

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

To: Governance and Audit Committee – 23 July 2015

Subject: DRAFT STATEMENT OF ACCOUNTS 2014-15

Classification: Unrestricted

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Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2014-15.

## **FOR DECISION AND APPROVAL**

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### **1. INTRODUCTION**

1.1 The draft Statement of Accounts of the County Council for 2014-15 follows this report. The Accounts and Audit Regulations 2011 state that;

...no later than 30th September in the year immediately following the end of the year to which the statement relates

i) consider either by way of a Committee or by the Members meeting as a whole the Statement of Accounts;

ii) following that consideration, approve the Statement of Accounts by a resolution of that Committee or meeting;

iii) following approval, ensure that the Statement of Accounts is signed and dated by the person presiding at the Committee or meeting at which that approval was given;

1.2 The audit is now complete and we therefore recommend that the Accounts are finalised and signed today, as this will free up finance staff to move forward with new year tasks and projects. The Auditors have given an unqualified opinion.

1.3 Letters of Representation are provided in connection with the audits of the financial statements for the Council and the Kent Superannuation Fund; and these are required to be formally minuted by the Committee that they are approved.

1.4 Members are encouraged to scrutinise these Accounts and ask questions.

1.5 If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Emma Feakins, Chief Accountant, who will be happy to meet with any

Member or group of Members to give a more detailed explanation of these Accounts. Alternatively, questions can of course be asked at this meeting.

## **2. STATEMENT OF ACCOUNTS - CONTENTS**

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.
- 2.2 The Statement of Accounts for 2014-15 is prepared on an International Financial Reporting Standards (IFRS) basis.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

### **Foreword Pages 3-12**

- 2.4 The foreword provides clarification on the relationship between the Statement of Accounts and other financial information that the Council reports on externally. For 2014-15 the foreword has been expanded to provide more information including the funding strategy applied during 2014-15 and the direction of travel for 2015-16 onwards.
- 2.5 The details of the revenue outturn are shown on Pages 7 and 9. This shows an underspend of £11m against the non-schools budgets. Details of underspends within the directorates have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which went to Cabinet on 6 July.
- 2.6 The level of general revenue reserves has increased by £3m and the balance stands at £34.7m. This is deemed to be an acceptable level of general reserves based on the current budget, and the Council's identified risks, by the Corporate Director of Finance and Procurement.
- 2.7 Capital expenditure excluding that incurred by schools under devolved arrangements was £73.705m less than the latest revised cash limits. Of this, £72.621m reflects re-phasing of capital expenditure plans across all services and -£1.084m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2015-16 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.8 The 2014-15 IAS 19 report shows an increase in the Pensions Reserve deficit of £296m. The Council needs to ensure that it is able to receive dividends from Commercial Services unhindered by the pension's liability and therefore this is included in our accounts. This approach has been agreed between all parties and our external auditors. A significant amount of advice and research was undertaken before implementing this change and it is consistent with the treatment adopted by other local authorities in a similar position. The total pension reserve deficit is £317m. See Paragraph 2.17 for more information.

### **Statement of Responsibilities Page 13**

- 2.9 This statement sets out the respective responsibilities of the Authority and the Corporate Director of Finance and Procurement in relation to the production of the final accounts.

### **Financial Statements Pages 14-19**

#### **Movement in Reserves Statement (MiRS)**

- 2.10 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have decreased by £24m in 2014-15. The main movements are:

	<b>£m</b>
Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding	31
Capital Receipt Reserve	11
General Fund	-3
Schools Reserves	-8
Responding to Government Deficit Reduction Reserve, to support the further transformation of services.	-11
<b>Total of major movements in usable reserves</b>	<b><u>20</u></b>

- 2.11 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:
- i) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
  - ii) The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets.
  - iii) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

#### **Comprehensive Income and Expenditure Statement**

2.12 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority during the financial year. As authorities do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.

2.13 The CIES has two sections:

- i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
- ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

### **Balance Sheet**

2.14 The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local authorities do not have equity, the bottom half is comprised of reserves that show the disposition of an authority's net worth, falling into two categories:

- i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and
- ii) Unusable Reserves, which include:
  - unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
  - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

2.15 Property, Plant & Equipment has increased by £85m. The majority of this increase relates to revaluation movements (+£142m) and net capital additions (+£121m). These increases are offset by the annual depreciation charge (-£136m) and disposals (-£38m) which included £24m due to schools transferring to academy status.

2.16 Long-term investments have increased by £96.5m. £95.3m is for bonds and pooled fund deposits which mature after 12 months and £1.2m relates to equity investments.

- 2.17 Long term liabilities have increased by £297m. £317m of this is due to an increase in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 36 on page 93 of the Accounts. This increase is offset by a decrease of £31.2m of Long Term Borrowing and a decrease in PFI lease liabilities of £5m. Note 37 explains the breakdown of borrowing and can be found on page 99 of the Accounts.
- 2.18 Our net worth has decreased from £74m to -£101.1m. This is primarily due to the increase in the pensions liability explained in paragraph 2.17 and page 93 of the Accounts.

### **Cash Flow Statement**

- 2.19 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value and they account for £101.1m of the £102.8m on the balance sheet.

### **Significant Notes to the Accounts pages 20-110**

#### **Adjustments between accounting basis and funding basis under regulations**

- 2.20 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. It also supports the line in the MIRS and provides more detail on how this is split across usable and unusable reserves.

#### **Officers Remuneration**

- 2.21 Note 6 on pages 25-34 provides details of officers' remuneration over £50,000 and details on exit packages in bands of £20,000 split between compulsory redundancy and other departures.

#### **Deposits in Icelandic banks**

- 2.22 Note 8 on page 35 sets out the latest schedule of anticipated timings of repayments in relation to the Icelandic banks. Under regulations we have had to write the net impairment charge of £1.1m to the general fund. This was £0.7m of impairment plus £0.4m of accrued interest. The forecast recovery from Heritable has now increased from 98% to 100% and we expect a dividend in August/September and a final payment in 2016. Landsbanki (LBI hf) will also recover 100%. So a full recovery of all funds deposited will be achieved.

## Property, Plant and Equipment

2.23 Note 15 on pages 43-54 shows the movements on these assets, which have slightly increased in value (relatively) from £2.09bn to £2.17bn.

## Reserves

2.24 Details of reserves can be found in the following notes, usable reserves in Note 20 which also include earmarked reserves, unusable reserves in Note 21, and earmarked reserves in Note 22 on pages 75-80. Earmarked reserves have increased by £7.5m; the remainder of usable reserves have decreased by £32m and unusable reserves by £151.3m.

## Amounts Reported for Resource Allocation Decisions

2.25 Note 31 on pages 86-89 is also known as the segmental reporting note and is based on our management structure. It shows outturn information reported by directorate which is then reconciled to the cost of services in the Comprehensive Income and Expenditure Statement.

## Prior Period Adjustment pages 111 -113

2.26 This is a detailed note of the changes that were made to the financial statements for 2012-13 and 2013-14 as a result of changes to the way the Council accounts for school non-current assets as a result of guidance issued in 2014-15. The impact of these changes is as follows:

	<b>£m</b>
29 Foundation schools and 8 playing fields have been recognised on the Balance Sheet	277.7
4 Voluntary Aided schools and 16 playing fields have been recognised on the Balance Sheet	11.6
37 Voluntary Controlled schools have been derecognised	-22.1
48 Voluntary Controlled schools have been partially derecognised	-61.9
3 Voluntary Aided schools have had their land and/or buildings derecognised	-3.1

## **The overall impact on the Balance Sheet**

**202.2**

## Pension Fund Accounts pages 114-139

2.27 Pages 114-139 contain a summarised extract of a more detailed statement produced for the Pension Fund.

## **Auditor's Report Pages 140-143**

- 2.28 Within the Accounts and Audit Regulations 2011 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2014-15 Accounts commenced on the 15<sup>th</sup> June and ended on the 10<sup>th</sup> July.
- 2.29 The external audit provides an independent opinion as to whether the Statement of Accounts gives a true and fair view of the financial position of Kent County Council at 31 March 2015 and its income and expenditure for the year ended 31 March 2015. The audit started in June and finished 10<sup>th</sup> July. Following approval of the Accounts by Members, the external auditor will issue their signed opinion. The Accounts are expected to be formally signed today (23<sup>rd</sup> July), with an unqualified opinion.

## **Annual Governance Statement Pages 144-155**

- 2.30 The Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk. The Accounts include an Annual Governance Statement on pages 144 to 155 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2011. The Statement confirms that, during the financial year 2014-15, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies some governance issues that will be addressed in the current year.
- 2.31 CIPFA requires that the content of the Annual Governance Statement be approved by the Governance and Audit Committee. In approving the Statement, Members should consider the section headed "Review of Effectiveness", which summarises the assurances used to assess the effectiveness of the Council's governance framework. Members should also take into account the work of the Committee over the last year, any other information of which they are aware, as well as the reports included on this agenda, namely:
- the work of Internal Audit, as summarised in the Annual Report;
  - the Treasury Management Annual Report;
  - the conclusions from the external auditors.

## **Glossary**

- 2.32 A glossary of some of the terms used within the Accounts is provided on pages 156-157.

## **Other Issues**

- 2.33 Each year, our external auditors have to produce an Audit Findings Report setting-out how the audit went operationally, highlighting areas of concern, and listing all errors that they have found in the Accounts that we have decided not to adjust in the final Accounts. The list is known as the Statement of Unadjusted Errors, and the report is formally known as the ISA260. This report is provided at agenda Item 11 of this Committee.

### **3. RECOMMENDATION**

Members are asked to:

- 3.1 Consider and approve the Statement of Accounts for 2014-15.
- 3.2 Approval of the Letters of Representation
- 3.3 Note the recommendations made in the Annual Findings Report.

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