

## Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2007-08 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 framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Accounting Standards Board and the 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 73 and 74.

The Accounts consist of:

- An Income & Expenditure account, page 16, which shows income and expenditure for all services.
- A Statement of the Movement on the General Fund Balance on page 17.
- A Statement of Total Recognised Gains and Losses, page 18.
- The Balance Sheet, pages 19 and 20, which sets out the financial position of Kent County Council as at 31 March 2008.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 21.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 61 to 72.
- Notes to support the above primary statements pages 22 to 60.

## Revenue Budget and Outturn

In February 2007 the Council approved a net revenue budget for 2007-08 of £741.729m. In addition £7.740m of 2006-07 underspending was rolled forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

PORTFOLIO	Budget £'000s	Outturn £'000s	Variance £'000s
Operations, Resources & Skills (CFHE) - (Non Delega	-799,700	-799,449	251
Children, Families & Educational Achievement	101,978	101,677	-301
Kent Adult Social Services	271,996	273,493	1,497
Environment, Highways & Waste	121,751	120,139	-1,612
Regeneration & Supporting Independence	8,949	7,889	-1,060
Communities	55,013	56,143	1,130
Public Health	562	248	-314
Corporate Support	27,126	26,415	-711
Policy & Performance	3,253	3,046	-207
Finance	105,736	99,174	-6,562
	-103,336	-111,225	-7,889
Delegated Schools Budgets:			
Operations, Resources & Skills (CFHE) - (Delegated Schools)	852,805	847,821	-4,984
	749,469	736,596	-12,873
FUNDED BY:-			
Reserves (rolling budget reserve)	7,740	7,740	0
Formula Grant	228,685	228,685	0
Council Tax	513,044	513,044	0
Total Funding	749,469	749,469	0
NET OUTTURN POSITION	0	-12,873	-12,873

## **Foreword**

The net underspending within the portfolios of £7.889m (excluding £4.984m delegated schools underspend) has been carried forward and will be added to the 2008-09 budget to support the re-scheduling of projects and to focus upon achieving the Council's key priorities and service improvements.

### **Schools**

In total, schools underspent against their delegated budgets by £4.984m. This includes £5.307m of underspending of delegated schools budgets, partially offset by £0.323m of overspending on the unallocated schools budget, largely in respect of premises costs and the reorganisation funding. The closure of schools during the year, with an overall net surplus balance, resulted in the transfer of £0.770m from the delegated schools revenue budget reserves to the unallocated schools budget. Schools now have some £67.627m of revenue reserves and there is £11.733m of unallocated schools budget reserves.

### **Revenue Reserves**

The general reserve position at 31 March 2008 is £25.8m, which is unchanged from the position as at 31 March 2007.

### 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 £248m. The expenditure analysed by portfolio was:-

PORTFOLIO	Budget £'000s	Outturn £'000s	Variance £'000s
Operations, Resources & Skills (CFHE)	112,182	98,627	-13,555
Children, Families & Educational Achievement	5,483	4,214	-1,269
Kent Adult Social Services	5,791	4,828	-963
Environment, Highways & Waste	86,989	77,656	-9,333
Regeneration & Supporting Independence	8,450	5,774	-2,676
Communities	5,621	4,593	-1,028
Corporate Support	2,386	2,172	-214
Policy & Performance	543	506	-37
Finance	4,533	3,297	-1,236
	<u>231,978</u>	<u>201,667</u>	<u>-30,311</u>
Devolved Capital to Schools	62,717	45,736	-16,981
	<u>294,695</u>	<u>247,403</u>	<u>-47,292</u>
Property Enterprise Fund		596	596
TOTAL	<u>294,695</u>	<u>247,999</u>	<u>-46,696</u>

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £30.311m less than cash limits. The underspend reflected re-phasing of capital expenditure plans across all services. These unspent capital resources will be carried forward into 2008-09 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2007-08 was £45.7m and at 31 March 2008 schools have in hand some £17m of devolved capital funding, which will be carried forward to 2008-09 as part of the overall schools reserves position.

The Property Enterprise Fund which was established in 2006-07 has 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.

In 2007-08, £0.596m was spent through the Property Enterprise Fund, which was funded by capital receipts generated through the Fund from the disposal of non-operational property. In addition, the Fund generated a further £5.894m of capital receipts from the disposal of non-operational property, which were used to fund a regeneration project in East Kent (Eurokent Access Road), provide budgeted funding support to the Medium Term Plan, and pay off some of the £2.714m temporary borrowing required in 2006-07, from the approved £10m temporary borrowing facility. At the end of 2007-08, the Property Enterprise Fund had a deficit of £0.828m.

Details of the main items of capital expenditure are shown on page 36 and 37, and details of the financing of capital expenditure are on page 35.

The Fixed Asset Restatement Account (FARA) has been replaced with the Revaluation Reserve and the Capital Finance Account has been replaced with the Capital Adjustment Account (CAA). The balance on the FARA has been transferred to the CAA and the Revaluation Reserve started 2007-08 with a balance of zero.

### Capital Reserves

At 31 March 2008 the Council has earmarked and other capital reserves of £60.3m as shown on page 20.

## **Foreword**

### **Insurance Fund**

Financial Reporting Standard (FRS) 12 requires that full provision should be made for all known insurance

Based on current estimates of the amount and timing of fund liabilities the insurance provision at 31 March 2008 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 FRS 12. Details can be found on page 41.

### **Pension Fund**

Local Authorities are required to comply with the disclosure requirements of FRS 17 - Retirement Benefits. Under FRS 17, the Authority 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. FRS 17 is based on 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 Income and Expenditure Account, the Balance Sheet and the Statement of Movement in Reserves.

### **Current Borrowing & Capital Resources**

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2007-08, earlier years and for future years. The balance currently stands at £1,017.2m as shown on the balance sheet on page 19 and detailed in Note 22.

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.

Further information about the Accounts can be obtained from Cath Head, Chief Accountant.

Telephone Maidstone (01622) 221135 or e-mail [cath.head@kent.gov.uk](mailto:cath.head@kent.gov.uk).

### The Authority's Responsibilities

The Authority 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 Authority, that officer is the Director of Finance;
- 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 30 June 2008 on behalf of Kent County Council.

**Councillor Charles Findlay**  
**Chairman of the Governance and Audit Committee**  
**July 2008**

### The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), and is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

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

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

The Director of Finance 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.

### Certificate of the Director of Finance

I certify that the Statement of Accounts set out on pages 16 to 70 present fairly the financial position of Kent County Council at 31st March 2008 and its income and expenditure for that year.

**Director of Finance**  
**July 2008**

### Scope of responsibility

Kent County Council (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. KCC also has a duty under Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

In 2004 KCC approved and adopted a code of corporate governance, which is consistent with the principles of governance set out in the CIPFA *Good Governance Standard* (2004). This is included in the Constitution and is available on our website. KCC is in the process of updating the code of governance so that it explains how KCC has complied with CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

This statement explains how KCC has complied with the CIPFA SOLACE Framework, identifying areas in which our governance arrangements can be strengthened. This statement also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority 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 governance framework has been in place at the Authority for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts. The governance framework is aligned with the principles of good governance set out in CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). The Authority is committed to fulfilling its responsibilities in accordance with the highest standards of good governance, underpinned by the ethical behaviour of officers and

### The Governance Framework

Fundamental to the success of the Authority is engagement with citizens and service users in the development of the Authority's vision, priorities and intended outcomes. The Authority's vision was developed in consultation with over 40 partners, including district councils and local businesses. It is comprised of 9 themes, each with its own vision and monitored through a number of targets which links the vision to corporate and directorate plans and strategies, including Kent Agreement (the Public Service Agreement) and its 12 'stretching targets'. The Authority will report on progress towards the vision annually and during this process will take the opportunity to consider whether the vision needs to be refreshed. It is agreed that the vision is likely to be refreshed on a 5 year cycle.

The Authority has a Residents Panel, runs campaigns on local issues and regularly consults with its service users and stakeholders. Consultation takes place at many levels including corporate consultation, directorate and service specific consultation and consultation with partners. For example, the Children, Families, Health and Education directorate consulted with about 40,000 children to inform the directorate plan. Also, the Authority has a Customer Care charter which is in the process of being reviewed, following feedback from customers.

The Council and the Leader are responsible for ensuring Best Value throughout the Authority. The objectives and targets through which this will be achieved are set out each year in the 'Annual Plan'. Authority-wide and directorate specific processes are in place to monitor progress against the objectives and targets on a regular basis. The Authority is rated 4 Star by the Audit Commission and assessed as 'improving strongly'.

The Constitution of Kent County Council sets out the roles and responsibilities of: the Overview and Scrutiny Committees; the Standards Committee; the Executive and the Council. It also sets out functions delegated by the Council to Committees and Officers and includes the Member and Officers Code of Conduct.

## Annual Governance Statement

The Members Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and 10 general principles governing Members' conduct. On election Members were made aware of the Code of Conduct during their induction process. It has since been revised and was communicated

The Code of Conduct for Employees is available on the Authority's intranet site and is included in the Constitution. It explains that citizens and service users expect high standards of conduct of all Authority employees and provides guidance on how to achieve this. Employees are made aware of this Code of Conduct through the corporate induction process.

The Standards Committee is responsible for ensuring that decisions are made with consideration of appropriate ethical standards.

The Constitution contains a statement on Resource Management Responsibilities which includes the Authority's Financial Regulations such as its Standing Orders and the Scheme of Financial Delegation. These are prepared and maintained by the Chief Finance Officer and Chief Executive and endorsed by the Leader and the Governance and Audit Committee.

The Governance and Audit Committee is comprised of 13 members representing the 3 main political parties. Its' responsibilities are set out in the Constitution and include:

- Monitoring the Authority's compliance with key controls and relevant standards
- Ensuring all Best Value processes comply with legal and audit requirements
- Discussing the basis of the annual audit with the external auditors and Cabinet
- Receiving reports from the external auditor on their work
- Overseeing the work of Internal Audit
- Overseeing the Authority's complaints procedure and receiving reports from the Complaints Ombudsman
- Agreeing the risk management policy and monitoring the effectiveness of risk management.

The Governance and Audit Committee meets 4 times annually to discharge its responsibilities.

2008 saw the launch of the 'Strategy for Staff' which was developed with the objective of enabling staff to feel pride in themselves and the work they do at the Authority, thus achieving their full potential and providing excellent customer service. This will be achieved through: developing an excellent workforce; continuous improvement; providing excellent management and inspiring leadership; facilitating open communication and engagement with staff and providing a rewarding career structure and remuneration package. The Authority is committed to providing a healthy, lively and vibrant work environment where staff feel supported and enabled

The Authority's Whistleblowing Policy was launched by Personnel and Development in April 2006 and is available on the Authority's intranet site. It encourages members of staff to raise concerns if they become aware of behaviour which is likely to breach legislation, including health and safety legislation. The policy explains how members of staff can raise concerns internally and externally and steps that will be taken by the Authority after an individual has 'blown the whistle'.

The Authority has dedicated considerable resource to understanding its partnership governance arrangements. In April 2007 Partnership Guidance was approved which defines a key partnership, classifies partnerships and sets out the fundamental considerations when establishing a partnership and in managing a partnership, including partnership risk management. In June 2007, Internal Audit reported a list of 'major' and 'significant' partnerships to the Governance and Audit Committee and by August 2007 had completed a formal risk assessment of those partnerships in accordance with the Partnership Guidance. The audit found that partnership governance arrangements are largely appropriate, although, the Authority is committed to improve further the management of partnership risk.

### Internal control environment

The internal control environment 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 the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. Management has accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in Internal Audit reports and other assurance reports. All these points are indicative of an improving internal control environment.

Overall, there are no significant weaknesses in the overall system of internal control and controls are generally in place and operating effectively, however there are some areas where improvements are required and the Authority is committed to delivering these improvements over the next year. The areas include:

- The process around recruitment and CRB checks. During 2007/08 Internal Audit has undertaken reviews in CED, KASS, Communities and CFH&E on recruitment and CRB checks. Although some areas had good controls in place, there were other areas where the relevant checks were not being carried out, in particular on volunteers. In addition, processes were not always in place to follow up staff where CRB checks were required. The sample of schools visited, during the year however, showed a big improvement in the CRB checking process. Senior management, including the Chief Executive and Director of Personnel and Development have personally overseen the implementation of recommendations made following an audit of Payroll, which has been confirmed in a follow up audit carried out in March 2008.
- Business Continuity Planning and Disaster Recovery was raised in the 2006/2007 Statement of Internal Control and although individual Business Continuity Plans are being completed and tested, not all have not been finalised and there is further work required to embed this fully across the Authority.
- SWIFT is a key system within KASS and has been implemented during the year. Control improvements are planned but still in progress and as a result have not been operating effectively throughout the year. *(Actual finding to be confirmed – report currently in draft)*

### Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of committees and management within the Authority with responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by work undertaken by the external auditors and other review agencies and inspectorates.

In recent years Internal Audit has reviewed Authority-wide governance arrangements or specific elements of the Authority's governance arrangements. In 2007/08 Internal Audit reviewed the Authority's governance arrangements against the requirements of the CIPFA SOLACE Governance Framework. It found that overall governance arrangements are appropriate and made a number of minor recommendations for improvement.

The Governance and Audit Committee has an ongoing role in the review of the effectiveness of the Authority's governance framework. Throughout the year it has received and considered reports regarding the work of Internal Audit and External Audit and on Risk Management, Complaints, Treasury Management and Value for Money. In March the committee agreed to self-assess its effectiveness using an Audit Committee effectiveness questionnaire provided by the Head of Internal Audit and Risk. The results of this exercise are not yet known.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavours to address any concerns regarding Members conduct and will deal with any reports from the Standards Board of England. During 2007/08 the Standards Committee considered the appointment of independent members from other Standards Committees to deal with specific allegations or complaints, considered the findings of the Internal Audit on Ethical Standards and resolved that the proposed new Code of Conduct for Members be recommended to the Authority for adoption.

The Cabinet Scrutiny Committee meets monthly to scrutinise the decisions taken by Cabinet or individual Cabinet Members. The Committee Chair and Spokesmen decide which decisions require scrutiny and decisions that are not in accordance with the approved policy or budget are automatically referred for scrutiny.

Committee members scrutinise decisions by questioning the relevant Cabinet Member and Managing Director. Citizens and stakeholders can participate in this process by: attending meetings as they are held in public; suggesting decisions for scrutiny and submitting written comments on decisions already called in for scrutiny.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place.

### **Significant governance issues**

There are no significant governance issues. However, the review of our governance arrangements has enabled us to identify elements of the governance framework which we are committed to strengthen further, such as:

- Further embedding of and engagement with the Council's risk management framework
- Management of risk with partners
- Training and development opportunities for Members
- Continued improvement to the internal control environment, with specific focus on the areas detailed above

Additionally, we recognise that we need to complete the revision of the Code of Governance and publish it as soon as is possible.

We propose over the coming year to take steps to address the above matters to enhance further 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

By Order of the Council

Leader

Chief Executive

On behalf of Kent County Council





### General

The Accounts of Kent County Council have been compiled in accordance with the 2007 Code of Practice on Local Authority Accounting, Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) relevant to local authorities.

### Basis on which creditors and debtors at year end are included in the Accounts

Kent County Council's Accounts are kept on an accruals basis, in accordance with the Code of Practice.

In order to account for expenditure and income attributable to the financial year in respect of goods and services received or rendered, amounts are included in the Accounts based on actual invoices received or raised after the end of the financial year. Where actual amounts are not known estimates are included based on a professional assessment of the value of goods and services received or rendered, calculated using best available information regarding the prices or rates applicable.

### Provisions and Reserves

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. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page 41 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

Kent County 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.

In the Income and Expenditure Account, expenditure met from reserves is included in the cost of services. Transfers to and from reserves are shown in the Statement of Movement on the General Fund balance. Details of the Authority's reserves are shown in the notes to the Accounts on pages 42-47.

### Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. In this context enhancement means work that has substantially increased the life, 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". Assets acquired under finance leases that have been capitalised are included in the Balance Sheet together with the outstanding obligation to make future rental payments.

### Valuation of Fixed

The Authority 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. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written to the Income and Expenditure Account as impairment where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Statement of Movement on the General Fund Balance so that there is no impact on council tax. As this is the first year of the Revaluation Reserve there has been no gain with which to offset any negative revaluations so the impact on the Income and Expenditure account has been high. Impairment caused by a clear consumption of economic benefits e.g. physical damage, is recognised in the service revenue account, so is charged against net cost of services. It is then removed through the Statement of Movement on the General Fund Balance so that it does not have an impact on council tax.

## Accounting Policies

Assets are valued as follows: -

- Non operational property is valued on the basis of open market value and is included in the balance sheet at the lower of net current replacement cost or net realisable value.
- Operational property is included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.
- Vehicles, plant and equipment are valued at the lower of net current replacement cost or net realisable value in existing use.
- Infrastructure, community assets and work in progress are valued at depreciated historical cost.

### Loss on Disposal of Fixed Assets

Property assets are revalued to recognise the capital receipt received for the sale with the following exceptions; items that are not held on the balance sheet e.g. strips of land, which will be recognised as a gain, and assets that are removed from the asset register for nil consideration e.g. transferred assets or assets that are demolished - these will be shown as a loss in the income and expenditure account. Gains and losses on the sale of vehicles, plant and equipment will be recognised in the income and expenditure account.

### 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	- 60 years
Vehicles, plant and equipment	- 3-15 years
Temporary classrooms	- 20-25 years
Roads & other Highways infrastructure	- 20 years
Community assets	- nil
Work in progress	- nil
Surplus & non operational property	- nil

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the depreciation that would have been chargeable based on their historical cost .

### Capital receipts

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Account. Conditional receipts are not included in these figures until it is prudent to do so.

### Accounting for financial assets and

Financial reporting standards 25, 26 and 29 have been built into the 2007 SORP. These standards require authorities to recognise and de-recognise their financial assets and liabilities. In particular overhanging premiums are required to be written to the general fund and then reversed through the Statement of Movement on the General Fund Balance to the Financial Instruments Adjustment Account to mitigate the effect on council tax.

### Support service and central department costs

The cost of support services and central department costs are allocated to services on the following basis in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP):

- Office accommodation - on the basis of floor area used by various services
- All other support costs - on the basis of time spent in the delivery of services to other departments or in with other measures which reflect the level of service provided.

### Stocks and stores

Stock is valued at the lower of cost or net realisable value. Spending on consumable items is accounted for in the year of purchase.

### Deferred charges

Deferred charges represent expenditure which may be properly capitalised, but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Statement of Movement on the General Fund Balance to mitigate any impact on council tax.

### Intangible Assets

Assets that do not result in the creation of a tangible asset, 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.

### Accounting for Value Added Tax

VAT is separately accounted for in accordance with SSAP 5 and is not included as income or expenditure of the County Council, except where it is not recoverable, e.g. on the purchase of motor cars where there is an element of private use by staff.

### Government grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to a government grants deferred account if appropriate. Capital grants not put to the government grants deferred account are added to the general government grants line on the income and expenditure account and are then removed through the Statement of Movement on the General Fund Balance to negate the effect on council tax. Amounts are released from the government grants deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate over the useful economic life of the asset.

If a specific revenue grant is not spent within the year it is allocated, and is not available for use on services other than those which it was intended for, then it is normally treated as a receipt in advance. However, if it is available for use on other services and not time limited, it is treated as an underspend.

### Leasing

Finance and operating lease rentals paid during the year and an estimate of the undischarged operating lease obligations are shown as Note 9 to the Income and Expenditure Account and within Note 17 to the Balance Sheet. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. Operating lease rentals are charged as revenue expenditure in the year to which the rental relates.

### Pensions

The Council participates in two different pension schemes. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

#### - Teachers

The Authority contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme under the requirements and exemptions of Financial Reporting Standard 17, 'Retirement Benefits' (FRS 17).

#### - Other employees

Subject to certain qualifying criteria, non-teaching employees of the Council are eligible to join the Local Government Pension Scheme.

The pension costs that are charged to the Council's Accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for employees.

Statutory provisions limit the Council to raising council tax to cover the cash payable to the pension fund in the year. Therefore, an appropriation is made in the Statement of Movement on the General Fund Balance to the Pensions Reserve to remove the notional debits and credits for retirement benefits.

### Investments

The investments in the County Council's accounts are shown at cost. The policy on investments relating to the Pension Fund can be found on page 60.

### PFI Accounting Policy

The County Council has several long term PFI contracts including Westview and Westbrook which are two recuperative care facilities, Swan Valley Community School, a contract for the refurbishment and redevelopment of six schools and a contract to provide residential housing. It is our policy to write out the proportion of the assets that have been transferred and create a prepayment to recognise this transfer of our assets. This is then written down over the life of the contract. We also create a long term debtor to recognise the residual value of the asset returning to us at the end of the contract, which is built up over the life of the contract. Where buildings transferred are demolished, these are written out as a disposal and the loss charged to the Income and Expenditure Account.

The transactions relating to PFI contracts have been accounted for in accordance with the requirements of 'Application Note F - Private Finance Initiative and similar contracts as an amendment to FRS5 (Reporting the substance of transactions)'.

## Income and Expenditure Account

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year.

	Notes	Year ended 31 March 2008			2006-2007
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Net Expenditure £'000
Service					
Regulatory Services and Emergency Planning		9,845	3,291	6,554	6,884
Court Services		3,244	375	2,869	1,991
Arts & Libraries		29,883	2,679	27,204	25,115
Waste Management		58,626	3,298	55,328	50,701
Environmental, Planning and Other Services		70,144	25,101	45,043	28,467
Childrens and Education		1,361,860	1,150,235	211,625	103,048
Highways, Roads and Transport Services		101,215	9,322	91,893	83,295
Adults Services		456,700	167,615	289,085	371,960
Corporate and Democratic Core		29,838	17,148	12,690	11,912
Non Distributed Costs		17,283		17,283	16,254
<b>Net Cost of Services</b>	1	<b>2,138,638</b>	<b>1,379,064</b>	<b>759,574</b>	<b>699,627</b>
Loss on the disposal of fixed assets				65,165	2,215
Precepts and Levies	2			570	560
Net Surplus on trading accounts	3			-4,617	-4,693
Interest payable and similar charges				55,591	54,425
Contribution by Medway to Loan Debt- Principal & Interest				-5,337	-5,586
Interest and Investment Income				-16,352	-13,328
Pensions interest cost and expected return on pensions assets	4			15,000	16,900
<b>Net Operating Expenditure</b>				<b>869,594</b>	<b>750,120</b>
This was financed by:					
General Government Grants				-325,117	-288,661
Non-Domestic Rates Redistribution				0	0
Demand on Collection Fund				-513,044	-483,745
<b>Net General Fund Surplus(-)/ Deficit</b>				<b>31,433</b>	<b>-22,286</b>

## Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as benefits are earned.
- Loss on disposal of fixed assets

The General Fund Balance compares the council's spending against the council tax it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. This reconciliation statement summarises the differences between the outturn on the Income and Expenditure account and the General Fund Balance.

	Notes	At 31 March 2008 £'000	At 31 March 2007 £'000
(Surplus)/deficit on the Income & Expenditure Account		31,433	-22,286
Amount required by statute to be debited/(credited) to General Fund		-31,433	22,286
<b>Increase in General Fund balance for the year</b>		<b>0</b>	<b>0</b>
General Fund balance brought forward		-25,835	-25,835
<b>General Fund balance carried forward</b>		<b>-25,835</b>	<b>-25,835</b>

### Reconciling Items for the Statement of Movement on the General Fund

Amortisation of intangible assets		-1,441	-1,444
Depreciation and impairment of fixed assets		-112,002	-85,552
Government Grants deferred		16,857	16,080
Government Grants and Contributions received		96,432	63,497
Write down of deferred charges		-34,836	-11,990
Net loss on sale of fixed assets		-65,165	-2,215
Differences relating to changes in Financial Instruments		48	0
PFI adjustments re transfer of assets		3,134	441
Net charges made in accordance with FRS17	4	-80,100	-84,100
		-177,073	-105,283
Provision for the payment of external loans		40,051	36,231
Direct revenue financing		13,396	8,554
Contributions to/(from) the Pension Reserve	4	82,500	71,700
		-41,126	11,202
Net transfer to/(from) earmarked reserves		9,693	11,084
<b>Net additional amount required to be debited/(credited) to General Fund Balance</b>		<b>-31,433</b>	<b>22,286</b>

## Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	<b>At 31 March At 31 March</b>	
	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
(Surplus)/deficit for the year on the Income and Expenditure Account	31,433	-22,286
(Surplus)/deficit arising on revaluation of fixed assets	-87,117	-189,091
Actuarial (gains)/losses on pension fund assets and liabilities	-71,240	-94,130
(Surplus)/deficit arising on revaluation of soft loans	811	0
Movement of deferred premiums in line with regulations.	20,040	0
<b>Total recognised (gains)/loss for the year</b>	<b>-106,073</b>	<b>-305,507</b>

## 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.

	Notes	31 March 2008		31 March 2007	
		£'000	£'000	Restated £'000	£'000
<b>Fixed assets</b>					
<b>Intangible Fixed Assets</b>	18		3,629		4,732
<b>Tangible Fixed Assets</b>					
<b>Operational assets</b>					
Land and buildings		1,443,378		1,414,844	
Vehicles, plant and equipment		21,576		15,863	
Roads and other highways infrastructure		568,640		514,320	
Community assets		8,047		7,775	
<b>Non-operational assets</b>					
Investment Property		6,588		6,584	
Assets under construction		256,871		237,813	
Surplus and non-operational property		81,737		95,423	
<b>Total Tangible Assets</b>	17		<u>2,386,837</u>		<u>2,292,622</u>
<b>Total fixed assets</b>			<u>2,390,466</u>		<u>2,297,354</u>
Long-term investments			126,000		115,000
Long-term debtors	19		56,533		59,736
Deferred Premiums			0		20,990
PFI debtor	19		<u>3,933</u>		<u>441</u>
<b>Total long-term assets</b>			<u>2,576,932</u>		<u>2,493,521</u>
<b>Current assets</b>					
Stocks and work in progress		5,390		5,905	
Debtors	19	177,518		175,613	
Investments		272,668		153,059	
<b>Total current assets</b>			<u>455,576</u>		<u>334,577</u>
<b>Current liabilities</b>					
Temporary borrowing		-35		-38	
Creditors	20	-266,688		-260,119	
Cash balances overdrawn		<u>-108,383</u>		<u>-27,957</u>	
			<u>-375,106</u>		<u>-288,114</u>
<b>Total assets less current liabilities (Net Assets Employed)</b>	21		<u>2,657,402</u>		<u>2,539,984</u>
<b>Long-term liabilities</b>					
Long-term borrowing	22	-1,017,200		-952,365	
Deferred liabilities		-535		-957	
Deferred credit - Medway Council		-53,385		-55,609	
Provisions	23	-14,636		-13,786	
Government grant deferred account		-196,381		-174,435	
Liability related to defined benefit pensions schemes - KCC	25	-564,100		-637,700	
- DSO	25	-2,447		-2,487	
			<u>-1,848,684</u>		<u>-1,837,339</u>
<b>Total assets less liabilities</b>			<u>808,718</u>		<u>702,645</u>

## Balance Sheet

Revaluation Reserve	24	-72,530	0
Capital Adjustment Account	24	-1,071,609	-1,126,217
Financial Instruments Adjustment Account		20,803	0
Earmarked capital reserve	24	-52,436	-26,698
Usable capital receipt reserve	24	-7,825	-7,942
Pensions reserve	- KCC	25	564,100
	- DSO	25	2,447
Earmarked reserves	24	-86,015	-80,929
General Fund balance	24	-25,835	-25,835
Schools reserves	24	-79,360	-74,376
Surplus on trading accounts	26	-458	-835
<b>Total net worth</b>		<u>-808,718</u>	<u>-702,645</u>

## Cash Flow Statement

The consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	2007-2008		2006-2007
		£'000	£'000	£'000
<b>Revenue Activities</b>				
<b>Cash outflows</b>				
Employee costs		1,102,988		1,061,009
Other operating costs		952,391		857,196
Precepts and levies paid		570		560
<b>Cash inflows</b>				
Dedicated Schools Grant		-751,846		-718,205
Precepts on Collection funds		-513,044		-483,745
Revenue support grant		-228,685		-225,164
Other government grants	30	-419,827		-332,848
Cash received for goods and services		-252,740		-275,088
Other operating cash receipts		-10,413		-10,667
Net cash inflow revenue activities	31		-120,606	-126,952
<b>Returns on Investments and Servicing of Finance</b>				
<b>Cash outflows</b>				
Interest paid		54,191		53,376
Interest element of finance lease rental		30		30
<b>Cash inflows</b>				
Interest received		-10,969		-9,110
			43,252	44,296
			-77,354	-82,656
<b>Capital Activities</b>				
<b>Cash outflows</b>				
Purchase of fixed assets		215,253		223,730
Expenditure on deferred charges		28,560		11,990
<b>Cash inflows</b>				
Sale of fixed assets		-28,749		-46,633
Capital grants received	30	-109,499		-67,279
Other capital cash receipts		-18,390		-20,652
			87,175	101,156
<b>Net cash outflow before financing</b>			9,821	18,500
<b>Management of Liquid Resources</b>				
Net increase/decrease(-) in investments			116,487	48,826
<b>Financing</b>				
<b>Cash outflows</b>				
Repayments of amounts borrowed		184,872		239,360
Capital element of finance lease rentals		202		196
Repayment of Credit Liability		4,144		30,966
<b>Cash inflows</b>				
New loans raised		-235,100		-309,200
			-45,882	-38,678
<b>Net decrease/increase(-) in cash</b>	32		80,426	28,648

**1. Net Cost of Services**

The figures included in the Accounts reflect expenditure and income on services rather than departmental or Portfolio structures. This is in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP).

**2. Precepts**

The following precepts were paid:

	2007-08	2006-07
	£000's	£000's
Environment Agency	325	324
Kent and Essex Sea Fisheries Committee	217	209
Sussex Sea Fisheries Committee	28	27
	<hr/>	<hr/>
	570	560

**3. Trading Operations**

The results of the various trading operations for 2007-08 are shown below prior to transfers to and from

<b>Business unit/activity</b>	<b>Turnover</b>	<b>Expenditure</b>	<b>Surplus/ Deficit(-) 2007-08</b>	<b>Surplus/ Deficit(-) 2006-07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Kent County Supplies and Furniture</b> Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	38,130	37,009	1,121	701
<b>Technical Services</b> Maintenance of audio-visual, computer, portable, fire fighting, gymnastic and general electrical equipment	1,202	1,216	-14	76
<b>Community Equipment services</b> Procurement and distribution of living aids equipment	3,624	3,563	61	64
<b>County Print</b> Graphic design and general printing	2,670	2,625	45	-48
<b>Transport Services</b> Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs	16,078	14,282	1,796	1,743
<b>Passenger Services</b> Provider of bus services, including school transport	3,548	3,423	125	-29
<b>Transport Integration</b> Specifying and control of transport for Education and Social Services	7,957	7,732	225	139
<b>LASER</b> Energy purchasing consortium	195,344	194,664	680	1,448
<b>Landscape Services</b> Grounds maintenance including constructing work	10,178	9,611	567	599
<b>Oakwood House</b> Conference centre	1,917	1,906	11	0
<b>Total surplus</b>	<b>280,648</b>	<b>276,031</b>	<b>4,617</b>	<b>4,693</b>

**4. Pension Costs**

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 of the Reconciling Items for the Statement of Movement on the General Fund.

Under the requirements of FRS17, the council is required to show the movement in the net pensions deficit for the year. This can be analysed as follows:

	<b>Local Government Pension Scheme</b>	
	<b>2007-08</b>	<b>2006-07</b>
	£000's	£000's
Net Cost of Services:		
• Current service cost	-62,800	-65,000
• Past service costs	-2,300	-2,200
Net Operating Expenditure:		
• Interest cost	-96,600	-87,100
• Expected return on assets in the scheme	81,600	70,200
Actual amount charged against council tax for pensions in that year:	-80,100	-84,100
• Employer's contributions payable to scheme	82,500	71,700
Amounts to be met from Government Grants and Local Taxation:		
• Movement on pensions reserve	-2,400	-12,400

### Teachers

In 2007-08 Kent County Council paid £57.2m (£54.1m in 2006-07), 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 2007-08 these amounted to £4.4m (£4.3m in 2006-07), representing 1.1% (1.1% in 2006-07) of pensionable pay.

### 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 2007-08 Kent County Council paid an employer's contribution of £82.5m (£71.7m in 2006-07) into the Pension Fund, representing 24.2% (21.8% in 2006-07) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2007-08 was based on the review carried out as at 31 March 2007. 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. The capital value of new discretionary increases in pension payments (i.e. discretionary added years) agreed by the council in 2007-08 is £654k ( £1.131m in 2006-07). The capital value of payments agreed in earlier years is £126m (£118.5m in 2006-07).

An actuarial valuation was carried out on the fund as at 31 March 2007. The actuary has estimated that based on current contribution rates the deficiency on the Pension Fund at 31 March 2004 would be recovered over a period of 20 years.

**5. Dedicated Schools Grant**

The Council's expenditure on schools is funded in the main by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2007-08 are as follows

	Schools Budget Funded by Dedicated Schools Grant		
	<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Original grant allocation to Schools Budget for the current year in the authority's budget	83,423	668,424	751,846
Adjustment to finalised grant allocation			0
DSG receivable for the year	83,423	668,424	751,846
Actual expenditure for the year	-81,654	-667,159	-748,813
(Over)/underspend for the year	1,769	1,265	3,033
Planned top-up funding of ISB from council resources	0	0	0
Use of schools balances brought forward	0	0	0
(Over)/underspend from prior year	1,659	3,719	5,378
(Over)/underspend carried forward to 2008-09	3,428	4,984	8,411

The underspend of £4,984k on schools budgets can be analysed between

a) Increase in school committed reserves	1684
b) Increase in school uncommitted reserves	3482
c) Increase in school community focused reserves	141
Sub total	5307
d) Overspend on schools unallocated	-323
	<u>4984</u>

**Other Notes to the Income and Expenditure Account**

**6. Publicity**

Publicity is defined by the Local Government Act 1986 as any communication, in whatever form, addressed to the public at large or to a section of the public. However, a number of areas are exempt from inclusion in the account e.g. statutory publications. Kent County Council's expenditure on publicity was:

	2007-08	2006-07
	£'000	£'000
Recruitment advertising:		
- Schools	1,895	1,731
- Non schools	768	1,118
<b>Total recruitment advertising</b>	<b>2,663</b>	<b>2,849</b>
Other advertising		
- Campaign to reduce levels of waste	596	
- Campaign to increase take-up of funded places for 3 and 4 year olds (Early Years)	222	
- Promoting the Library and Archive service	31	
- Promote Tour de France in Kent	27	
- Promoting greater participation in sport	26	
- Other advertising	280	
<b>Total of Other advertising</b>	<b>1,182</b>	<b>1,320</b>
Other Publicity		
- Corporate Communications team and activity	863	
- Promoting Tourism	479	
- Supporting Produced in Kent	158	
- Publicity for European Regional development Fund projects	84	
- Other publicity	254	
<b>Total of Other publicity</b>	<b>1,838</b>	<b>2,417</b>
<b>Total</b>	<b>5,683</b>	<b>6,586</b>

### 7. Members Allowances

Members allowances paid in 2007-08 totalled £1,770,436 (£1,780,480 in 2006-07).

### 8. Local Authority (Goods and Services) Act 1970

Under the Local Authority (Goods and Services) Act the Council provides goods, materials and professional services to other public bodies, including other local authorities, health bodies, charities and voluntary organisations.

Income from the provision of professional services amounted to £31.0m (£32.3m in 2006-07). Supplies of goods and services totalled £24.6m (£22.2m in 2006-07). External business represented 46.4% (46% 2006-07) of the turnover of Commercial Services department.

### 9. Leases

Kent County Council has made use of leases to acquire vehicles and equipment. Lease rentals paid during the year in respect of current operating leases in respect of vehicle plant and equipment amounted to £5.835m and in respect of land and buildings amounted to £3.964m. A further £0.388m was paid in respect of finance leases.

### 10. Related Party Transactions

During the financial year 2007-08 there were no material transactions between Kent County Council and its Members and Chief Officers, other than payment of salaries and Members' allowances.

Related party transactions with central government departments and other bodies are listed below:-

- Kent County Council received a number of general and specific grants from central government totalling £11.2m.
- Kent County Council received Dedicated Schools Grant of £752m.
- Precepts amounting to £0.6m were paid to the Environment Agency, Kent and Essex Sea Fisheries and Sussex Sea Fisheries Committee.
- Payments to other local authorities and health bodies, excluding precepts, totalled £14.6m.
- Receipts from other local authorities and health bodies totalled £51.9m.
- In addition, payments of Employers' Pension Contributions were made to the Pension Fund in respect of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The details of these payments are detailed in notes to the Income and Expenditure Account, note 4 on pages 24 and 25 of the Accounts.

**11. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2007 to 31 March 2008**

This note shows the number of employees whose total remuneration in the financial year 2007-08, excluding pension contributions, 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;

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.

Remuneration (£)	Total number of employees			
	Non-Schools		Schools	
	31 March 2008	31 March 2008	31 March 2007	31 March 2007
50,000 - 59,999	261	458	222	312
60,000 - 69,999	78	127	55	95
70,000 - 79,999	17	54	12	45
80,000 - 89,999	12	28	18	16
90,000 - 99,999	11	16	14	12
100,000 - 109,999	17	5	4	0
110,000 - 119,999	2	2	1	1
120,000 - 129,999	2	1	1	2
130,000 - 139,999	2	0	1	1
140,000 - 149,999	1	0	2	0
150,000 - 159,999	1	0	1	0
160,000 - 169,999	0	0	0	0
170,000 - 179,999	1	0	2	0
180,000 - 189,999	0	0	1	0
190,000 - 199,999	0	0	0	0
200,000 - 209,999	0	0	0	0
210,000 - 219,999	1	0	0	0
220,000 - 229,999	0	0	0	0
230,000 - 239,999	0	0	0	0
240,000 - 249,999	1	0	1	0
<b>Total</b>	<b>407</b>	<b>691</b>	<b>335</b>	<b>484</b>

This note has been restated for 2006-07 to comply with the changes in the Statement of Recommended Practice. The change requires that remuneration is based on gross pay, not taxable pay. These figures now include employees pension contributions whereas before these were not included as they are not taxable.

**12. Audit Costs**

In 2007-08 the following fees were paid relating to external audit and inspection :

	2007-08 £'000	2006-07 £'000
Fees payable for external audit services carried out by the appointed auditor	428	474
Fees payable to the Audit Commission in respect of statutory inspection	6	13
Fees payable to the appointed auditor for the certification of grant claims and returns	62	71
Fees payable in respect of other services provided by the appointed auditor	266	148
	<b>762</b>	<b>706</b>

**13. Subsidiary Undertakings**

Kent Top Temps LTD (KTT) is a wholly owned subsidiary of Kent County Council. It commenced trading on the 4th April 2005. KTT is a recruitment business that focuses on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT has specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, drivers and industrial, catering, interpreters and translation and professionals. The permanent appointment desk operates via the name of KTT Appointments. KTT had a turnover in 2007-08 of £7.3m with a net profit of £0.3m before tax.

Kent County Facilities Limited trades as InsideOut (from September 2007). It undertakes building repair and maintenance contracts to the public and private sector. InsideOut had a turnover of £0.1m and a net loss of £0.04m.

Collectively these subsidiaries do not have a material impact on Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2007-08.

**14. Health Act 1999 - Pooled Budget**

Under Section 31 of the above Act, the Authority has entered into a number of S31 agreements with Primary Care Trusts (PCT) and a Social Care Partnership Trust. These comprise the Kent Drug and Alcohol Action Team (KDAAT), which provides advice and information for Adults; Registered Nursing Care Contribution (RNCC) in Care Homes; Westbrook/Westview and Gravesham Place Integrated Care Centres, providing nursing, respite and recuperative care to Older People; Integrated Community Equipment Store (ICES), provision of equipment to people with a Physical Disability to enable them to live independently in their own homes; and Learning Disability Integrated Staffing, which has established joint structures to support closer partnership working.

<b>KDAAT</b>	2007-08 £'000	2006-07 £'000	<b>RNCC</b>	2007-08 £'000	2006-07 £'000
<b>Gross Funding</b>			<b>Gross Funding</b>		
Swanley PCT			PCT	3,924	3,675
PCT	2,531	2,503	West Kent PCT	3,548	3,304
National Treatment Agency	6,808	6,937			
KCC	1,639	1,593			
<b>Total Funding</b>	<b>10,978</b>	<b>11,033</b>	<b>Funding</b>	<b>7,472</b>	<b>6,979</b>
<b>Expenditure</b>	<b>10,978</b>	<b>11,033</b>	<b>Expenditure</b>	<b>7,472</b>	<b>6,981</b>

Net

0

0 Net

0

-2

## Notes to the Core Financial Statements

<b>Westbrook/West View PFI</b>	2007-08	2006-07 ICES		2007-08	2006-07
	£'000	£'000	<u>Gross Funding</u>	£'000	£'000
Eastern & Coastal Kent PCT	2,768	2,678	PCT	569	343
Kent Adult Social Services	3,370	2,800	West Kent PCT	140	164
PFI Credits	1,379	1,381	Medway PCT	15	13
			Medway Council	45	52
			Kent Adult Social Services	580	476
<b>Total Funding</b>	<b>7,517</b>	<b>6,859</b>	<b>Funding</b>	<b>1,349</b>	<b>1,048</b>
<b>Expenditure</b>	<b>7,517</b>	<b>6,859</b>	<b>Expenditure</b>	<b>1,349</b>	<b>1,048</b>
<b>Net</b>	<b>0</b>	<b>0</b>	<b>Net</b>	<b>0</b>	<b>0</b>

<b>Gravesham Place PFI</b>	2007-08	2006-07 LD Integrated Staffing		2007-08	2006-07
	£'000	£'000	<u>Gross Funding</u>	£'000	£'000
PCT	2,481	2,447	PCT	1,535	
Kent Adult Social Services	2,637	2,444	Kent & Medway NHS & Social Care Partnership Trust	1,403	
			Kent Adult Social Services	3,275	
<b>Total Funding</b>	<b>5,118</b>	<b>4,891</b>	<b>Funding</b>	<b>6,213</b>	<b>0</b>
<b>Expenditure</b>	<b>5,118</b>	<b>4,891</b>	<b>Expenditure</b>	<b>6,213</b>	<b>0</b>
<b>Net</b>	<b>0</b>	<b>0</b>	<b>Net</b>	<b>0</b>	<b>0</b>

### 15. Long Term

#### PFI

##### Westbrook and West View

In 2007-08 the authority made payments of £3.1m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Authority is committed to making payment of £3.2m for 2008/09 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 2008/09 the authority is committed to making payments estimated at £2.2m 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 (£2.2m was paid in 2007/08). The contract will run until April 2036.

### Swan Valley and Craylands and 6 new schools

On 24 May 2001, the Council contracted with New Schools (Swanscombe) Ltd to provide Swan Valley Secondary School and Craylands Primary School under a Private Finance Initiative (PFI). The schools opened in October 2002. Under the PFI contract the Council pays an agreed charge for the services provided by the PFI contractor. The unitary charge commenced in October 2002, PFI credits were received from April 2003 and were backdated to October 2002. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £65.5m over the 25 year (termination end of September 2027) contract period.

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College, The North School, Ellington School for Girls, The Malling School and Aylesford School - Sports College) under a Private Finance Initiative (PFI). The development of these schools straddles 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 £157.7 million over the 28 year contract period.

Under the terms of the PFI, the design and build of the school facilities and their subsequent maintenance are the responsibility, and risk, of the PFI provider. These assets will then transfer to the Council at nil cost at the end of the contract. Any differences between the residual value and the fair value of the assets will be accounted for in future years. As a result of the treatment of the assets, there is no obligation on the Council to provide credit cover for the construction of the schools.

The Council has classified these PFI schemes as "off balance sheet", and payments to contractors will be treated as revenue expenditure.

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 and £80.75m for the 6 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 and 28 years respectively. This grant amounts to just under £21m and just over £177m over the respective periods.

### Better Homes Active Lives

In October 2007 the authority signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 275 units of Extra Care accommodation. 75 units for people with learning difficulties and 7 units for people with mental health problems. The construction phase will last for two years and the contract for the provision of services will last until 2038/39. In 2008/09 the authority will pay £66k under this contract.

### 16. Landfill Allowance Trading Scheme

The Authority received landfill allowances for 120,000 tonnes in 2007-08. There has been no trading during the year or during the reconciliation period. DEFRA officials have advised that the average trading value in 2007-08 is £5 per tonne. The estimated usage is 115,000. These transactions are reflected in the balance sheet against debtors, creditors and earmarked reserves.

**Notes to the Balance Sheet**

**17. Movement on Fixed Assets**

	Land and buildings	Vehicles, plant and equipment	Roads and other Highways Infrastructure	Community assets	Assets Under Construction	Surplus, non-operational and investment property	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Book Value as at 31 March 2007	1,515,665	40,510	878,552	7,775	237,813	102,007	2,782,322
Accumulated depreciation	-100,821	-24,647	-364,232				-489,700
<b>Net book value as at 31st March 2007</b>	<b>1,414,844</b>	<b>15,863</b>	<b>514,320</b>	<b>7,775</b>	<b>237,813</b>	<b>102,007</b>	<b>2,292,622</b>
<b>Movement in 2007-08</b>							
Additions	30,384	11,326	46,141	272	130,425	56	218,604
Disposals (net)	-65,077	-54				-14,303	-79,434
Revaluations / Impairments	51,491	128				-6,903	44,716
Depreciation	-33,274	-5,687	-43,928				-82,889
Depreciation to Landscape services	-30						-30
Impairments							0
Net transfer from operational to non-operational	-7,468					7,468	0
Trans from/to WIP	52,508		52,107		-104,615		0
Trans from WIP to revenue and deferred charges					-475		-475
					-6,277		-6,277
<b>Net book value as at 31 March 2008</b>	<b>1,443,378</b>	<b>21,576</b>	<b>568,640</b>	<b>8,047</b>	<b>256,871</b>	<b>88,325</b>	<b>2,386,837</b>

**Valuations of Fixed Assets carried at current value**

The following statement shows the progress of Kent County Council's rolling programme for the revaluation of fixed assets. The valuations were carried out by Nigel Godden MRICS and Steve Conrathe MRICS of Mouchel Parkman. R W Jones ESc MRICS and K N E Taylor MRICS of Jones Lang Lasalle carried out the valuation of Kings Hill. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings £'000	Investment Properties £'000	Total £'000
Valued at current value in:			
2004/05	1,275,765		1,275,765
2005/06	549,970	960	550,930
2006/07	840,189	0	840,189
2007/08	189,011	0	189,011

**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 2004-05 approximately 20% of the properties were inspected, the remainder being valued on a beacon basis of valuation. In 2007-08 all land and buildings which have not had an actual valuation have now been valued, these include, Special Schools, Social Services Establishments, Highways Depots, Waste Disposal Sites, County Offices and Non-Operational Land & Buildings. For each operational asset an Existing Use Value (EUV) was provided. In the case of specialised properties, that is, those properties which are rarely, if ever, sold for existing use on the open market, the valuation basis used is Depreciated Replacement Cost (DRC).

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

**Assets held under finance leases**

Included within the totals for vehicles, plant and equipment are assets that have been acquired under finance leases. Values are as follows:

	At 31 March 2008 £'000	At 31 March 2007 £'000
Gross Book Value	8,091	8,091
Accumulated Depreciation	-7,556	-7,134
Value at 31 March 2008	535	957

Outstanding commitments in relation to finance leases at 31 March are as follows:

	2007-08 £'000	2006-07 £'000
Less than one year	303	388
Between 2-5 years	293	716
	596	1,104

Aggregate finance charges allocated for the period up to the 31 March 2008 are £0.1m in respect of finance lease

## Notes to the Core Financial Statements

The Council was committed at 31 March 2007 to making payments of £9.799m under operating leases in 2007/08, comprising the following elements:

	Land and Buildings	Vehicle Plant and Equipment
	£000's	£000's
Leases expiring in 2007/08	184	1,236
Leases expiring between 2008/09 and 2011/2012	1,893	4,373
Leases expiring after 2011/2012	1,887	226
	3,964	5,835

### Capital Expenditure and Financing

Capital expenditure was financed as follows:

	2007-08 £000's	2006-07 £000's
<b>Opening Capital financing requirement</b>	1,010,127	913,331
Write back of Westerham funded from Prudential	-465	
<b>Capital investment</b>		
Fixed Assets	218,603	224,478
Intangible assets	339	241
Deferred charges	28,560	11,990
Increase in finance leases	497	7
	1,257,661	1,150,047
<b>Sources of finance</b>		
Capital receipts	23,819	15,111
Government grants and other contributions	109,498	80,024
Revenue contributions (including MRP)	53,254	44,785
<b>Closing capital financing Requirement</b>	1,071,090	1,010,127
<b>Movement</b>	<b>60,963</b>	<b>96,796</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by Government financial assistance)	12,168	33,867
Increase in underlying need to borrow (unsupported by Government financial assistance)	48,795	62,929
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>60,963</b>	<b>96,796</b>

**Capital expenditure 2007-08**

The main items of capital expenditure during the year were:

<b>Highways Schemes</b>	£'000	
Bridge Strengthening /Maintenance Schemes	29,092	
Kent Highway Services Accommodation	8,279	
Intergrated Transport schemes	8,264	
Thamesway	7,960	
Ashford Ring Road	7,181	
Everard Link	4,048	
Ashford New Town Improvement	2,532	
Traffic Signal Head Replacement	1,668	
Eurokent	1,531	
Improving Roads & Footpaths	1,201	
Fastrack Delivery Executive	1,160	
East Kent Access Road	<u>1,076</u>	73,993
<b>Education Schemes</b>		
Special Schools Review	25,944	
Modernisation Programme	13,416	
Building Schools for the future - Development Costs	7,927	
Children's Centres	7,791	
Dartford Campus	6,083	
Emergency Building Maintenance	3,658	
Conditioning Programme	3,620	
Vocational Education Programme	3,413	
The North School, Ashford	2,723	
Windchimes Centre	2,454	
Schools Access Initiative	2,367	
Planned Preventative Maintenance	1,644	
Downsview Primary School	1,048	
Corporate Property Team	<u>1,012</u>	83,100

**Kent Adults Social Services**

Dignity in Care	1,711	
Improving Information Management	<u>1,301</u>	3,012
		<u>160,105</u>
Capital Devolved to Schools		45,096
Projects less than £1m		42,798
Total Capital Expenditure		<u><u>247,999</u></u>

**Future capital expenditure commitments**

At 31 March 2008 contractually committed capital expenditure to be incurred in 2008-09 and later years includes the following major projects:

	£'000
<b>Highway Schemes</b>	
Ashford Ring Road	2,961
Eurokent Phase 4 & 5	1,581
Ashford Super Depot	1,418
Everards Link	1,087
<b>Education Schemes</b>	
Dartford Technology College	5,742
Valence School	4,739
Meadowfield School	2,638
Bower Grove School	2,213
Ashford Oaks Primary School	2,204
Astor of Hever School	1,617
Phoenix Primary School	1,480
Milestone School	1,455
Orchard School	1,447
Sussex Road Primary School	1,395
Dartford AEC	855
Dartford Campus	850
Greenfields Primary School	705
Marlowe Innovation Centre	572
Dartford Rainbow Nursery	551
<b>Communities</b>	
Herne Bay Youth & Children's Centre	745
<b>Total Commitments</b>	<u>36,255</u>

**Analysis of major operational asset holdings**

	At 31 March 2008	Restated At 31 March 2007
Schools (excludes voluntary aided schools and academies)	483	504
Libraries, adult education, discovery and youth centres	114	116
Smallholdings	5	8
Homes and day centres for the elderly	18	20
Facilities for children and their families	49	45
Facilities for people with disabilities	12	11
Recreation sites	30	30
Household Waste sites	18	18
County roads	8,403km	8,382 km
County offices	10	10

**18. Movement in intangible assets**

	<b>Purchased Software licences</b> £000s	<b>Total</b> £000s
Balance at 1 April 2007	4,732	4,732
Expenditure in year	339	339
Written off to revenue in year	-1,442	-1,442
Balance at 31 March 2008	<u>3,629</u>	<u>3,629</u>

Software licences were purchased for Central and Kent Adults Social Services systems and various Commercial Services replacement systems. The cost is being written off over the life of the licences; between 3 and 5 years.

**19. Amounts owed to the Council by debtors**

	At 31 March 2008 £000's	At 31 March 2007 £000's
Long Term debtors:		
Housing Act advances (mortgages)	14	16
Medway Council (transferred debtor)	53,385	55,608
Public bodies	3,009	3,301
Other (incl PFI debtor)	4,058	1,252
	<b>60,466</b>	<b>60,177</b>
Other debtors:		
Staff advances	58	87
Government Departments	48,744	37,211
Payments in advance (incl PFI)	31,250	29,919
General debtors	97,466	108,396
	<b>177,518</b>	<b>175,613</b>

Capital debtors amounting to £20.9m are included in the Accounts at 31 March 2008 (£13.1m in 2006-07). Capital debtors relate to grants towards capital expenditure incurred in 2007-08 which had not been received by 31 March 2008.

**PFI**

	At 31 March 2008 £000's	At 31 March 2007 £000's
<b>Long term PFI debtors</b>		
Long term prepayment	-385	-385
Long term debtor in relation to residual value	-4,317	826
	<b>-4,702</b>	<b>441</b>

**PFI Prepayment**

	At 31 March 2008 £000's	At 31 March 2007 £000's
Short term PFI Prepayment	16,020	12,634
	<b>16,020</b>	<b>12,634</b>

**20. Amounts owed by the Council to creditors**

	At 31 March 2008 £'000	Restated At 31 March 2007 £'000
Kent and Essex Sea Fisheries	701	582
Receipts in advance	63,034	47,861
General creditors	182,192	187,493
Other local authorities	2,827	2,663
Deferred capital receipts	14	16
Deferred income	2,116	1,779
Government departments	15,804	19,725
	<b>266,688</b>	<b>260,119</b>

Capital creditors amounting to £43.5m are included in the Accounts at 31 March 2008 (£39.3m in 2006-07).

**21. Net Assets Employed**

Net assets analysed between Kent County Council and trading operations.

	At 31 March 2008 £'000	Restated At 31 March 2007 £'000
General Fund	2,651,757	2,533,331
Trading Accounts	5,645	6,653
	<u>2,657,402</u>	<u>2,539,984</u>

**22. Long term borrowing**

The external principal debt of Kent County Council repayable in more than 1 year is analysed as follows:

The figure for 2007-08 excludes the accrued interest of £14.6m

	At 31 March 2008 £'000	At 31 March 2007 £'000
Public Works Loan Board	650,796	666,665
Money market loans	351,800	285,700
	<u>1,002,596</u>	<u>952,365</u>

The loans above are repayable within the following periods:

	£'000	£'000
Between 1-5 years	30,112	10,146
Between 5-10 years	113,209	129,779
Between 10-15 years	87,003	87,003
More than 15 years	772,272	725,437
	<u>1,002,596</u>	<u>952,365</u>

**23. Provisions**

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.

	Balance at 1 April 07 £'000	Movement in year £'000	Balance at 31 March 08 £'000
Insurance Provision	-9,220	-1,626	-10,846
Other Provisions	-4,566	776	-3,790
	<u>-13,786</u>	<u>-850</u>	<u>-14,636</u>

**24. Reserves**

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmarked resources for future spending plans.

<b>Reserve</b>	<b>Balance 1 April 2007 £'000</b>	<b>Net Movement in year £'000</b>	<b>Balance 31 March 2008 £'000</b>	<b>Purpose of Reserve</b>
Revaluation Reserve	0	-72,530	-72,530	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-1,126,217	54,608	-1,071,609	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	0	20,803	20,803	Movements in fair value of assets and premiums
Usable Capital Receipts	-7,942	117	-7,825	Proceeds of fixed assets available to meet future capital investment
Pensions Reserves				Balancing account to allow inclusion of Pensions
- KCC	637,700	-73,600	564,100	Liability in Balance Sheet
- DSO	2,487	-40	2,447	
General Fund	-25,835	0	-25,835	Resources available to meet future unforeseen events
Earmarked Capital Reserve	-26,698	-25,738	-52,436	See separate note
Earmarked Reserves	-80,929	-5,086	-86,015	See separate note
Schools Reserve	-74,376	-4,984	-79,360	See separate note
Surplus on Trading Accounts	-835	377	-458	
<b>Total</b>	<b>-702,645</b>	<b>-106,073</b>	<b>-808,718</b>	

### **Earmarked Reserves**

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m, the sum of which are shown in the table on page 45.

### **Vehicles, plant and equipment**

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 is a reserve 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 government.

### **Gravesham North Kent (GNK) reserve**

A reserve which comprises funds received from Dartford, Gravesham and Swanley Primary Care Trust to be used to cover revenue pressures following the opening of the GNK PFI project, a project undertaken in partnership between Kent Social Services and Gravesham & North Kent Hospital.

### **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.

### **Asylum reserve**

A reserve to cover the impact of any shortfall in grant funding following changes to grant rules.

### **Supporting People reserve**

This is unspent grant since 2004/05 which will be used to smooth out the loss of grant funding in future years.

### **Assistive Technology**

A reserve to cover the re-phased costs of Telecare, technology designed to assist people to stay in their own homes longer rather than go into care. The annual costs will be drawn down over the next four years as the programme is rolled-out.

### **Environmental Initiatives reserve**

This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners. The reserve largely comprises resources received from external funders against which expenditure will be incurred.

### **Rolling budget reserve**

This reserve represents the roll forward of funds to cover the scheduling of revenue expenditure from previous years.

### **Emergency Conditions reserve**

This reserve is to cover the cost of emergencies which cannot be accommodated within normal revenue allocations, such as the costs associated with severe weather conditions.

### **Elections reserve**

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and bi-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.

### **South East Improvement and Efficiency Partnership reserve**

This is unspent grant from the DCLG to fund the administration of the South East Improvement and Efficiency Partnership, which is undertaken by KCC.

### **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.

### **Performance Reward Grant (PRG)**

This reserve comprises funding from the DCLG Performance Reward Grant to fund projects aimed at improving performance over the medium term.

### **Earmarked Reserve to support 2008-09 budget**

The medium term plan for 2008-11 includes support from earmarked reserves.

### **Prudential Equalisation Reserve**

A reserve to smooth the impact on the revenue budget over the medium term of prudential borrowing costs i.e. the costs of borrowing to support the capital programme, which are not supported by Government grant.

### **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 Government.

### **Dedicated Schools Grant (Central Expenditure) Reserve**

This is unspent Dedicated Schools Grant for central expenditure, which in accordance with the DCSF grant regulations must be carried forward for use in future years and spent in accordance with school financial regulations

### **Insurance reserve**

This is a reserve for the 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. The authority can either use these permits, bank them for future use or trade 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.

## Notes to the Core Financial Statements

### 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 2007-08 or future years as initiatives are completed.

Other Earmarked Reserves	Balance at		Balance at
	1 April 2007	Movement	31 Mar 2008
	£'000	£'000	£'000
VPE Reserve	-3,546	-268	-3,814
Special funds	-2,586	369	-2,217
Office Strategy	-631	-51	-682
Kings Hill development smoothing reserve	-2,596	1,000	-1,596
Swanscombe School PFI equalisation reserve	-4,405	-904	-5,309
Gravesham North Kent Reserve (from D G & S PCT)	-1,020	759	-261
Wesview/Westbrook PFI equalisation reserve	-312	-543	-855
Asylum Reserve	-1,121	1,121	0
Supporting People Reserve	-5,741	-3,535	-9,276
Assistive Technology	-935	491	-444
Environmental initiatives reserve	-3,390	159	-3,231
Rolling budget reserve	-8,148	259	-7,889
Emergency Conditions Reserve	-813	0	-813
Elections Reserve	-471	-235	-706
Dilapidations reserve	-1,827	32	-1,795
Workforce Reduction reserve	-1,985	-417	-2,402
South East Improvement and Efficiency Partnership	0	-1,035	-1,035
IT Asset Maintenance reserve	-5,539	-620	-6,159
PRG Reserve	-4,712	3,661	-1,051
Earmarked Reserve to support 2008-09 budget	-1,435	0	-1,435
Prudential Equalisation Reserve	-10,309	1,190	-9,119
Six schools PFI	-848	-3,259	-4,107
Dedicated Schools Grant - Non-Delegated	0	-3,428	-3,428
Other	-5,423	-483	-5,906
<b>Total</b>	<b>-67,793</b>	<b>-5,737</b>	<b>-73,530</b>
<b>Insurance Reserve</b>			
KCC	-10,206	0	-10,206
<b>LATS Reserve</b>			
Landfill Allowance Taxation Scheme	-1,934	1,142	-792
	<b>-79,933</b>	<b>-4,595</b>	<b>-84,528</b>
<b>Commercial Services Earmarked Reserves</b>	<b>-996</b>	<b>-491</b>	<b>-1,487</b>
<b>Total Earmarked Reserves</b>	<b>-80,929</b>	<b>-5,086</b>	<b>-86,015</b>
<b>Trading Reserves:</b>			
Commercial Services Trading Account	-756	309	-447
Personnel	-79	79	0
Oakwood House	0	-11	-11
<b>Schools Reserves</b>	<b>-74,376</b>	<b>-4,984</b>	<b>-79,360</b>
<b>Total Movement as per I &amp; E</b>	<b>-156,140</b>	<b>-9,693</b>	<b>-165,833</b>
<b>Balance Sheet</b>	<b>-156,140</b>	<b>-9,693</b>	<b>-165,833</b>

**School Reserves**

At 31 March 2008 funds held in school revenue reserves stand at £71.874m. These reserves are detailed in the table below.

	<b>Balance at 1 April 2007</b>	<b>Movement</b>	<b>Balance at 31 Mar 2008</b>
	£'000	£'000	£'000
School delegated revenue budget reserves - committed	-37,556	-1,684	-39,240
School delegated revenue budget reserves - uncommitted	-25,378	-2,712	-28,090
Unallocated Schools budget	-11,286	-447	-11,733
Community Focused Extended School Reserves	-156	-141	-297
<b>Total</b>	<b>-74,376</b>	<b>-4,984</b>	<b>-79,360</b>

The increase in reserves of £4.984m is made up of the following:

	2007-08	2006-07
	£'000	£'000
Underspend (as per page 1)	-4,984	-3,719
	-4,984	-3,719

**25. Liability related to defined benefit pensions schemes**

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	<b>Local Government Pension Scheme</b>			
	<b>Restated</b>			
	<b>2007-08</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>
	£000's	£000's	£000's	£000's
Estimated liabilities in scheme	-1,716,700	-1,779,500	-1,764,800	-1,486,700
Estimated assets in scheme	1,152,600	1,141,800	1,044,900	791,300
Net asset (+)/liability(-)	-564,100	-637,700	-719,900	-695,400

This liability reflects the underlying commitment that the Authority has in the long - term to pay retirement benefits. The total liability of £564.1m has a substantial impact on the net worth of the Authority as recorded in the balance sheet.

The actuary has calculated the value of assets held by the Pension Fund that are attributable to Kent County Council at 31 March 2008. In carrying out this valuation they have made the following assumptions:

Assumptions as at	31 Mar 2008	31 Mar 2007	31 Mar 2006	31 Mar 2005
	% per annum	% per annum	% per annum	% per annum
Price increases	3.60%	3.20%	3.10%	2.90%
Salary increases	5.10%	4.70%	4.60%	4.40%
Pension increases	3.60%	3.20%	3.10%	2.90%
Discount rate	6.90%	5.40%	4.90%	5.40%

The actuarial gains and losses

**Local Government Pension Scheme**

	2007-08		2006-07	
	£000's	%	£000's	%
Difference between the expected and actual return on assets	-143,800	-12.5	-7,200	-0.6
Difference between actuarial assumptions about liabilities and actual experience	-41,600		200	-
Changes in the demographic and financial assumptions used to estimate liabilities	252,100	3.9	97,400	5.1
	66,700		90,400	

The £252,100k comprises £19,600k in respect of the change in the commutation assumption compared to the 2007 FRS17 report, (£63,500k) in respect of the change in the mortality assumptions compared to the 2007 FRS17 report, and £296,000k in respect of the change in financial assumptions compared to the 2007 FRS17 report.

## Notes to the Core Financial Statements

	2005-06	
	£000's	%
Difference between the expected and actual return on assets	171,800	16.4
Difference between actuarial assumptions about liabilities and actual experience	-150	
Changes in the demographic and financial assumptions used to estimate liabilities	-184,900	-0.8
	<u>-13,250</u>	

### Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2007-08	2006-07	2005-06
	£000's	£000's	£000's
Actual return less expected return on pension scheme assets	-143,800	-7,200	171,800
Experience gains and losses arising on the scheme liabilities	-41,600	200	-150
Changes in assumptions underlying the present value of the scheme liabilities	252,100	97,400	-184,900
<b>Actuarial gain / (loss) in pension plan</b>	<u>66,700</u>	<u>90,400</u>	<u>-13,250</u>
Increase / (Decrease) in irrecoverable surplus from membership fall and other factors	4,540	3,730	2,083
<b>Actuarial Gain / (loss) recognised in STRGL</b>	<u>71,240</u>	<u>94,130</u>	<u>-11,167</u>

The value of the Fund at 31 March and the expected return on the assets of the Fund is shown in the following

### Assets (Employer)

	Long Term Rate of Return Expected % per annum	Fund Value at 31 March 2006 £'000	Long Term Rate of Return Expected % per annum	Fund Value at 31 March 2005 £'000
Equities	7.40%	741,900	7.70%	546,000
Bonds	4.60%	135,800	4.80%	102,900
Property	5.50%	94,000	5.70%	79,100
Cash	4.60%	<u>73,100</u>	4.80%	<u>63,300</u>
Total		1,044,800		791,300

## Notes to the Core Financial Statements

	<b>Long Term Rate of Return Expected</b>	<b>Fund Value at 31 March 2008</b>	<b>Long Term Rate of Return Expected</b>	<b>Fund Value at 31 March 2007</b>
	% per annum	£'000	% per annum	£'000
Equities	7.70%	800,400	7.80%	800,700
Bonds	5.70%	161,800	4.90%	141,800
Property	5.70%	124,700	5.80%	116,700
Cash	4.80%	65,700	4.90%	82,600
Total		1,152,600		1,141,800

### DSO Pensions

The figure in the balance sheet reflects the unfunded liability as calculated by the actuary in March 2008 on a minimum risk basis. This basis represents a more prudent set of assumptions and is closest to an FRS 17 figure.

### 26. Surplus on Trading Accounts

	Balance at 1 April 07 £'000	Movement in the year £'000	Balance at 31 March 08 £'000
Commercial Services	-756	309	-447
Oakwood House	0	-11	-11
Personnel and Development	-79	79	0
	-835	377	-458

The Commercial Services figure differs from that shown in the Income and Expenditure Account as this note does not reflect the adjustments that have to be made in line with BVACOP.

### Other Notes

#### 27. 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 authority. 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 59 to 70.

#### 28. The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2007-08.

**29. Contingent Liabilities****Land, Planning &**

The Council faces a very significant claim for compensation which is being fiercely resisted. This is a very complex case so it is not possible to predict the likely outcome. The claim is for several million pounds.

There are 4 other claims which in total amount to approximately £1m. Three of these are being contested with one being conceded involving legal costs of around £50k.

There are ongoing claims seeking eviction/remedial action to bring licensees on one of the County Council's caravan sites to compliance with the terms of their licence. Claimants are likely to renew their application for an oral hearing; if it is accepted then legal costs could exceed £10k.

**Non-compliance**

There is one matter where remedial works were carried out by the Council on land formerly belonging to the Highways Agency. Until recently the Council faced a damages claim for trespass and prosecution under the Environment Protection Act 1990. In addition it still faces claims for breach of planning laws and prosecution under the Environment Protection Act 1990. The Council has recently negotiated a settlement with the Highways Agency involving a transfer of the land for a minimal value but with a contribution to their legal costs in the sum of £14,000. The Environment Agency has indicated that it is unlikely to prosecute KCC. The Council however does still face the possibility of being required to carry out remedial works to the site as the bund remains in breach of planning control. The cost of remedial works is estimated at around £0.25m.

**Employment**

There are eleven potential claims relating to discrimination and breach of contract in employment. The damages being sought are approximately £0.6m. The Council has not admitted liability in any of these cases. There is one further case which may proceed to the Employment Tribunal. If proceedings commence, then the Council will incur legal costs in defending the claim. It should be noted that as there is no cap on damages in discrimination cases, if this or the other cases where discrimination has been pleaded are lost, significant damages could be awarded.

There are a number of claims (20) from part-time workers claiming backdated membership of the Local Government or Teacher's Pension Scheme. Of the 20, 14 are likely to succeed in part or full, and the remainder are likely to fail. The cost to the Council, if cases are lost or settled, is calculated by the application of a complicated formula. Any costs resulting from these claims are met by an increase in the Council's contribution to the Pension Scheme.

**Education**

There are 2 cases. The Council has conceded one claim and is likely to incur costs of £18k. Legal costs in excess of £10k could be incurred on the other case if KCC fails.

**Immigration**

There are 2 cases which if successful could result in the Council incurring legal costs in excess of £10k.

**Contract**

There are two contract claims on which KCC could incur legal costs of £10k each. In relation to one of these the claimant is seeking damages in excess of £0.25m. Whilst chances of success are assessed as being good a risk remains that significant damages may be awarded.

**Construction & Technology**

There are 2 claims against architects to recover losses which amount to several million pounds. The prospects are assessed to be very good and in one of the cases compensation of £315k has already been received.



**30. Cash flow Grant analysis**

<b>Revenue Grants</b>	2007-08	2006-07
	£'000	£'000
Department for Children Schools and Families	299,350	231,760
Department of Health	44,689	29,745
Home Office	9,804	7,582
Department for Transport	52	59
European Community	1,047	563
Department for Communities and Local Government	62,338	61,615
Cabinet Office	78	274
Department for Environment, Food and Rural Affairs	1,046	663
Department for Work and Pensions	178	151
Seedca - South East England Development Agency	857	17
Department for Culture, Media & Sport	188	44
Department for Business Enterprise & Regulatory Reform	104	
NOF - New Opportunities Fund (Lottery)	96	375
	<b>419,827</b>	<b>332,848</b>
<b>Capital Grants</b>		
Department for Children Schools and Families	75,016	42,940
Department for Transport	21,244	4,535
Department for Communities and Local Government	8,164	12,710
Department of Health	2,539	833
Lottery and other	2,536	6,261
	<b>109,499</b>	<b>67,279</b>

**31. Reconciliation of revenue surplus to revenue cashflow**

	2007-08	2006-07
	£'000	£'000
Surplus(-)/Deficit for the year	0	0
<b>Non-cash transactions</b>		
Minimum revenue provision and amounts set aside from revenue	-40,051	-36,231
Contributions to reserves	-23,089	-19,890
Contributions to provisions	-2,957	337
	<b>-66,097</b>	<b>-55,784</b>
<b>Items on an accruals basis</b>		
Increase/decrease(-) in revenue debtors	-10,372	-2,084
Increase(-)/decrease in revenue creditors	-4,383	-27,083
Increase/decrease(-) in stocks	-515	-904
	<b>-81,367</b>	<b>-85,855</b>
<b>Items shown later in the cashflow statement</b>		
Servicing of finance	-39,239	-41,097
Net cashflow from revenue activities	<b>-120,606</b>	<b>-126,952</b>

**32. Reconciliation of movement in cash to the movement in net debt**

	<b>Balance 1 April 2007</b>	<b>Balance 31 Mar 2008</b>	<b>Movement in the year</b>
	£'000	£'000	£'000
Cash overdrawn	-27,957	-108,383	<u>80,426</u>
<b>Decrease in cash</b>			<b>80,426</b>
Debt repayable within 1 year	-38	-35	3
Debt repayable after 1 year	-952,365	-1,002,596	-50,231
Current investments	268,059	384,545	<u>116,486</u>
<b>Increase in net debt</b>			<b>66,258</b>

**33. Definition of Liquid Resources**

Liquid resources have been defined as the short term investments that are disclosed on the face of the balance sheet.

**Trust Funds**

Kent County Council is responsible for the application of income from Trust Funds which have been provided from gifts and legacies for items such as school prizes. In accordance with the recommendations of the Charities Commission these are not consolidated into the Council's accounts and are instead separately managed and subject to appropriate independent review.

**Balance Sheet at 31 March**

	2007-08	2006-07
	£	£
<b>Current assets</b>		
Investments	41,992	46,241
Debtors	681	902
Cash	89,600	101,612
	<u>132,273</u>	<u>148,755</u>
<b>Represented by</b>		
Trust funds -		
Capital	-37,349	-45,115
Revenue	-94,924	-103,640
	<u>-132,273</u>	<u>-148,755</u>

**34. Local Area Agreement**

The council is a participant in a LAA – a partnership with other public bodies involving the pooling of government grants to finance work - towards jointly agreed objectives for local public services. In 2007-08, the LAA has completed the third year of its three-year agreement.

The purpose of the LAA is:

- To form an agreement between the Kent Partnership, Government (represented by the Government Office of the South East), and other external agencies, to ensure that together we achieve the 2006 vision in the Sustainable Community Strategy (The Vision for Kent)
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement
- To improve the effectiveness and efficiency of public services in Kent by pooling and aligning funding streams.

The LAA partners are:

- local government bodies – Kent County Council, Ashford Borough Council, Canterbury City Council, Dartford Borough Council, Dover District Council, Gravesham Borough Council, Maidstone Borough Council, Medway Council, Sevenoaks District Council, Shepway District Council, Swale Borough Council, Thanet District Council, Tonbridge and Malling Borough Council, Tunbridge Wells Borough Council, South East England Development Agency
- community protection authorities – Kent Fire and Rescue Service, Kent Police, Kent Probation, Ashford Community Safety Partnership, Safer Community Partnership Canterbury, Dartford Crime and Disorder Reduction Partnership, Dover Crime and Disorder Reduction Partnership, Gravesham Crime and Disorder Reduction Partnership, Safer Maidstone Partnership, Sevenoaks Community Safety Partnership, Shepway Crime and Disorder Reduction Partnership, Swale Crime and Disorder Reduction Partnership, Thanet Crime and Disorder Reduction Partnership, Tonbridge and Malling Crime and Disorder Reduction Partnership, Tunbridge Wells Safer Community Partnership
- health bodies – West Kent Primary Care Trust, Eastern and Coastal Kent Primary Care Trust
- learning bodies – Kent and Medway Learning and Skills Council, University of Kent
- voluntary organisations – Kent Council for Voluntary Youth Services, East Kent Council for Voluntary
- other partners – Kent Invicta Chamber of Commerce, Creative Foundation, Pfizer, Natural England, Saga, Environment Agency, Port of Dover, Federation of Small Businesses, Kent Economic Board, Job Centre Plus, Land Securitas, North West Kent Racial Equality Council, Churches Together in Kent, Kent Association of Parish Councils, Business Link Kent

Kent County Council acts as the accountable body for the LAA. This means that we are responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the Council does not determine which bodies are due payments - this is determined either by the Government Office or the partnership. In this context, the council acts as an agent to the partnership and has therefore not recognised the full amount of the LAA Grant in its financial statements, but only that part to be spent by the Council in providing services.

The total amount of LAA Grant received by the LSP in 2007/08 is £19.7m. The council received £14.5m of this total to fund its own services.

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems are in place for distributing the grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

**35. Financial Instruments**

**Financial Instrument Balances**

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long Term		Current	
	31 Mar 2007	31 Mar 2008	31 Mar 2007	31 Mar 2008
	£'000	£'000	£'000	£'000
Financial liabilities (principal amount) This is the actual value of the loan, not arising from any adjustments	952,365	1,002,453	0	0
Financial liabilities at amortised cost	<u>965,569</u>	<u>1,017,057</u>		
Financial liabilities at fair value through the I&E	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total borrowings</b>	<b><u>965,713</u></b>	<b><u>1,017,057</u></b>		
Loans and receivables (principal amount) This is the actual value of the loan, not arising from any adjustments	153,058	116,000	115,000	269,545
Loans and receivables	120,860	121,094	155,321	273,349
Financial Assets at fair value through the I	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unquoted equity investment at cost	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Investments</b>	<b><u>120,860</u></b>	<b><u>121,094</u></b>	<b><u>155,321</u></b>	<b><u>273,349</u></b>

## Notes to the Core Financial Statements

### Financial Instruments Gains / Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows

	<b>Financial Liabilities</b>	<b>Financial Assets</b>	
	Liabilities measured at amortised cost £000	Loans and receivables £000	Total £000
Interest expense			
Losses on derecognition			
Impairment losses	0	-811	-811
<b>Interest payable and similar charges</b>	<b>0</b>	<b>-811</b>	<b>-811</b>
Interest income			
Gains on derecognition	0	0	0
<b>Interest and investment income</b>	<b>0</b>	<b>0</b>	<b>0</b>
Gains on revaluation	0	0	
Losses on revaluation	0	0	
Amounts recycled to the I&E account after impairment	0	0	
<b>Surplus arising on revaluation of financial assets</b>	<b>0</b>	<b>0</b>	
<b>Net gain/(loss) for the year</b>	<b>0</b>	<b>-811</b>	

This relates to the impairment of Soft Loans and the re-measurement of the fair value of the guarantee for Kings

## Notes to the Core Financial Statements

### Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

£000	31 March 2008		31 March 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
PWLB debt	661,225	781,580	677,193	761,894
Non-PWLB debt	355,832	385,819	288,376	273,481
Total debt	1,017,057	1,167,399	965,569	1,035,375
Trade Creditors	56,921	56,921	49,515	49,515
<b>Total financial liabilities</b>	<b>1,073,978</b>	<b>1,224,320</b>	<b>1,015,084</b>	<b>1,084,890</b>

The fair value is greater 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 in the market at the balance sheet date.

Money market loans <1 year	273,349	273,349	155,321	155,321
Money market loans >1 year	124,333	121,093	120,663	120,860
Bonds				
Trade debtors	7,442	7,442	9,443	9,443
<b>Total loans and receivables</b>	<b>405,124</b>	<b>401,884</b>	<b>285,427</b>	<b>285,624</b>

The differences are attributable to fixed interest instruments payable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result the fair value figures for 31 March 2008 are relatively higher (more costly to redeem) than the 31 March 2007 comparators.

The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

### Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- 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;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
  - o The Council's overall borrowing;
  - o Its maximum and minimum exposures to fixed and variable rates;
  - o Its maximum and minimum exposures the maturity structure of its debt;
  - o Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

## Notes to the Core Financial Statements

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 Mar 2008 £000	Historical experience of default %	Adjustment for market conditions at 31 Mar 08 %	Estimated maximum exposure to default £000
	(a)	(b)	(c)	(a*c)
Deposits with banks and financial institutions				
AAA rated counterparties	39,011	0.000%	0.000%	0
AA rated counterparties	182,338	0.007%	0.007%	13
A rated counterparties	163,196	0.010%	0.010%	16
Other counterparties	0	0	0.627%	0
Bonds - AAA rates	0	0	0.001%	0
Trade debtors	7,442	2.000%	2.000%	149
	<b>391,987</b>			<b>178</b>

The Council does not generally allow credit for its trade debtors, as such £1.047m of the £7.4m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than three months	491
Three to six months	183
Six months to one year	19
More than one year	354
	<b>1,047</b>

Collateral – During the reporting period the council held no collateral as security.

**Liquidity risk**

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well through cash flow management procedures required by the Code of Practice.

**Refinancing and Maturity Risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	<u>£000</u>
Less than one year	35
Between one and two years	35
Between two and six years	30,091
Between six and fifteen years	240,199
More than fifteen years	732,271
	<u><b>1,002,631</b></u>

The maturity analysis of financial assets is as follows:

	<u>£000</u>
Less than one year	268,545
Between one and two years	34,000
Between two and three years	29,000
More than three years	53,000
	<u><b>384,545</b></u>

### Market risk

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise;
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and effect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

All the Council's liabilities and assets are at fixed rates and so will not be affected by changes in interest rates. Neither does the Council hold investments that could lose capital value. Nevertheless through its Treasury Management Strategy the Council takes full cognizance of the impact changes in interest rates will have on the overall financing costs of the Council

**Price Risk** - The Council, excluding the pension fund, does not generally invest in equity shares but does have shareholdings to the value of £2m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the STRGL. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £100,000 gain or loss being recognised in the STRGL for 2007/08.

**Foreign exchange risk** - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

## Pension Fund Accounts

This is an extract from a more detailed published statement, a copy of which is available for inspection at County Hall. Further information about the Pension Fund Accounts can be obtained from Nick Vickers, Head of Financial Services. Telephone Maidstone (01622) 694603 or e-mail [nick.vickers@kent.gov.uk](mailto:nick.vickers@kent.gov.uk).

Under the provisions of the consolidated Local Government Pension Scheme Regulation 1997, 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 (unitary authority), the district councils in Kent and of other employing bodies established within the county area. Teachers are not included as they have their own national pension scheme.

The Fund is maintained by investing in stock market securities, both in this country and overseas, and in real property and property units trusts within the UK and overseas. For 2007-08 contributions are made to the fund by employees at the rate of 6% of their pensionable remuneration for officers and new members of the scheme. Existing manual staff entitled to pay 5% will continue to contribute at 5% whilst they remain in continuous employment in the same capacity. From 2008-09 employees' contribution rates range from 5.5% to 7.5% of pensionable pay, determined by a seven tier structure based on the level of whole-time pensionable pay as at 1 April in each year. The rate of employer's contribution is determined by the Fund's actuary 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 20 years for Local Authority employers and average future working life time for other employers in the Fund.

A triennial valuation of the Fund was carried out as at 31 March 2007 and this set Kent County Council's employer contribution rate at 23.1% of payroll for the three year period commencing 1 April 2008.

The market value of the Fund's assets at the valuation date was £2,573m representing 73% of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows -

Valuation of assets:-	assets have been valued at a 12 month smoothed market value
Rate of return on investments	6.1% p.a.
Rate of general pay increases:-	4.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-	3.2% p.a.

The main result of this valuation was to show that the funding level had increased from 63% to 73%.

The next actuarial valuation is due as at 31 March 2010 and any change in employer contribution rates as a result of that valuation will take effect from 1 April 2011.

The Fund has been accepted by the Inland Revenue 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 investment income, underwriting commission and gains on selling transactions. By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

## Pension Fund Accounts

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - a Statement of Recommended Practice (revised November 2002). However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

A small part of the daily cash balance of the Fund awaiting investment is used by the County Council as part of its temporary borrowing requirements. The regulations require that interest on such balances be credited to the Fund at not less than 7 days notice money market rates. The remaining cash is split between Investment Fund Managers, who hold it on deposit for interest until required.

Employing Bodies. These 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 may be either voluntary, charitable or similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

As required by statute the council has approved a Statement of Investment Principles. It was prepared with assistance from the Fund's Investment consultants Hymans Robertson and after consultation with interested parties. It provides the basis for the future development of the Committee's principles for managing the investments of the Fund. The statement will be subject to review by the Committee on a biennial basis. A Funding Strategy Statement is a requirement of the LGPS regulations. The statement defines how solvency and risks will be managed having regard to the liability to pay pensions now and in the future. The Funding Strategy Statement complements and adds to the Statement of Investment Principles. Both documents are available on the Authority's website [www.kent.gov.uk](http://www.kent.gov.uk). Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

### Summary of Main Accounting Policies:

1. The Pension Fund Accounts are accounted for on an accruals basis for income and expenditure with the exception of transfers in and out, which are accounted for on a cash basis.
2. No account is taken of the long term liabilities to pay pensions and other benefits after the period end.
3. Administrative costs of paying pensions, allowances and other benefits, maintaining employees' records, arranging transfer values etc. are borne by the Fund. Costs relating to the investment of the Fund are also charged in this way.
4. Fees in respect of investment management, including custody, are calculated as a percentage of the value of the investments under management.
5. Quoted investments are stated at market value based on the middle market quotation on the relevant stock exchange ruling on 31 March 2008. Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investment. Unquoted investments are valued by the fund managers at the year end in accordance with generally accepted guidelines.
6. Industrial and Commercial properties were valued at open market prices as at 31 December 2007 and then indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2008.
7. Assets and liabilities held in foreign currency are translated into sterling at exchange rates ruling at the year end. Differences arising on the translation of investments are included in investment gains. All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.
8. Dividends, rents and cash deposits have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Foreign income has been translated into sterling at the rate ruling at the date of the transaction. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

## **Pension Fund Accounts**

9. Normal contributions from County Council members are accounted for in the payroll month to which they relate, contributions from members of other employers are accounted for on a received basis. All contributions are at rates as specified in the rates and adjustments certificate. Payment of pensions and pensions increases are accounted for on an accruals basis. Lump sum payments are accounted for on the date of retirement or on death. Transfer values into and out of the Fund, return of contributions and other intermittent transactions are not dealt with on an accruals basis but are included in the accounts when the transactions occur.

## Pension Fund Accounts

### Fund Account for the year ended 31 March 2008

	Notes	2008		2007
		£'000	£'000	£'000
<b>Contributions and Benefits</b>				
<b>Contributions Receivable:</b>				
From employers	1	158,769		149,772
From employees	1	42,163		40,217
<b>Transfers In</b>	2	<u>15,292</u>		<u>14,101</u>
			216,224	204,090
<b>Benefits Payable</b>				
Pensions	3	-106,080		-99,479
Lump Sums	3	-27,632		-24,102
<b>Payments to and on account of leavers</b>				
Refunds of contributions		-2		-30
Transfers Out	4	-10,559		-10,655
<b>Administrative &amp; other expenses borne by the schen</b>	5	<u>-2,768</u>		<u>-2,472</u>
			-147,041	-136,738
<b>Net additions/withdrawals(-) from dealings with Members</b>			<u>69,183</u>	<u>67,352</u>
<b>Returns on Investments</b>				
Investment Income	6	67,125		68,964
Change in Market Value of Investments	7	-213,213		69,300
Overseas Irrecoverable Taxation		-1,193		-958
		<u>-147,281</u>		<u>137,306</u>
<b>Investment Management Expenses</b>				
Investment Managers		-6,125		-5,738
Actuarial (Investment Consultancy)		-44		-11
Performance Measurement		-60		-49
Other expenses		-215		-326
		<u>-6,444</u>		<u>-6,124</u>
<b>Net Return on Investments</b>			-153,725	131,182
<b>Net increase/decrease(-) in Fund during the year</b>			<u>-84,542</u>	<u>198,534</u>
<b>Opening Net Assets of the Scheme at 1st April</b>			2,573,640	2,375,106
<b>Closing Net Assets of the Scheme at 31st March</b>			<u>2,489,098</u>	<u>2,573,640</u>

## Pension Fund Accounts

### Net Assets Statement as at 31 March 2008

	Notes	2008		2007	
		£'000	£'000	£'000	£'000
<b>Investments at Market Value</b>	7				
Fixed Interest Securities					
- Public		111,139		88,363	
- Other		111,325		63,673	
			222,464		152,036
Equities					
- UK		580,613		856,498	
- Overseas		572,448		585,815	
			1,153,061		1,442,313
Pooled Investment Vehicles					
- UK		429,135		218,208	
- Overseas		273,033		287,449	
- Property		55,633		26,016	
			757,801		531,673
Property - Freehold			201,087		230,183
Global Tactical Asset Allocation			0		100,912
Cash Deposits			18,508		61,900
Other Investments			10,375		11,329
			2,363,296		2,530,346
Current Assets and Liabilities	8		125,802		43,294
<b>Net Assets</b>			2,489,098		2,573,640

## Notes to the Pension Fund Account

### 1. Contributions Receivable

		2008	2007
		£'000	£'000
<b>From Employers</b>	Normal	152,235	138,547
	Special (Early Retirements recoverable costs)	6,534	11,225
		<b>158,769</b>	<b>149,772</b>
<b>Analysis of Employers' Contributions</b>	Kent County Council	75,040	68,964
	Scheduled Bodies	74,160	71,356
	Admitted Bodies	9,569	9,452
		<b>158,769</b>	<b>149,772</b>
		2008	2007
		£'000	£'000
<b>From Employees</b>	Kent County Council	18,780	18,064
	Scheduled Bodies	20,901	19,657
	Admitted Bodies	2,388	2,384
	Lump Sum Contributions	94	112
		<b>42,163</b>	<b>40,217</b>
<b>Note:</b>	As at 31 March the comparative numbers of members are:	2008	2007
	Kent County Council	21,722	20,304
	Scheduled Bodies	18,938	18,368
	Admitted Bodies	1,853	1,914
		<b>42,513</b>	<b>40,586</b>

### 2. Transfers In

	2008	2007
	£'000	£'000
Individual	15,292	14,101
Bulk	0	0
	<b>15,292</b>	<b>14,101</b>

### 3. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2008	2007
	£'000	£'000	£'000	£'000	£'000
<b>Pensions</b>					
Retirement pensions	32,837	34,411	3,151	70,399	66,936
Widows' pensions	2,070	2,690	224	4,984	4,610
Children's allowances	79	115	9	203	177
Pensions increase	16,205	17,815	859	34,879	32,078
Less benefits recovered directly from employing authorities	0	-4,261	-124	-4,385	-4,322
	<b>51,191</b>	<b>50,770</b>	<b>4,119</b>	<b>106,080</b>	<b>99,479</b>
<b>Lump Sums</b>					
Retirement (Lump Sums)	11,825	11,784	1,391	25,000	22,229
Death gratuities	1,431	1,050	151	2,632	1,873
	<b>13,256</b>	<b>12,834</b>	<b>1,542</b>	<b>27,632</b>	<b>24,102</b>

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

## Notes to the Pension Fund Account

### 4. Transfers Out

	2008	2007
	£'000	£'000
Individual	10,559	10,655
Bulk	0	0
	<u>10,559</u>	<u>10,655</u>

### 5. Administrative and other Expenses borne by the Scheme

	2008	2007
	£'000	£'000
Internal Administration	2,442	2,131
Actuarial Fees	239	166
Audit Fee	61	67
Legal and Other Professional Fees	16	85
Other miscellaneous expenses	10	23
	<u>2,768</u>	<u>2,472</u>

### 6. Summary of Income from Investments

	2008		2007	
	£'000	%	£'000	%
Fixed Interest				
- UK	8,543	12.73	8,381	12.15
- Overseas	1,529	2.28	864	1.25
Equities				
- UK	23,597	35.15	34,241	49.65
- Overseas	12,948	19.29	11,236	16.31
Pooled Investment Vehicles				
- UK	2,442	3.64	320	0.46
- Overseas	1,311	1.95	618	0.90
- Property	1,257	1.87	664	0.96
Property - Freehold	10,354	15.42	10,435	15.13
Total Income From Investments	<u>61,981</u>	<u>92.33</u>	<u>66,759</u>	<u>96.81</u>
Currency Deposit Accounts	213	0.32	36	0.05
Cash Balances	4,673	6.96	2,147	3.11
Sub-Underwriting Commission/other	38	0.06	22	0.03
Stock Lending	220	0.33		
Total	<u>67,125</u>	<u>100.00</u>	<u>68,964</u>	<u>100.00</u>

## Notes to the Pension Fund Account

### 7. Analysis of Change in Market Value of Investments

	Market Value 31.03.07 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	31.03.08 £'000
<u>Fixed Interest Securities</u>					
- UK Public	72,331	26,481	-25,472	737	74,077
- Index Linked	0	0	0	0	0
- UK quoted	93,267	17,946	-22,351	-4,179	84,683
- UK future contracts	12,290	175,104	-152,921	920	35,393
- Overseas Public	3,742	2,635	-4,792	84	1,669
- Overseas quoted	14,906	17,776	-1,371	-1,214	30,097
- Overseas future contracts	-44,500	740,832	-694,610	-5,177	-3,455
<u>Equities</u>					
- UK quoted	856,398	113,923	-317,845	-72,079	580,397
- UK future contracts	100	851	-735	0	216
- Overseas quoted	580,168	248,863	-243,174	-13,911	571,946
- Overseas unquoted	3,897	0	-3,074	-823	0
- Overseas future contracts	1,750	5,596	-6,804	-40	502
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	53,492	36,500	-51,062	-4,885	34,045
- Overseas	167,768	5,771	0	-13,080	160,459
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	145,911	2,232	0	5,857	154,000
- UK	18,805	329,573	-79,533	-27,755	241,090
- Overseas	119,681	3,423	0	-10,530	112,574
- Property	25,134	3,678	0	-4,010	24,802
- Property Overseas	882	22,404	0	7,545	30,831
Property - Freehold	230,183	92	-7,500	-21,688	201,087
Global Tactical Asset Allocation	100,912	0	-50,520	-50,392	0
	<u>2,457,117</u>	<u>1,753,680</u>	<u>-1,661,764</u>	<u>-214,620</u>	<u>2,334,413</u>
<u>Cash</u>					
- Cash Deposits	31,140			1,407	50,583
- Cash backing open future contracts	30,760				-32,075
<u>Other Investments</u>					
- Debtors - Outstanding Sales	1,397				4,813
- Creditors - Outstanding Purchases	-2,979				-4,984
- Profit/Loss on Forward Currency	659				-362
- Investment Income Accruals	12,252				10,908
Total	<u>2,530,346</u>			<u>-213,213</u>	<u>2,363,296</u>

The following reflects the monetary and percentage split of the investments of the Fund at 31 March 2008 and previous year comparisons.

	2008		2007	
	£'000	%	£'000	%
Alliance Bernstein	258,938	11.0	277,548	11.0
Baillie Gifford	395,473	16.8	379,086	15.1
DTZ	257,408	10.9	256,994	10.2
GMO	160,459	6.8	167,768	6.7
Goldman Sachs	196,320	8.3	289,352	11.5
Henderson	11,147	0.5	9,485	0.4
Invesco	237,034	10.1	0	0.0
MLIM (Transition)	1,402	0.1	938	0.0
Schroders	662,369	28.1	688,009	27.3
Société Générale	170,622	7.3	448,594	17.8
YFM	1,577	0.1	236	0.0
	<u>2,352,749</u>	<u>100.0</u>	<u>2,518,010</u>	<u>100.0</u>

## Notes to the Pension Fund Account

### 8. Current Assets and Liabilities

	2008		2007	
	£'000		£'000	
Cash	120,676		37,910	
Contributions due from				
-Scheduled Bodies	10,325	7,536		
- Admitted Bodies	389	1,198		
	10,714		8,734	
Other Debtors	747		658	
Benefits payable	-4,133		-1,206	
Other Creditors	-2,202		-2,802	
Total	125,802		43,294	

### 9. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. The AVC provides secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The sum deducted from KCC members and paid over to the AVC providers was: £812,503 (£568,556 in 2006-07). These amounts are included within the disclosure note figures below.

The policy with Equitable Life has an anniversary date of 30 September. Equitable Life has not previously been able to provide financial statements for 31 March year end dates. The information has been provided for the first time for the financial year end 31 March 2008. The last value of funds provided by Equitable Life was £1,642,978 as at 30 September 2006.

The disclosure is set out below, with comparative figures for Prudential and Standard Life.

	Prudential		Standard Life		Equitable Life
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000
Value at 1 April	2,292	2,180	2,118	1,932	1,594
Income					
Contributions Received	425	204	178	176	18
Transfer Values Received	90	106	11	4	
Interest & bonuses	124	190	0	8	47
Total	639	500	189	188	65
Expenditure					
Retirement Benefits Paid	-130	-250	-257	-171	-168
Transfer Values Paid	-6	-82	-44	-13	-8
Refund of Contributions	-8	-60		0	0
Total	-144	-392	-301	-184	-176
Change in Market Value	-10	4	-4	182	0
Value at 31 March	2,777	2,292	2,002	2,118	1,483

## Notes to the Pension Fund Account

<b>10. Related Party Transactions</b>	2008	2007
	£'000	£'000
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring and other services.	2,442	2,131
Transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable.	616	93

Included within the employer related investment figure of £616,477 are balances due at the year end from the following related parties: Gravesham Borough Council £277,937, Medway Housing Society £101,069, Mid Kent College £80,726, Town & Country Housing Group £32,984, Thanet Leisure Force £22,554, Sevenoaks Leisure Limited £19,952, Robert Napier School £15,911, Active Life Limited £14,955.

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £92,623 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

There were no related party transactions with members or senior officers.

### 11. Contingent Liability

As at 31 March 2008 the Pension Fund has a future commitment to invest in the following Funds:

<b>Fund</b>	<b>Total Commitment</b>	<b>Invested</b>	<b>Outstanding</b>
YFM Private Equity	£4m	£1.7m	£2.3m
Aurora European fund	£25.5m (36.3m euros)	£23.2m (33.4m euros)	£2.3m (2.9m euros)

### 12. Stock Lending

The Pension Fund entered into a stock lending programme with JP Morgan, which started 1 April 2007. As at 31 March 2008, £90.1m of stock was released to third parties. Collateral valued at 119.48% of the market value of the stock on loan was held at that date

**Scheduled Bodies****Local Authority and District Councils**

Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge and Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council

**Schools**

Allington Primary School	Meopham School
All Souls County Primary School	Minster College
Angle School	New Brompton College
Archbishops CE School	Newington Junior School
Aylesford School	Northfleet School for Boys
Barton Court Grammar School	Oakwood Park Grammar School
Bennett Memorial School	Our Lady of Hartley RC Primary School
Borough Green Primary School	Park Farm County Primary School
Bradbourne School	Pent Valley Secondary School
Brockhill Park School	Queen Elizabeth's Grammar School
Canterbury Campus	Rainham Mark Grammar School
Charles Dickens High School	Robert Napier School
Chatham Grammar School for Girls	Rochester Grammar School for Girls
Chatham House Grammar School for Boys	Roseacre Junior School
Chaucer Technology School	Sandwich High School
Cheyne Middle School	Simon Langton Grammar School for Boys
Cranbrook School	Sir Roger Manwood School
Dane Court Grammar School	Skinner's School
Dartford Grammar School for Boys	Snodland County Primary School
Dartford Grammar School for Girls	St Anselm's RC Comprehensive School
Ditton Infant School	St Bartholomew County Primary School
Ditton CE Junior School	St Botolphs County Primary School
Dover Grammar School for Boys	St Edmund of Canterbury Comprehensive
Folkestone School for Girls	St Francis County Primary School
Fulston Manor School, Sittingbourne	St George's School, Broadstairs
Gravesend Grammar School for Boys	St George's School, Gravesend
Gravesend Grammar School for Girls	St Gregory's Catholic Comprehensive
Greatstone County Primary School	St John Fisher RC School
Halfway Houses County Primary School	St John RC Comprehensive
Harcourt County Primary School	St Joseph RC Primary School
Hayesbrook High School for Boys	St Simon Stock School
Herne Bay High School	Stella Maris RC Primary School
Herne Bay Junior School	Sutton at Hone County Primary School
Hillview School for Girls	Thamesview School
Holy Family RC Primary	Thomas Aveling School
Holy Trinity County Primary School, Dartford	Tonbridge Grammar School for Girls
Holy Trinity County Primary School, Gravesend	Tunbridge Wells High School
Homewood School, Tenterden	Westlands School

## Notes to the Pension Fund Account

Horton Kirby County Primary School  
Howard School  
Hugh Christie School  
Larkfield Brookfield Junior School  
Malling School  
Maplesden Noakes School, Maidstone  
Mascalls School

### Further Education Colleges

Canterbury College  
Hadlow College  
Hilderstone College  
Mid Kent College

### Other Scheduled Bodies

Ash Parish Council  
Birchington Parish Council  
Borough Green Parish Council  
Broadstairs and St Peter's Town Council  
Chestfield Parish Council  
Cranbrook Parish Council  
Darenth Parish Council  
Deal Town Council  
Ditton Parish Council  
Dover Town Council  
East Malling and Larkfield Parish Council  
Eastry Parish Council  
Edenbridge Town Council  
Eynsford Parish Council  
Eythorne Parish Council  
Farningham Parish Council  
Faversham Town Council  
Folkestone Town Council  
Great Mongeham Parish Council  
Hartley Parish Council  
Hawkhurst Parish Council  
Hawkinge Parish Council  
Herne & Broomfield Parish Council  
Horton Kirby and South Darenth Parish Council  
Hythe Town Council  
Kent and Essex Sea Fisheries Committee  
Kent and Medway Towns Fire Authority  
Kent Police Authority  
Kent Probation and After Care Committee

### Academies

Cornwallis Academy  
Folkestone Academy  
Leigh Technology Academy  
The Marlowe Academy

Wilderness School  
Willesborough County Primary Junior School  
Wilmington County Primary School  
Wilmington Grammar School for Boys  
Wilmington Grammar School for Girls  
Wincheap County Primary School  
Wrotham School

North West Kent College  
South Kent College  
Thanet College  
West Kent College

Kent Top Temps Limited  
Kent Valuation Tribunal  
Leigh Parish Council  
Longfield and New Barn Parish Council  
Lower Medway Internal Drainage Board  
Margate Charter Trustees  
Minster on Sea Parish Council  
Minster Parish Council  
Otford Parish Council  
Pembury Parish Council  
Ramsgate Charter Trustees  
River Stour Internal Drainage Board  
Romney Marsh Levels Internal Drainage Board  
Sandwich Town Council  
Seal Parish Council  
Sevenoaks Town Council  
Snodland Town Council  
Southborough Town Council  
Staplehurst Parish Council  
Stone Parish Council  
Swanley Town Council  
Swanscombe and Greenhithe Town Council  
Temple Ewell Parish Council  
Tenterden Town Council  
Upper Medway Internal Drainage Board  
West Kingsdown Parish Council  
Westerham Parish Council  
Woodnesborough Parish Council  
Yalding Parish Council

## **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.

### **Best Value 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 Best Value Accounting 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.

### **Credit arrangements**

An arrangement other than borrowing where the use of a capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

### **Deferred charges**

Deferred charges include expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible 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.

## **Glossary of terms**

### **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.

### **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.

### **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.