

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 – 21 July 2016

Subject: DRAFT STATEMENT OF ACCOUNTS 2015-16

Classification: Unrestricted

---

Summary: This report asks Members to consider and approve the  
draft Statement of Accounts for 2015-16.

## **FOR DECISION AND APPROVAL**

---

### **1. INTRODUCTION**

1.1 The draft Statement of Accounts of the County Council for 2015-16 follows this report. The Accounts and Audit Regulations 2015 state that;

...no later than 31<sup>st</sup> July 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) approve the Statement of Accounts by a resolution of that Committee or meeting;

iii) 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 new regulations require the draft accounts to be produced by the 31<sup>st</sup> May, which is a month earlier than the previous deadline. There is a transitional period in place to allow authorities to implement the new deadline. The deadline must be in place for the 2017-18 Statement of Accounts.

1.3 This year, in preparation for achieving the earlier deadline, the draft accounts were produced by 3<sup>rd</sup> June. This was one week earlier than the 2014-15 accounts.

1.4 To achieve the earlier date the following changes to our processes were put in place:

- Accounts Payable and Accounts Receivable did not process invoices in period 13.

- The de minimus value for debtors and creditors was increased from £500 to £1,000 for revenue and from £500 to £10,000 for capital. The increasing of the de minimus was evaluated by reviewing the value of debtors and creditors between the aforementioned limits raised in 2014-15, the values were £264k for revenue and £1,028k for capital.
- Purchase Cards and Imprest Accounts – the March transactions which in previous years have been processed in Period 13 have been processed in April 2016. The impact of this change is that there are 11 months' worth of transactions in 2015-16 but from 2016-17 onwards there will be 12 months. The average monthly amount for purchase cards and imprest accounts is £167k and £124k respectively.
- Rental income and payments which have been processed in 2015-16 but related to the first quarter of 2016-17 have not been adjusted for. The impact of this change is that there were five quarters in 2015-16 but from 2016-17 onwards there will be four quarters. The estimated value of the income and payments for the quarter is £141k and £225k respectively, an estimated net amount of £84k.
- A reduction in the level of review and checking of debtor and creditor requests.

The sum total of these changes was not material in terms of the accounts and have been discussed and agreed with our external auditors.

- 1.5 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.
- 1.6 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.
- 1.7 Members are encouraged to scrutinise these Accounts and ask questions.
- 1.8 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 2015-16 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.

### **Narrative Pages 3-12**

- 2.4 The narrative provides clarification on the relationship between the Statement of Accounts and other financial information that the Council reports on externally. The 2015-16 narrative provides information on the funding strategy applied during 2015-16 and the direction of travel for 2016-17 onwards.
- 2.5 The details of the revenue outturn are shown on Pages 7 and 9. This shows an underspend of £7.6m 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 27 June.
- 2.6 The level of general revenue reserves has increased by £2.5m and the balance stands at £37.2m. 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 £27.7m less than the latest revised cash limits. Of this, £26.592m reflects re-phasing of capital expenditure plans across all services and £1.171m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2016-17 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.8 The 2015-16 IAS 19 report shows a decrease in the Pensions Reserve deficit of £133m. See Paragraph 2.16 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 £47m in 2015-16. The main movements are:

|  |            |
|--|------------|
| Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding | £m<br>-36  |
| General Fund   | 2          |
| Schools Reserves   | -8         |
| <b>Total of major movements in usable reserves</b>                                       | <b>-42</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 (PPE) has increased by £198m. The majority of this increase relates to revaluation movements (+£211m), donations (+£27m)<sup>1</sup> and net capital additions (+£127m). These increases are offset by the annual depreciation charge (-£139m) and disposals (-£30m) which included £28m due to schools transferring to academy status.

2.16 Long term liabilities have decreased by £136m. £133m of this is due to a decrease in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 37 on page 99 of the Accounts.

2.17 Our net worth has increased from -£95.9m to £245.2m. This is due to the increase in PPE explained in paragraph 2.15 and the decrease in the pensions liability explained in paragraph 2.16.

### **Cash Flow Statement**

2.18 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 £49.7m of the £51.5m on the balance sheet.

### **Significant Notes to the Accounts pages 20-118**

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

2.19 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

---

<sup>1</sup> The donations relate to the transfer of the Marlowe Academy to the Council following its closure

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**

- 2.20 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**

- 2.21 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 £0.4m to the general fund. This was £0.3m of impairment plus £0.1m of accrued interest. During 2015-16 the final Landsbanki (LBI hf) payments were received. The forecast recovery from Heritable is still forecast to be 100% but the final dividend is delayed due to litigation involving a property development.

### **Property, Plant and Equipment**

- 2.22 Note 15 on pages 43-57 shows the movements on these assets, which have increased in value (relatively) from £2.18bn to £2.38m.

### **Reserves**

- 2.23 Details of reserves can be found in the following notes, usable reserves in Note 21 which also include earmarked reserves, unusable reserves in Note 22, and earmarked reserves in Note 23 on pages 81-86. Earmarked reserves have decreased by £3.8m; the remainder of usable reserves have decreased by £43.6m and unusable reserves have increased by £388.5m.

### **Amounts Reported for Resource Allocation Decisions**

- 2.24 Note 32 on pages 92-95 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.

### **Pension Fund Accounts pages 119-145**

- 2.25 Pages 119-145 contain a summarised extract of a more detailed statement produced for the Pension Fund.

### **Auditor's Report Pages 146-149**

- 2.26 Within the Accounts and Audit Regulations 2015 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 2015-16 Accounts commenced on the 6<sup>th</sup> June and ended on the 15<sup>th</sup> July.

- 2.27 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 2016 and its income and expenditure for the year ended 31 March 2016. The audit started in June and finished 1<sup>st</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 (21<sup>st</sup> July), with an unqualified opinion.

### **Annual Governance Statement Pages 150-162**

- 2.28 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 150 to 162 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2015. The Statement confirms that, during the financial year 2015-16, 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.
- 2.29 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**

- 2.30 A glossary of some of the terms used within the Accounts is provided on pages 163-164.

### **Other Issues**

- 2.31 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 9 of this Committee.

### **3. RECOMMENDATION**

Members are asked to:

- 3.1 Consider and approve the Statement of Accounts for 2015-16.
- 3.2 Approval of the Letters of Representation
- 3.3 Note the recommendations made in the Annual Findings Report.

**Emma Feakins**  
**Chief Accountant**  
**Ext: 416082**

**Cath Head**  
**Head of Financial Management**  
**Ext: 416934**