub-total property	128,480
Private equity:	
• UK	10,894
• Overseas	
Sub-total private equity	10,894
Other investment funds:	
• Infrastructure	21,094
• Property	52,352
• Equity Pooled Funds	584,615
Sub-total other investment funds	658,061
Target Return Portfolio	72,333
Total assets	**1,808,316**

All scheme assets have quoted prices in active markets

Note 36 - Pensions Costs

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 1.0% to 0.8% 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 2013 levels then the pensions deficit would have been £191,493,000 less at £837,710,000.

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 2015 is £64,786k, 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.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2013-14	**2012-13**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.7	20.1 years
Women	25.1	24.1 years
Longevity at 65 for future pensioners:		
Men	24.9	22.1 years
Women	27.4	26.0 years
Rate of inflation	3.6%	3.4%
Rate of increase in Consumer Price Index	2.8%	2.6%
Rate of increase in salaries	4.1%	3.9%
Rate of increase in pensions	2.8%	2.6%
Rate for discounting scheme liabilities	4.4%	4.4%
Take-up option to convert annual pension into retirement lump sum	50%	50%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The authority analyses below have been detemined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in mortality, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £'000	Decrease in Assumption £'000
Adjustment to discount rate (increase or decrease by 0.1%)	2,788,433	2,887,517
Adjustment to long term salary increase (increase or decrease by 0.1%)	2,843,958	2,831,119
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)	2,881,813	2,794,029
Adjustment to mortality age rate assumption (increase or decrease in 1 year)	2,738,016	2,937,921

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 2014 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.

Note 37 - Financial Instruments

Financial assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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
- trade payables for goods and services received

Financial Assets

The financial assets held by the Council during the year are held under the following three 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

Note 37 - Financial Instruments

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
- covered bonds issued by financial institutions and backed by a pool of assets
- pooled property and equity investment funds

Unquoted equity investments held at cost because it is impracticable to determine fair value, comprising:

- equity investments in Kent Commercial Services, Kent PFI Limited and companies supported by the Kent Regional Growth Fund

Financial Instrument Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Current	
	31 Mar 2014	31 Mar 2013	31 Mar 2014	31 Mar 2013
	£000's	£000's	£000's	£000's
Investments				
Loans and receivables			169,414	64,961
Available-for-sale financial assets	15,340		18,011	
Unquoted equity investment at cost	6,854			
Total investments	**22,194**	**0**	**187,425**	**64,961**
Debtors				
Loans and receivables	73,309	59,759		
Financial assets carried at contract amounts			143,352	137,429
Total included in Debtors	**73,309**	**59,759**	**143,352**	**137,429**
Cash and Cash Equivalents				
Cash equivalents at amortised cost			100,000	213,860
Cash and Bank Accounts			40,335	1,198
Total Cash and Cash Equivalents	**0**	**0**	**140,335**	**215,058**
Borrowings				
Financial liabilities at amortised cost	997,168	1,023,575	26,826	2,327
Total Borrowing	**997,168**	**1,023,575**	**26,826**	**2,327**
Other Liabilities				
PFI and Finance Lease Liabilities	212,163	217,333	4,799	4,462
Total other long-term liabilities	**212,163**	**217,333**	**4,799**	**4,462**
Creditors				
Financial liabilities carried at contract amounts	14,152	27,970	214,960	205,761
Total Creditors	**14,152**	**27,970**	**214,960**	**205,761**

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

	2013-14		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest expense - Debt	-55,907		-55,907
Losses on derecognition	-950		-950
Impairment losses			0
	-56,857	**0**	**-56,857**
Interest expense - Finance leases	-20,434		-20,434
Interest expense - PFI	-198		-198
Interest payable and similar charges	**-77,489**	**0**	**-77,489**

	2013-14		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest income		2,914	2,914
Reduction in Impairment losses		1,002	1,002
Interest and investment income	**0**	**3,916**	**3,916**
Available-for-sale investments - Losses on revaluation		-26	-26
Amounts recycled to I&E Account after impairment			
Loss arising on revaluation of financial assets	**0**	**-26**	**-26**
Net gain/(loss) for the year	**-77,489**	**3,890**	**-73,599**

Financial Instruments - Fair Values

The Council's financial liabilities and financial assets classified as loans and receivables 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 net present value of the remaining contractual cash flows at 31 March 2014, 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 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	£000's	£000's	£000's
PWLB debt	577,544	712,368	579,347	773,970
Non-PWLB debt	446,140	555,651	446,246	630,288
EKO temporary loan	309	309	309	309
Total Borrowings	1,023,993	1,268,328	1,025,902	1,404,567
PFI and Finance Lease Liabilities	216,962	276,857	221,795	283,041
Creditors	229,112	229,112	233,731	233,731
Total Financial Liabilities	**1,470,067**	**1,774,297**	**1,481,428**	**1,921,339**
Long Term Investments	15,340	15,365		
Unquoted Equity	6,854	6,854		
Short Term Investments	187,425	187,425	64,961	64,961
Cash equivalents at amortised cost	100,000	100,000	213,860	213,860
Cash	40,335	40,335	1,198	1,198
Total Investments and Cash	349,954	349,979	280,019	280,019
Debtors	174,454	174,454	197,188	197,188
Total Financial Assets	**524,408**	**524,433**	**477,207**	**477,207**

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.

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Guidance on Local Government Investments. 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 market variables such as interest rates and equity prices.

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. For 2013-14 these limits were: 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 2014 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 2014 £000's	31 Mar 2013 £000's
AAA	5,328	0
AA+	700	0
AA-	120,000	0
A	155,000	244,400
A-	5,000	0
Unrated Pooled Funds	10,000	0
Total Investments	296,028	244,400

All deposits outstanding as at 31 March 2014 met the Council's credit rating criteria on 31 March 2014.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £12.4m.

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

Credit Risk: Receivables

The Council does not generally allow credit for its debtors, as such £676m of the £201,445m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2014	31 Mar 2013
	£000's	£000's
One to three months	334	374
Three to six months	172	204
Six months to one year	101	385
More than one year	69	93
	676	**1,056**

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 2014 was £54m.

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	31 Mar 2014	31 Mar 2013
Years	£000's	£000's
Not over 1	26,190	2,015
Over 1 but not over 2	31,000	26,193
Over 2 but not over 5	84,000	95,002
Over 5 but not over 10	92,000	92,003
Over 10 but not over 20	86,010	106,005
Over 20 but not over 30	189,470	148,470
Over 30 but not over 40	59,800	130,800
Over 40	241,100	216,100
Uncertain date *	200,700	195,700
Total	**1,010,270**	**1,012,288**

* The Council has £200.7m 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. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

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

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as "available for sale" will be reflected in Other Comprehensive Income and Expenditure. 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 2014, 80.1% of the debt portfolio was held in fixed rate instruments, and 19.9% in variable rate instruments (LOBO loans within option periods).

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	2,007
Increase in interest receivable on variable rate investments	(1,000)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**1,007**
Decrease in fair value of fixed rate investment assets	500
Impact on Other Comprehensive Income and Expenditure	**500**
Decrease in fair value of fixed rate borrowings / liabilities*	**(44,317)**

*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 market prices of the Council's bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £5m. A 5% fall in commercial property prices would result in a £0.245m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

The Council's investment in a pooled equities fund is also governed by the risk of falling share prices. This risk is limited by the Council's maximum exposure to such funds of £5m. A 5% fall in share prices would result in a £0.254m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

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 7 claims relating to discrimination and breach of contract in employment. Of these, three are limited to unfair dismissal, two are discrimination cases and two cases relating to a combination of unfair dismissal and discrimination. In addition to the 7 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 £70k and an additional amount of approximately £200k 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 145 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 11 such cases of which legal costs for eight of these are expected to exceed £130k in total. Of the three remaining cases, one is in relation to disputes over rental agreements, the claims are significant and range from £25k to £350k. The second relates to a dispute over a contract price and a successful claim could be several millions. The third relates to a group of claims in respect of gastroschisis and the level of claims is several millions.

Asylum, Ordinary Residence & Judicial review cases

There are five judicial review cases of age assessment for which the cost is likely to exceed £10k. There are four further cases, one of which, if successful, would exceed £10k. The remaining three cases are likely to be settled and costs will exceed £10k. There is one appeal against a judicial review, costs are currently below £10k. There are nine Ordinary Residence claims which if successful can be sizeable.

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

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 was a recruitment business that focused on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT had 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 operated via the name of Connect2Staff. On 1st April 2013, the recruitment business ceased trading in Kent Top Temps Ltd and transferred its operations to two other associated subsidiaries within the group. Kent Top Temps Ltd also operated buses for contract and private hire trading as Kent Top Travel. This operation was closed in October 2013 and the company has susequently ceased trading.

KTT had a turnover in 2013-14 of £1.0m with a net loss of £0.2m after tax (estimated). In 2012-13 its net assets were £1.4m and in 2013-14 they are £1.2m. The loan of £200,000, provided in earlier years was repaid in full during the financial year 2013-14, and as a result, the net indebtedness of the Council to KTT at the end of the financial year was nil (2012-13 £200,000).

Commercial Services Trading Ltd (CS Trading), (formerly Kent County Facilities (KCF) Ltd) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. CS Trading commenced trading in September 2007 as InsideOut, undertaking building repair and maintenance contracts within both the public and private sectors. In April 2013 this business was re-branded, and now operates business units primarily trading with the private sector. The additional business includes business operations previously carried out by Kent County Council Commercial Services. Activities include a recruitment business focused on the supply of both temporary and permanent placements operating under the name of Connect2Staff; Landscape services providing a full range of grounds and sports field management, maintenance and hard landscaping, tree works and pest control; Fleet services offering fleet management services, self drive hire, vehicle inspections and vehicle sourcing; Engineering services including a comprehensive range of vehicle services covering MOTs, servicing, accident repair, body shop work and vehicle restoration and the Lumina brand, which offers a brokerage service to small private businesses. Up to December 2013, the business also operated Simplicare, a care service based on care in the home and two retail outlets that have subsequently ceased trading.

CS Trading had a turnover in 2013-14 of £22.5m with a net gain of £0.2m after tax (estimated). In 2012-13 its net assets were £1.8m and in 2013-14 they are £2.0m. A loan of £0.2m has been provided by KCC Commercial Services to Commercial Services Trading Ltd during the year.

Commercial Services Kent Ltd (CS Kent), (formerly Kent County Supplies Ltd) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on the 7 April 2010. From 1st April 2013, the Company resumed trading as a Teckal company providing services to KCC. Business operations previously carried out by Kent Top Temps Ltd, Commercial Services Trading Ltd and Kent County Council Commercial Services, were transferred into the business. This included a recruitment business that focused on the supply of both temporary and permanent placements to KCC operating under the new brand name of Connect2Kent. This covers 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. Commercial Services Kent Ltd also provides waste management services to KCC across a number of municipal waste collection and transfer centres in Kent; office facilities services for KCC across a number of KCC office sites and print and design services for both KCC and some other public sectors bodies.

Note 40 - Subsidiary Note, Note 41 - Events after the Balance Sheet and Note 41 - Other Notes

In the previous financial year 2012-13, the company was dormant. Commercial Services Kent Ltd had a turnover in 2013-14 of £45.4m with a net gain of £0.1m before tax. At the end of 2012-13 its net current liabilities were £0.1m. A loan of £5.4m has been provided by KCC Commercial Services to Commercial Services Kent Ltd during the year.

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 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 2013-14, 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 £0.34m.

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 2013-14. This situation is reviewed on an annual basis.

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

Note 41. 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.

There have been no events since 31 March 2014, up to the date when these accounts were authorised, that require any adjustment to these accounts.

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 103 - 129.

Pension Fund Accounts

The following financial statements are taken from the Kent County Council Pension Fund's Annual Report and Accounts 2014 which are also available from the Fund's website at **www.kentpensionfund.co.uk**. Alternatively a copy can be obtained from the Treasury and Investments team, email: investments.team@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 Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2014

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 412 employing bodies participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2014	31Mar 2013	31Mar 2014	31Mar 2013	31Mar 2014	31Mar 2013
Kent County Council	21,033	21,384	18,342	17,993	21,225	20,887
Other Employers	23,884	21,170	16,499	15,738	18,552	16,948
Total	44,917	42,554	34,841	33,731	39,777	37,835

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 2014. 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 valuation applicable to these accounts was at 31 March 2010. The last triennial valuation was at 31st March 2013 and the employer contribution rate then certified will be payable from 1st April 2014.

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	1/80 x final pensionable salary	1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3/80 x final pensionable 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, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: **www.kentpensionfund.co.uk**

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

The LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 come into effect from 1 April 2014 and replace existing legislation. The LGPS 2013 Regulations set out details of the new 2014 Scheme which will apply to all membership that builds up on and after 1 April 2014. The LGPS (Transitional Provisions and Savings) Regulations 2014 serve the dual purpose of retaining the previous benefit structure for service up to 31 March 2014, and introducing new protections for members close to retirement to ensure that they are not disadvantaged by the benefit changes.

The table below shows the main provisions of the LPGS 2014 Scheme for membership compared with those of the LPGS 2008 Scheme.

	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

	LGPS 2014	LGPS 2008
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
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.

Employee 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		**8.6**	**Average**		**6.5**

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2013-14	2012-13
		£000's	£000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	209,749	213,713
Transfers In from other pension funds	6	6,888	8,840
		216,637	222,553
Benefits	7	-195,374	-192,463
Payments to and on account of leavers	8	-8,121	-7,591
Administrative, governance and oversight expenses	9	-3,168	-2,922
		-206,663	-202,976
Net additions from dealings with Members		**9,974**	**19,577**
Returns on Investments			
Investment Income	10	95,214	72,971
Taxes on Income		-3,629	-2,686
Profits and losses on disposal of investments and changes in the market value of investments	13a	238,566	424,192
Investment Management Expenses	12	-15,564	-11,944
Net Return on Investments		**314,587**	**482,533**
Net increase in the Net Assets Available for benefits during the year		**324,561**	**502,110**

Net Assets Statement as at 31 March

	Notes	2014	2013
		£000's	£000's
Investment Assets		4,027,898	3,680,068
Cash Deposits		85,470	108,532
Total Investments		**4,113,368**	**3,788,600**
Investment Liabilities	13	-694	-1,610
Current Assets	21	37,016	38,402
Current Liabilities	22	-12,431	-12,694
Net Assets available to fund benefits at the period end		**4,137,259**	**3,812,698**

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 2013-14 financial year and its position at 31 March 2014.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 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

Fund Account - revenue recognition

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.

Fund Account - expense items

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 received and from capital gains tax on proceeds of investments sold. 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, administrative, governance and oversight expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund are incurred by the 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.

Net Assets Statement

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 amounts receivable for sales and amounts payable for purchases. From the trade 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 the final day of the accounting period.

- 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 Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2013. 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 2014.

- 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. At the reporting date the Fund only held 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 spot market exchange rates ruling at the year-end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in investment income.

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 every three years by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2014 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013. 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 £0.54m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £0.09m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.22m.
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 £73m. 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 2014, up to the date when these accounts were authorised, that require any adjustment to these accounts.

5. Contributions Receivable

		2013-14 £000's	2012-13 £000's
Employers		163,003	168,282
Members		46,746	45,431
		209,749	**213,713**
Analysis by Employer	Kent County Council	85,872	85,295
	Scheduled Bodies	112,015	115,984
	Admitted Bodies	11,862	12,434
		209,749	**213,713**

6. Transfers in from other pension funds

	2013-14 £000's	2012-13 £000's
Individual	6,888	8,840
Group	0	0
	6,888	8,840

7. Benefits Payable

		2013-14 £000's	2012-13 £000's
Pensions		159,925	150,713
Retirement Commutation and lump sum benefits		32,501	38,553
Death benefits		2,948	3,197
		195,374	**192,463**
Analysis by Employer	Kent County Council	91,938	89,473
	Scheduled Bodies	93,325	94,606
	Admitted Bodies	10,111	8,384
		195,374	**192,463**

8. Payments to and on account of leavers

	2013-14 £000's	2012-13 £000's
Individual transfers	8,089	7,590
Refunds of contributions	32	1
	8,121	**7,591**

9. Administrative, governance and oversight expenses

	2013-14	2012-13
	£000's	£000's
Administration staff costs	1,673	1,695
Governance and oversight staff costs	253	487
ICT	422	227
Printing and postage costs	215	113
Actuarial Fees	230	169
Audit Fee	30	28
Legal and Other Professional Fees	137	150
Other miscellaneous expenses	208	53
	3,168	2,922

10. Summary of Income from Investments

		2013-14		2012-13	
	Notes	£000's	%	£000's	%
Fixed Interest Securities		13,707	14.4	2,135	3.0
Equities		47,089	49.4	35,411	48.5
Pooled Investments		13,676	14.4	15,343	21.0
Private Equity / Infrastructure		4,431	4.6	3,153	4.3
Property	11	14,997	15.8	12,366	16.9
Pooled Property Investments		3,845	4.0	3,934	5.4
Cash and cash equivalents		-2,752	-2.8	374	0.5
Stock Lending		221	0.2	255	0.4
Total		**95,214**	**100.0**	**72,971**	**100.0**

11. Property Income and Expenditure

	2013-14	2012-13
	£000's	£000's
Rental Income from Investment Properties	14,997	12,366
Management Fees	-704	-743
Direct Operating Expenses	-2390	-640
Net operating income from Property	**11,903**	**10,983**

12. Investment Expenses

	2013-14	2012-13
	£000's	£000's
Investment Managers Fees	12,858	11,041
Custody fees	149	128
Investment Consultancy Fees	108	79
Performance Measurement Fees	59	56
Property operating expenses	2,390	640
Total	**15,564**	**11,944**

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

13. Investments

	Market Value as at 31 March 14 £000's	Market Value as at 31 March 13 £000's
Investment Assets		
Fixed Interest Securities	291,458	280,104
Equities	1,518,121	1,264,169
Pooled Investments	1,734,423	1,764,778
Private Equity/Infrastructure	73,486	58,952
Property	282,117	222,027
Pooled Property Investments	111,803	78,000
Derivative contracts - Forward Currency contracts	0	2,666
Cash Equivalents	85,470	108,532
Investment Income due	10,637	8,505
Amounts receivable for sales	5,853	867
Total Investment Assets	**4,113,368**	**3,788,600**
Investment Liabilities		
Amounts payable for purchases	0	-1,610
Derivative contracts - Forward Currency contracts	-694	0
Total Investment Liabilities	**-694**	**-1,610**
Net Investment Assets	**4,112,674**	**3,786,990**

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 13 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 14 £000's
Fixed Interest Securities	280,104	62,772	-26,265	-25,153	291,458
Equities	1,264,169		-761,892	90,485	592,762
Pooled Investments	1,764,778	1,181,315	-1,336,834	125,164	1,734,423
Private Equity/Infrastructure	58,952	16,341	-1,830	23	73,486
Property	222,027	46,119	-10,886	24,857	282,117
Pooled Property Investments	78,000	52,006	-20,826	2,623	111,803
	3,668,030	1,358,553	-2,158,533	217,999	3,086,049
Derivative contracts					
- Forward Currency contracts	2,666	5,724,998	-5,748,925	20,567	-694
	3,670,696	**7,083,551**	**-7,907,458**	**238,566**	**3,085,355**
Other Investment balances					
- Cash and cash equivalents	108,532				85,470
- Amounts receivable for sales	867				5,853
- Amounts payable for purchases	-1,610				0
- Investment Income due	8,505				10,637
Net Investment Assets	**3,786,990**			**238,566**	**3,187,315**

	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**

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 £980,582 (2012-13 £965,610). 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 cash and derivative contracts)

	Market Value as at 31 March 14 £'000's	Market Value as at 31 March 13 £'000's
FIXED INTEREST SECURITIES		
UK		
Corporate Quoted	27,777	20,205
OVERSEAS		
Public Sector Quoted	46,715	50,524
Corporate Quoted	216,966	209,375
	291,458	**280,104**
EQUITIES		
UK		
Quoted	729,769	656,558
OVERSEAS		
Quoted	788,352	607,611
	1,518,121	**1,264,169**
POOLED FUNDS		
UK		
Fixed Income Unit Trusts	220,607	215,772
Unit Trusts	740,666	689,334
OVERSEAS		
Unit Trusts	773,150	859,672
	1,734,423	**1,764,778**
PROPERTY		
UK	282,117	222,027
Property Unit Trusts		
UK	101,918	63,001
Overseas	9,885	14,999
	393,920	**300,027**
Private Equity Funds		
UK	3,764	3,912
Overseas	21,197	14,465
Infrastructure		
UK	9,984	8,209
Overseas	38,541	32,366
	73,486	**58,952**
TOTAL	**4,011,408**	**3,668,030**

14a. Analysis of 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	Local value £000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	USD	662	GBP	-399		-2
Up to one month	USD	536	GBP	-325		-3
Up to one month	USD	2,506	GBP	-1,515		-12
Up to one month	GBP	47	USD	-78	1	
One to six months	GBP	25,183	EUR	-30,585		-103
One to six months	GBP	1,583	CHF	-2,332		0
One to six months	GBP	104,558	USD	-174,888		-347
One to six months	GBP	104,677	USD	-174,888		-228
					1	-695
Net forward currency contracts at 31 March 2014						**-694**

Prior year comparative

Open forward currency contracts at 31 March 2013	2666	0
Net forward currency contracts at 31 March 2013		**2666**

14b. Property Holdings

	Year ending 31 March 14 £000's	Year ending 31 March 13 £000's
Opening Balance	222,027	222,576
Additions	46,119	18,108
Disposals	-10,886	-24,250
Net increase in market value	24,857	5,593
Closing Balance	**282,117**	**222,027**

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2014		Market Value as at 31 Mar 2013	
	£000's	%	£000's	%
Baillie Gifford	751,405	18.4	699,449	18.5
DTZ	368,975	9.0	300,027	7.9
Fidelity	25,733	0.6	0	0.0
GMO	0	0.0	220,778	5.8
Goldman Sachs	310,429	7.5	296,954	7.9
HarbourVest	21,197	0.5	14,465	0.4
Henderson	9,984	0.2	8,209	0.2
Impax	30,196	0.7	26,251	0.7
Invesco	0	0.0	479,239	12.7
M&G	200,749	4.9	0	0.0
Partners Group	38,541	0.9	32,366	0.9
Pyrford	183,481	4.5	153,450	4.1
Sarasin	149,775	3.6	0	0.0
Schroders	1,110,996	27.1	1,005,812	26.6
State Street Global Advisors	884,265	21.5	474,052	12.5
YFM	3,764	0.1	3,912	0.1
Kent County Council Investment Team	23,184	0.5	64,262	1.7
	4,112,674	**100**	3,779,226	100

All the external fund managers above are registered in the United Kingdom.

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

	31 March 2014	
Asset Class / Investments	£000's	% (of asset class)
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	111,108	7
SISF Strategic Bond GBP Hedged	109,499	6
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	710,903	42
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	183,481	11
M&G Global Dividend Fund	200,749	12
MPF International Equity Index Sub-Fund	173,361	10
Schroder GAV Unit Trust	185,363	11
Property Unit Trusts		
Blackrock	21,044	19
L & G Leisure	8,185	7
Fidelity	25,733	23
Hercules	9,544	9
IPIF	7,365	7
Airport Fund	10,403	9
Lothbury	8,498	8
Aurora	9,885	9

Asset Class / Investments		31 March 2014 £000's	% (of asset class)
Private Equity and infrastructure funds			
Private Equity			
UK			
Chandos Fund (YFM)		3,764	5
Overseas			
HIPEP VI- Cayman		12,254	17
HarbourVest Partners IX		8,943	12
Infrastructure			
UK			
Henderson Secondary PFI Fund I		6,206	8
Henderson Secondary PFI Fund II		3,958	5
Overseas			
Partners Group Global Infrastructure 2009		31,889	43
Partners Group Direct Infrastructure 2011		6,652	9
Property			
Location	**Type of Property**		
3-5 Charing Cross Road, London	Office	22,396	8
102 - 114 Wardour Street, London	Mixed Use	15,626	6
Drury House, London	Office	27,105	10
49/59 Battersea Park Road, London	Industrial	18,060	7
Hertsmere Industrial Estate, Borehamwood	Industrial	14,345	5
Walkergate, Durham	Mixed Use	14,856	5
Lakeside Village, Doncaster	Mixed Use	27,547	10

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 £000's	Collateral Value £000's	Collateral type
Equities	109,962	117,797	Sovereigns and Treasury Bonds and Notes
Bonds	10,463	11,089	Sovereigns and Treasury Bonds and Notes
	120,425	**128,886**	

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 14			31 March 13		
	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	291,458			280,104		
Equities	1,518,121			1,264,169		
Pooled Investments	1,734,423			1,764,778		
Property Pooled Investments	111,803			78,000		
Private Equity/Infrastructure	73,486			58,952		
Derivative contracts	0			2,666		
Cash & Cash Deposits		89,836			109,214	
Other Investment Balances	16,490			9,372		
Debtors/ Receivables		32,649			37,720	
	3,745,781	**122,485**	**0**	**3,458,041**	**146,934**	**0**
Financial Liabilities						
Other Investment balances	-694			-1,610		
Creditors			-12,431			-12,694
	-694	**0**	**-12,431**	**-1,610**	**0**	**-12,694**
Total	**3,745,087**	**122,485**	**-12,431**	**3,456,431**	**146,934**	**-12,694**

17b. Net Gains and Losses on Financial Instruments

	31 March 14 £000's	31 March 13 £000's
Financial assets		
Fair value through profit and loss	213,709	418,599
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	**213,709**	**418,599**

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 14		31 March 13	
	Carrying value £000's	Fair Value £000's	Carrying value £000's	Fair Value £000's
Financial assets				
Fair value through profit and loss	3,745,781	3,745,781	3,458,041	3,458,041
Loans and receivables	122,485	122,485	146,934	146,934
Total financial assets	**3,868,266**	**3,868,266**	**3,604,975**	**3,604,975**
Financial liabilities				
Fair value through profit and loss	-694	-694	-1,610	-1,610
Financial liabilities at amortised cost	-12,431	-12,431	-12,694	-12,694
Total financial liabilities	**-13,125**	**-13,125**	**-14,304**	**-14,304**

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 fixed interest securities, quoted index linked securities and quoted 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. Investments include unquoted Unit Trusts and Property Unit Trusts.

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 2014	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				
Financial assets at fair value through profit and loss	3,560,492	111,803	73,486	3,745,781
Loans and Receivables	122,485	0	0	122,485
Total Financial Assets	**3,682,977**	**111,803**	**73,486**	**3,868,266**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-694	0	0	-694
Financial liabilities at amortised costs	-12,431	0	0	-12,431
Total Financial Liabilities	**-13,125**	**0**	**0**	**-13,125**
Net financial assets	**3,669,852**	**111,803**	**73,486**	**3,855,141**

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				
Financial assets at fair value through profit and loss	3,321,089	78,000	58,952	3,458,041
Loans and Receivables	146,934	0	0	146,934
Total Financial Assets	3,468,023	78,000	58,952	3,604,975
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-1,610	0	0	-1,610
Financial liabilities at amortised costs	-12,694	0	0	-12,694
Total Financial Liabilities	**-14,304**	**0**	**0**	**-14,304**
Net financial assets	**3,453,719**	**78,000**	**58,952**	**3,590,671**

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 security 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 2014-15 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Equities	9.40%
Overseas Equities	11.50%
Global Pooled inc UK	10.50%
Bonds	4.50%
Alternatives	0.50%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of returns of our investments over a period of 3 years. The 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):

Asset Type	Value as at 31 March 14 £000's	Percentage change %	Value in increase £000's	Value on decrease £000's
Cash and cash equivalents	85,470	0.00	85,470	85,470
Investment portfolio assets:				
UK Equities	729,769	9.40	798,367	661,171
Overseas Equities	788,352	11.50	879,012	697,692
Global Pooled inc UK	1,846,226	10.50	2,040,079	1,652,372
Bonds	291,458	4.50	304,573	278,342
Private Equity	24,961	0.50	25,086	24,836
Infrastructure Funds	48,525	0.50	48,768	48,282
Net derivative assets	-694	0.00	-694	-694
Investment income due	10,637	0.00	10,637	10,637
Amounts receivable for sales	5,853	0.00	5,853	5,853
Amounts payable for purchases	0	0.00	0	0
Total	**3,830,557**		**4,197,151**	**3,463,961**

Asset Type	Value as at 31 March 13 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	108,532	0.00	108,532	108,532
Investment portfolio assets:				
UK Equities	656,558	9.40	731,603	581,513
Overseas Equities	607,611	11.50	682,044	533,179
Global Pooled inc UK	1,842,778	10.50	2,071,466	1,614,089
Bonds/Index Linked Securities	280,104	4.50	289,235	270,972
Private Equity	18,377	0.50	19,320	17,434
Infrastructure Funds	40,575	0.50	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	**3,564,963**		**3,955,285**	**3,174,641**

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 2014 and 31 March 2013 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 14 £000	31 March 13 £000
Cash and cash equivalents	85,470	108,532
Cash Balances	4,366	682
Fixed Interest Securities		
- Directly held securities	291,458	280,104
- Pooled Funds	220,607	215,772
Total	**601,901**	**605,090**

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 14	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	85,470	855	-855
Cash Balances	4,366	43	-43
Fixed Interest Securities			
- Directly held securities	291,458	2,915	-2,915
- Pooled Funds	220,607	2,206	-2,206
Total change in assets available	**601,901**	**6,019**	**-6,019**

Asset Type	Carrying amount as at 31 March 13	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	108,532	1,085	-1,085
Cash Balances	682	7	-7
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	**605,090**	**6,051**	**-6,051**

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 (£233m) 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 2014 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 14 £000's	Asset value as at 31 March 13 £000's
Overseas Equities	788,352	607,611
Overseas Pooled Funds	783,035	874,671
Overseas Bonds	46,715	50,524
Overseas Private Equity and Infrastructure	59,738	46,831
Non GBP Cash	11,959	47,374
Total overseas assets	**1,689,799**	**1,627,011**

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 2014-15 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 14 £000's	Change to net assets available to pay benefits +4.7% £000's	Change to net assets available to pay benefits -4.7% £000's
Overseas Equities	788,352	825,404	751,299
Overseas Pooled Funds	783,035	819,837	746,232
Overseas Bonds	46,715	48,911	44,519
Overseas Private Equity and Infrastructure	59,738	62,545	56,930
Non GBP Cash	11,959	12,521	11,397
Total change in assets available	**1,689,799**	**1,769,218**	**1,610,377**

Currency exposure - asset type	Asset value as at 31 March 13 £000's	Change to net assets available to pay benefits +4.7% £000's	Change to net assets available to pay benefits -4.7% £000's
Overseas Equities	607,611	636,169	579,053
Overseas Pooled Funds	874,671	915,781	833,561
Overseas Bonds	50,524	52,899	48,149
Overseas Private Equity and Infrastructure	46,831	49,032	44,630
Non GBP Cash	47,374	49,601	45,147
Total change in assets available	**1,627,011**	**1,703,482**	**1,550,540**

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 that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balance as at 31 March 14 £000's	Balance as at 31 March 13 £000's
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAAm**	38,188	9,060
Blackrock Sterling Government Liquidity Fund	**AAAm**	0	63
Blackrock USD Fund	**AAAm**	0	16,205
Goldman Sachs Sterling Government Fund	**AAAm**	15,614	14,010
SWIP Global GBP Liquidity Fund	**AAAm**	933	6,337
Insight Sterling Liquidity Fund	**AAAm**	20,004	19,911
		74,739	**65,586**
Bank Deposit Accounts			
HSBC BIBCA	**AA-**	2001	0
NatWest SIBA	**A**	112	19,835
		2,113	**19,835**
Bank Current Accounts			
Natwest Current Account	**A**	103	50
Natwest Current Account - Euro	**A**	3,310	29
Natwest Current Account - USD	**A**	2	0
JP Morgan Chase - Current Account	**A+**	8,618	23,111
Barclays - DTZ client monies account	**A**	950	603
		12,983	**23,793**
Total		**89,835**	**109,214**

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. 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 2014 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 2013.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund and ensure that sufficient funds are available to meet all the benefits as they fall due for payment
- To ensure employer contribution rates are as stable as possible
- To minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so

At the 2013 valuation a maximum deficit recovery period of 20 years is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

The market value of the Fund's assets at the valuation date was £3,813m and the liabilities were £4,570m. The assets therefore, represent 83% (2010 - 77%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has decreased from 20.8% to 20.0% of pensionable salaries. This is partly due to an anticipated reduction in the cost of future benefit accrual as well as the improvement in funding position. Where the implied rate was judged to be significantly higher than the current rate, if appropriate, rates will be increased gradually to come into line with the full recalculated rate within 3 years.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow 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.

The main actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate	
	Expected	Actual
Rate of return on investments	6.6% p.a.	8.5% pa
Rate of general pay increases	3.5% p.a.	2.5% pa
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	3.0% p.a.	3.5% pa

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 2014 was £6,323.3m (31 March 2013: £6,044.4m). The Fair Value of the Scheme assets at Bid Value being £4,137.26 the Fund has a net liability of £2,186.04m as at 31 March 2014. 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 65% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

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 increase rate	4.6%
Pensions increase rate	2.8%
Discount rate	4.5%

21. Current Assets

		31 March 2014 £000's		31 March 2013 £000's
Debtors				
- Contributions due - Employees	3,560		3,611	
- Contributions due - Employers	22,012		26,976	
- Sundry debtors	1,401		1,944	
Total External Debtors		26,973		32,531
Amounts due from Kent County Council		5,677		5,189
Cash		4,366		682
		37,016		38,402
Analysis of External Debtors				
Other Local Authorities		22,709		27,491
Other Entities and individuals		4,264		5,040
		26,973		32,531

22. Current Liabilities

		31 March 2014 £000's		31 March 2013 £000's
- Benefits Payable	5,250		3,688	
- Sundry Creditors	4,417		6,957	
- Prepaid income	0		1,881	
Total External Creditors		9,667		12,526
Owing to Kent County Council		2,764		168
Total		12,431		12,694
Analysis of External Creditors				
Central Government Bodies		179		40
Other Local Authorities		5,158		3,301
Other Entities and individuals		4,330		9,185
Total		9,667		12,526

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 paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. These amounts are included within the disclosure note figures below. Prior year figures for Prudential have been updated to reflect the final position.

	Prudential		Standard Life		Equitable Life	
	2013-14 £000's	2012-13 £000's	2013-14 £000's	2012-13 £000's	2013-14 £000's	2012-13 £000's
Value at 1 April	5,440	5,096	2,045	2,035	936	975
Value at 31 March	6,016	5,440	1,967	2,045	862	936
Contributions paid	1,162	1,215	137	132	3	4

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.

	2013-14 £000's	2012-13 £000's
The Council is the largest single employer of members of the Pension Fund and during the year contributed:	65,061	66,300
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.	2,910	2,673
Year end balance due (to)/from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	1,736	-168

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 2014 totalled £112m (31 March 2013: £97m)

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

33 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 Authority Financial statements

We have audited the financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Kent County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and applicable law.

Opinion on other matters

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

Matters on which I report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

24 July 2014

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

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

Scope of the audit of the financial statements

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

Opinion on other matters

In our opinion the pension fund’s financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and applicable law.

Opinion on financial statements

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

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

24 July 2014

Annual Governance Statement

Scope of Responsibility

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law and recognised standards of good practice, 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.

The 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. The Annual Governance Statement (AGS) explains how the Council has complied with the Code and during the past year and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 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, Director of Adult Social Services and Director of Children's Services) 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 2013-14. 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 2014 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 focusing 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.

Principle	Description of Governance Mechanism	Assurances Received
	• The communication and engagement plan for KCC staff and managers ensures they are aware of the Authority's vision and purpose and understand service priorities.	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. Attendance of staff and managers at engagement sessions. Staff and managers accessing information on KNet.
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. • The Director of Children's Services is responsible for education and children's social care in accordance with statutory guidance and the County Council's Accountability Protocol for the Director of Children's Services and Lead Member for Children's Services. • The Director of Public Health is responsible for ensuring that the County Council exercises its statutory public health functions. • The governance structure was last reviewed by Council in March 2012 and is monitored constantly for effectiveness. • Formal procedures and rules govern the Council's business: Constitution, Schemes of Delegation, Financial Regulations and Contract Procedure Rules.	The Head of Internal Audit has given adequate assurance for risk management and internal control and substantial assurance for the Governance Framework. Performance reporting to Cabinet Committees on a regular basis provides an overview for Members of Council performance against target levels. The Performance and Evaluation Board provides assurance to Corporate Board that where agreed performance levels are not being met, appropriate action is put in place to address the shortfall. Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee/full Council.

Principle	Description of Governance Mechanism	Assurances Received
	• The Selection & Member Services Committee monitors and recommends changes to the Constitution to Council. • A pay policy is published annually in accordance with section 38(1) of the Localism Act and the Personnel Committee reviews pay, policy conditions of service and appointments. • The Performance and Evaluation Board reviews and agrees key target performance levels across the Authority and holds Services to account for meeting those performance targets. • Job descriptions for all the posts in the new top tier structure were agreed by the County Council in December 2013 together with a generic statement of senior managers' corporate responsibilities.	
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. • 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 Kent Code (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 (updated in 2013-14) 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.	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, and demonstration of relevant values and behaviours. 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.

Principle	Description of Governance Mechanism	Assurances Received
	• 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.	
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 substantial risk management arrangements, with the Risk Management Policy & Strategy approved annually by the Governance & Audit 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. • 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 Corporate Board and the Corporate Risk Register is presented to the Governance & Audit Committee on a six monthly basis for assurance. 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 Public Sector Internal Audit Standards. 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.	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. 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.

Principle	Description of Governance Mechanism	Assurances Received
	• 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 and a whistleblowing hotline (maintained by Internal Audit). Officers are required to report all Whistleblowing instances to Internal Audit for monitoring and reporting purposes. • There is an Anti-Fraud and Corruption Strategy in place to prevent and detect fraud. There continues to be increased levels of reporting in 2013-14, 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' and Directors' salaries and expenses; register of gifts and hospitality; Council spending; Member's allowances and expenses; invoices over £500 and Kent area profiles.	
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. • There was a comprehensive Induction and Development Programme for both new and returning Members following the County Council Elections in May 2013. • 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.	Attendance at Member development sessions and regular reports to the cross party Member Development Group and the Selection & Member Services Committee. 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.

Principle	Description of Governance Mechanism	Assurances Received
	• The Facing the Challenge 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 who manage resources at KR9 or above.	
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 2012-13 AGS. They also detail any new issues that have arisen since 1 April 2013, 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.

Elected Members have a role in maintaining and reviewing the effectiveness of the governance arrangements. They do this via the Governance and Audit Committee which has within its remit the role of ensuring the adequacy of the risk management and governance framework, and ensuring that these are embedded across the whole Council, that they are adequate for purpose and effectively and efficiently operated without any significant lapses. As part of the remit of the Scrutiny Committee, elected Members are able to review decisions made or action taken in relation to all Council function's, or consider matters which affect the area of its residents. As part of this review they can look at governance and risk management aspects and make recommendations or report to the Executive or County Council. During the year Cabinet and the various Cabinet Committees receive and review regular reports relating to the performance of the Council's system of internal control, including the Strategic Risk Register, Revenue and Capital Budget Monitoring, Treasury Management and Core Monitoring (Performance and business plans).

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 substantial assurance can be given in relation to corporate governance and risk management arrangements. This independent opinion is also in accordance with the Local Government Association peer review published in May 2014 which describes the governance arrangements as robust. Internal Audit's review of risk management arrangements noted some significant improvements since 2012-2013 and in particular in relation to the level of engagement and dialogue with staff and senior managers about risk management during a period of significant change.

In relation to internal controls, Internal Audit has concluded an overall substantial assurance over the control environment within the Council and its Directorate functions. This reflects a marked improvement in core controls at the centre and within Directorates, but some areas where further improvement is required e.g. aspects of the payments process. This year Internal Audit has raised particular concern over emerging risks in relation to the controls over and within operations remote from the Council e.g. companies in which the Council has an interest and other remote sites. This is of particular relevance as the Council continues through its transformation programme and recommends more alternative service delivery models. If this risk is not adequately managed, the Internal Audit opinion in future years could be impacted. The Council has been receptive to Internal Audit's recommendations in relation to governance and monitoring controls and this is an area which Internal Audit will be monitoring closely in 2014-15 due to its relevance to the overall assurance opinion going forward.

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.

Significant Governance Issues

A number of areas where key internal controls still need to be enhanced have been identified, the following is an update on actions taken during the past year:

Procurement

Potential for legal challenge of contract awards due to increased demand for Procurement advice – PWC were commissioned to review resource levels.

The key recommendation of the PWC report was to review roles across Procurement and Commissioning ensuring clear definition, assign staff into correct areas, carry out a skills gap assessment and train as necessary to correct.

A clear definition of roles and responsibilities has been completed, but other recommendations have not yet been implemented as they have been overtaken by 'Facing the Challenge' (and the Corporate Directors Group did not approve the action for the "Realignment of Resources to Deliver Improved Performance")

(Notwithstanding the above,) we have been addressing this risk in several ways: Firstly training - over 150 internal clients have undertaken the Procurement Overview Training which reduces the likelihood of services carrying out procurements without the Strategic Sourcing and Procurement (SSP) team's knowledge. The SSP team are all either fully qualified (the majority) or undertaking training to achieve full Chartered Institute of Purchasing and Supply membership, additional training and experience sharing happens at SSP team meetings and joint meetings with our Legal Team.

Governance has been strengthened, and will be further improved, when the new version of 'Spending the Councils Money' goes to Governance and Audit Committee on the 30th April 2014.

Facing the Challenge:

Our corporate transformation programme, Facing the Challenge, was launched in September 2013, with Phase 1 running until April 2014, and Phase 2 until April 2015. Facing the Challenge is KCC's response to meeting the unprecedented financial challenge of continued reductions in central government grant combined with significant spending pressures from demographic and legislative change. Through Facing the Challenge, KCC will become a strategic commissioning authority, increasingly commissioning services focussed on early help, prevention and demand management from the best provider in the market, whether they are internal or external to KCC, or from the public, private or voluntary sector.

The Facing the Challenge transformation plan, and the governance and reporting arrangements were agreed by County Council in September 2013. These clearly state that any necessary formal decisions (Key or Significant) relating to transformation of services will be undertaken in the usual way through the existing decision-making procedure as set out in the Constitution. Reporting of progress and update papers on Facing the Challenge are regularly provided to County Council and Cabinet Committees as necessary, in support of our open, honest and transparent approach to transformation in KCC.

Internal governance arrangements for Facing the Challenge are clear and robust and have been endorsed by the Peer Review. There is a Director of Transformation with overall lead responsibility for delivery of the programme, including engagement and co-ordination with Corporate Directors, and a Corporate Portfolio Office (CPO) which provides independent assurance on progress and delivery. A weekly Transformation Advisory Group (TAG) meeting of senior Officers (including the Director of Transformation and the Head of the CPO) and Cabinet Members is chaired by the Leader of the Council to provide oversight and steer the corporate transformation programme. An advisory Transformation Board has been established, comprising the Leaders of all political groups on KCC to ensure robust cross-party engagement on key issues and progress.

The reporting, decision-making and internal governance arrangements for Facing the Challenge have worked well through Phase 1 and will continue into Phase 2. The Local Government Association (LGA) Corporate Peer Challenge of KCC (4-7 March 2014) examined our transformation programme in depth and found no governance issues, but strong and appropriate leadership and a clear understanding of the risks associated with transformation. We are confident that our arrangements are appropriate and will support robust remedial action necessary should any governance issues arise through Facing the Challenge. We will also periodically review the arrangements to ensure they remain fit for purpose.

Risk management arrangements for transformation have been established as part of the 'managing change better' work strand, which align with existing corporate arrangements. This includes reporting to Corporate Directors' meetings, as this forum acts as the senior management focus for the delivery of transformation work, and the Transformation Advisory Group.

Risks relating to achievement of overall transformation objectives have been gathered from 1:1 meetings with Cabinet Members, Corporate Directors and the wider management population, and are reviewed regularly with a particular focus on mitigating actions.

The level of restructure and transformation projects occurring across the Authority continues to represent a potential risk to the quality of service delivery.

The provision of HR support and advice to managers undertaking restructures in their business units has been kept under review. Levels of satisfaction with the advice in this area are consistently high and there has been investment of time and money to ensure the right level of training and competency for people in the HR Advisory team.

The impact of restructures and redundancies on the effectiveness and morale of staff continues to be monitored through employee engagement measures, other HR measures such as absence and turnover rates and customer feedback on quality of service delivery.

There is an ongoing programme in service directorates to review the integration of service provision, both within the KCC and with partners, to ensure staff and financial resources are not wasted in duplication of effort.

Furthermore, a number of particular areas where key internal controls still need to be enhanced have been identified as follows :

Adult Social Care Transformation - This is redesigning how adult social care is delivered to improve outcomes for people while building a sustainable social care market. The programme has identified its key steps and is delivering these and the associated savings although full implementation of this 3 year programme is still not yet assured. However, given the scale of the programme, in terms of size, scale and capacity, and recognising the assurance provided by the Corporate Director of Social Care, Health and Wellbeing, we will be regularly monitoring this programme.

Facing the Challenge Phase 2 – The council wide transformation will affect both the council's social care functions and the support services those functions relay on. Work is being undertaken with the Corporate Portfolio Office to manage the interdependencies between change programmes, to maintain sufficient focus on delivering the council's day to day statutory responsibilities and to provide assurance to .Senior Management.

The need to have the right governance and controls in place in relation to alternative service delivery models. This is being reviewed regularly through the Facing the Challenge Programme.

We will over the coming year take appropriate steps to address all of these matters and to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Paul Carter
Leader
On behalf of Kent County Council

David Cockburn
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.