

By: The Director of Finance
To: Governance and Audit Committee – 30 June 2009
Subject: DRAFT STATEMENT OF ACCOUNTS 2008-09
Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2008-09.

FOR DECISION

1. INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2008-09 is attached. These need to be approved by Members by 30 June 2009, prior to the issue of the external auditor's report and publication of the Statement of Accounts (Accounts).
- 1.2 Members are encouraged to scrutinise these Accounts and ask questions.
- 1.3 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 Cath Head, 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) which has approval from the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 2.2 The format of the primary statements within the Accounts has not changed significantly to last year's.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-4

- 2.4 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £7.5m, less a £16m overspend on schools, giving a total overspend in the year of £8.7m. The reasons for these underspends have

been detailed in the monitoring reports throughout the year and will be in the Final Outturn report to Cabinet on 13 July.

- 2.5 The net income figures for the budget and outturn for the Operations, Resources and Skills Portfolio on page 1 of the Accounts are the result of funding for schools, and the corresponding expenditure is shown in the delegated schools budget line.
- 2.6 There has been no reduction in the level of general revenue reserves and these still stand at £25.8m. This is deemed to be an acceptable level based on the current budget and the Council's identified risks by the Director of Finance. Specific reserves and schools' reserves are detailed in paragraphs 2.23 to 2.25 in this report.
- 2.7 The capital expenditure for 2008-09 was £23.6m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £84.5m will be used to fund the re-profiling of the 2008-09 and future years' capital programme.
- 2.8 Schools have £9.5m of capital reserves.
- 2.9 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12. However, a detailed review of the Insurance Fund will be carried out by the Director of Finance during this financial year.

Statement of Responsibilities Page 5

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

Annual Governance Statement Pages 6-10

- 2.11 The Annual Governance Statement identifies areas in which our governance arrangements can be strengthened and meets the requirements of the Accounts and Audit (Amendment) Regulations 2006 (A & A(A)R 2006) in relation to the publication of a statement on internal control.
- 2.12 We are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions including the management of risk. The attached Accounts therefore include such a statement on pages 6 to 10. It confirms that, during the financial year 2008-09, overall Corporate Governance arrangements and internal controls in the Authority were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls need to be developed or improved are known about and are being actioned. This will be discussed in more detail elsewhere on this agenda.

Auditor's Report Pages 11-12

- 2.13 Within the Accounts and Audit Regulations 2003 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 2008-09 Accounts commenced on the 8th June and ends on the 3rd July. The appointed auditor day is the 8th July where electors can request a meeting with the Auditor to raise questions about the Accounts.
- 2.14 The external auditors will provide an independent opinion as to whether the Statement of Accounts presents fairly the financial position of Kent County Council at 31 March 2009 and its income and expenditure for the year ended 31 March 2009. The audit started in May and is progressing well. A member of the Audit team will provide a verbal update on progress at this meeting. Following approval of the Accounts by Members, the external auditor will issue a report when the audit is completed. The Accounts are expected to be formally signed on 22 July, assuming no material errors are found that remain uncorrected. Pages 11-12 are blank to accommodate this report.

Accounting Policies Pages 13-16

- 2.15 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP). There have been minor changes to these to accommodate the 2008 SORP changes, predominantly around financial instruments.

Income and Expenditure Account Page 17

- 2.16 The Income and Expenditure Account is accompanied by a set of explanatory notes. The account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year 2008-09. The revenue budget underspend in 2008-09 is transferred into the rolling budget reserve and is included in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund as part of the net transfer to/from earmarked reserves.
- 2.17 The Accounting Code of Practice states that we must reflect the cost of using assets in the provision of services. We do this by including depreciation, impairment and deferred government grant credits within the net expenditure line for each of the service headings shown in the income and expenditure account. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund. This means that the revenue account is only charged with

the true interest costs from borrowing and the statutory provision for the repayment of debt.

2.18 Note 13 on page 31 details the turnover and profit/loss of Kent Top Temps Ltd, Kent County Facilities Limited trading as InsideOut and East Kent Opportunities LLP. We have agreed with our auditors that this is not material enough to warrant the creation of Group Accounts for KCC. The accounts of KTT Ltd are separately audited and will be available at Companies House in due course.

Balance Sheet and Notes

2.20 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2009 and is accompanied by explanatory notes. The statement shows the balances and reserves at the Authority's disposal, its long term indebtedness, and the fixed and net current assets employed. The principal movements on the balance sheet are described below.

2.21 Long-term assets have increased by £125m. This is primarily due to the increase in the value of our fixed assets and in the current economic climate will seem strange. However, this can be explained by the following:

- Assets under construction have increased by £70m – these are valued at historical cost.
- Completed projects have added £29m of capital expenditure in year to land and buildings at historical cost. Revaluations will be carried out in 2009-10 to recognise the added value where expenditure was significant.
- An impairment review as at 1 April 2008 was carried out on properties with a remaining useful life of over 50 years and non operational properties. This produced an increase in property values of £19m.

2.22 Current Liabilities are up by £87m. This is due to an increase in temporary borrowing of £60m and in our level of general creditors as shown in Note 20.

2.23 Long-term liabilities have increased by £149m, which is predominantly due to:

- A decrease in our long-term borrowing of £19m
- An increase in our 'pension fund deficit' of £170m. Note 25 provides the information on this movement.

2.24 Our net worth has decreased from £804m to £719m. The gains and losses in our net worth are shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 19 and reflect the movement in our net worth between 2007-08 and 2008-09. The make up of the various reserves, accounts and balances shown in the balance sheet is on page 21 and in more detail on pages 43 to 49 in Notes 23 and 24.

Total Movements in Reserves

- 2.25 Earmarked revenue reserves total £102m, including £7.5m in the rolling budget reserve. Cabinet will be considering the use of this reserve at its July meeting. Details of each of the earmarked reserves are shown on Pages 44 to 47 of the Statement of Accounts.
- 2.26 Schools' reserves have reduced by £16m in 2008-09. Schools now hold £52m of revenue reserves and £9m of capital reserves. In addition, there is £11.2m of unallocated schools' budgets that will be allocated to schools during 2009-10, based upon decisions by the Schools Forum and its sub-groups.
- 2.27 Capital reserves stand at £84.5m and are needed to fund the re-phasing of the 2008-09 capital programme into future years. In addition to this, we do have funding within the current assets part of the balance sheet, which reflects our treasury management policy of borrowing when it is right to do so, and not specifically when that funding is needed to fund capital expenditure.

Cash Flow Statement Page 22

- 2.28 This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash inflow of £5m.

Investments in Icelandic banks Pages 63-65

- 2.29 This note sets out, in detail, the accounting treatment required to account for monies held with Icelandic banks in 2008-09.

Pension Fund Accounts Pages 66-79

- 2.30 These are a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary Pages 80-81

- 2.31 A glossary of some of the terms used within the Accounts is provided.

Other Issues

- 2.32 Each year, our external auditors have to produce an Annual Governance Report setting-out how the audit went operationally, highlighting areas of concern, and listing all errors that they have found in the Accounts that we have decided not to adjust in the final Accounts. The list is known as the Statement of Unadjusted Differences (SUD), and the report is formally known as the ISA260.

2.33 This year has again proved to be a significant challenge in light of the continued complex accounting for fixed assets and financial instruments (particularly in relation to Iceland). There were also changes identified in the SORP which have resulted in changes in accounting treatment and in some cases have required us to restate previous year's statements. However, this challenge has been met and we presented the attached draft of the Accounts to the Audit Commission on 5 June. Prior to that, the Audit Commission had already commenced their audit on the Chief Executive's Dept, Commercial Services, Environment and Regeneration and Communities directorate accounts. The audit of Kent Adult Social Services, Children Families and Education began week commencing 8 June. All the paperwork requested by the auditors has been available to them, and the professionalism of their audit approach has been exemplary. Inevitably, there will be a number of issues. These will be reflected in the auditors' Annual Governance Report, which may also include issues where there is a differing approach recommended by the Audit Commission compared to our own. We will then need to decide whether or not to amend the Accounts to reflect those items. In deciding, we will take into account the time involved in correcting the errors compared to the benefit of making the corrections. The final decision on this will be subject to the approval of the Chairman of this Committee. If we decide not to correct any or some of the errors, the contents of the Annual Governance Report will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

3. RECOMMENDATION

Members are asked to:

- 3.1 Consider and approve the Statement of Accounts for 2008-09 subject to the Chairman and Liberal Democrat Group Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.
- 3.2 Note the recommendations made in the Annual Governance Report.

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