Statement of Accounts

2015/2016
Statement of Accounts

Kent County Council
kent.gov.uk

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Narrative

The purpose of this Statement of Accounts (Accounts) is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information on the financial performance for the year 2015-16 and the overall financial position of the Council.

The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom (the Code). To make the document as useful as possible to its audience and make more meaningful comparisons between authorities, the Code requires:

- all Statements of Accounts to reflect a consistent presentation;
- interpretation and explanation of the Statement of Accounts to be provided; and
- the Statement of Accounts and supporting notes to be written in plain English

The Statement of Accounts comprises various sections and statements, which are briefly explained below:

- Narrative - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2015-16.
- The Statement of Responsibilities - this details the responsibilities of the Council and the Corporate Director of Finance and Procurement concerning the Council's financial affairs and the actual Statement of Accounts.
- The main Accounting Statements, comprise:

~ The Movement in Reserves Statement (MIRS) - this statement shows the movement in the year on the different reserves held by the Council , analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves', which are held either for statutory purposes or to comply with proper accounting practice. (see pages 14 and 15)

~ The Comprehensive Income and Expenditure Statement (CIES) - this provides a high level analysis of the Council's spending. It brings together all the functions of the Council and summarises all of the resources that the Council has generated, consumed and set aside in providing services during the year. (see pages 16 and 17)

~ The Balance Sheet - this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets/liabilities of the Council (assets less liabilities) are matched by the reserves held by the Council. (see page 18)

~ The Cash Flow Statement - this summarises the changes in cash and cash equivalents of the Council during the reporting period. (see page 19)

- Accounting Policies - notes relating to specific accounting statement lines include the corresponding accounting policy. Note 2 - General Accounting Policies details the policies where there are not accompanying notes.
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view. (See pages 20 to 118)
- The Pension Fund Accounts -the Kent Pension Fund is administered by the Council, however, the Pension Fund has to be completely separate from the Council's own finances. (see pages 119 to 145)
- The Independent Auditor's Report to the Council - this is provided by the external auditors, Grant Thornton LLP, following the completion of the annual audit.
- The Annual Governance Statement - the Council is required to carry out an annual review of the effectiveness of the systems of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2015-16. See pages (150 to 162)

- The accounting arrangements of any large organisation such as Kent County Council are complex, as is local government finance. The Accounts are presented as simply as possible, however it is still a very technical document. A glossary of terms is provided to make the Statement of Accounts more understandable for the reader.

Changes to financial reporting requirements and accounting policies

The Code of Practice is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. These Statement of Accounts for 2015-16 are prepared on an IFRS basis.

The Code of Practice on Local Authority Accounting 2015-16 (the Code) highlights the following most significant key changes in accounting practice:

- A new accounting policy due to the adoption of IFRS 13 Fair Value Measurement - which sets out a single framework for measuring fair value.
- The adoption of IFRS 13 Fair Value Measurement in relation to Property, Plant and Equipment (PPE), the standard states that PPE should be measured at 'highest and best use' rather than existing use. This amendment will impact on the treatment of surplus assets. The accounting policy for PPE has been amended to reflect the introduction of IFRS 13 and the change to measurement of surplus assets.
- The adoption of IFRS 13 Fair Value Measurement has required the Financial Instruments accounting policy to be amended in respect of measurement of Assets-held-for-Sale.
- Amendment to the accounting policy for Joint Operations following the introduction of IFRS 11 Joint Operations. There is no change in how joint operations are accounted for.

Financial Report

Setting the Revenue Budget for 2015-16 - the budget strategy

The Council has continued to be in an era of the greatest financial challenge ever faced by local government. Local government and the wider public sector has had to realign itself to the fiscal reality and manage spending within the available funding. The Council has made £350m of savings between 2011-12 to 2014-15 in response to reduced government funding and the requirement to cover additional spending demands. We are planning for the need to make further savings of a proportionate magnitude over the next 3 years, which will see an unprecedented period of sustained reductions in public spending.

KCC's approved budget for 2015-16 included some significant investments in a number of essential areas, particularly in services which support the most vulnerable. Demand across a range of services has continued to increase, particularly in children's and adult social care, at the same time as funding from Central Government has been reducing. The Council also has had to offset the impact of inflation on goods and services it purchases and we have needed to continue to invest in capital infrastructure. This additional spending coupled with funding reductions from Central Government and limits on the ability to raise Council Tax present a significant challenge to find sustainable savings every year.

Since 2010-11 the Council has delivered significant budget savings without having to make the sort of cuts to services seen in some local authorities. The Council's focus has been to deliver front-line services in a cost effective way and to maximise efficiency savings from reshaping the size and structure of the council. The Council's approach for 2015-16 was to continue to avoid direct cuts to services wherever possible, and further improve the quality of service delivery within the reduced monies available. A key aspect of this involved managing down the demand for KCC services whilst still protecting those for the most vulnerable. Moving forwards the Council needs to challenge even more rigorously spending increases to ensure they can be avoided, that spending will accrue long term benefits and is affordable within the context of further substantial funding restrictions.

Despite the difficult financial climate we have been able to make substantial improvements to the quality of children's services. This has been recognised by OfSTED which has now removed all improvement notices. Having tackled the urgent quality issues we now need to focus attention on putting children's services on a more sustainable financial footing without risking the quality of the service.

Narrative

KCC Adult Social Care (in line with many departments nationally) has experienced a slowdown in demand pressures which goes against the underlying demographic trend of an aging population. This is due to a number of factors including the benefits of early intervention and preventative programmes. The budget was built on the assumption this trend would continue and aimed to build on this through further transformation. This will put an even greater emphasis on making sure clients are assessed quickly and accurately and given the right care packages to enable them to live independent lives for as long as possible. The budget also sought better procurement of services, increased prevention and improved partnership with the NHS to deliver better outcomes at lower cost.

The budget also assumed the Council would be able to see through the review of all other areas of the Council's spending under the 'Facing the Challenge' programme. The budget included over £20m of savings from phase 1 of this programme in the MTFP over the next 3 years.

The budget also sought to continue to make the improvements across all KCC services and focus on those services which are most valued by KCC residents. In particular the budget looked to increase the efficiency savings and make further reductions in reserves so that we can protect those services for the most vulnerable and those services which make the most difference to people's day to day lives.

Risk Strategy

Effective risk management has been essential in ensuring we have been able to deal with the difficult times. The Council need to become less risk averse by managing risks more effectively. Improved links between risk management and the performance management, business planning and business intelligence functions are aimed at ensuring risk management supports the delivery of organisational priorities and objectives.

Our revenue and capital Medium Term Financial Plan (MTFP) covered a three year period and is updated annually and council tax and savings targets will be set over a three year period. The budget is presented in a summary format by Directorate, Service Analysis level and Manager Analysis level including delegations to directors. Work developing the revenue and capital MTFP for 2015-16 began during Summer 2014. The budget setting process involved the Corporate Management Team (CMT) and Cabinet, with the budget being taken to County Council at a number of stages for approval. The final budget was approved at County Council in February 2015.

Revenue Strategy

The overall revenue strategy was based on the following key elements:

- Funding estimate - Government Grants, Council Tax and Business Rates
- Spending demands
- Savings and income requirements
- Consultation and engagement

Funding Estimate

Our 2015-16 revenue budget income came from these principal sources:

- From Government - Revenue Support Grant, Business Rate Top-up, Business Rate Compensation Grant, New Homes Bonus and specific and other grants.
- From Residents - Council Tax.
- From Business - Local share of Business Rates.
- From Goods and Services - receipts from service users.

Narrative

The funding estimate for 2015-16 was £916.5m, a reduction of £23.8m from the 2014-15 budget, details of the funding estimate including 2014-15 budget, for comparator purposes, are detailed in the table below:

	2014-15 Budget £'000	2015-16 Estimate £'000	Movement £'000
Council Tax			
Tax Base (incl previous year tax increase)	518,787	538,290	19,503
Assumed annual increase	10,338	10,744	406
Collection Fund Balance	4,018	7,079	3,061
Local Share of Business Rates			
Business Rates	46,924	49,227	2,303
Business Rates Collection Fund (deficit)	-1,236	451	1,687
Un-ring fenced grants			
Revenue Support Grant	213,092	161,005	-52,087
Business Rate Top-Up	120,634	122,939	2,305
Business Rate Compensation Grant	2,000	3,342	1,342
New Homes Bonus	6,610	7,886	1,276
Education Services Grant	17,000	13,750	-3,250
Other Grants	2,146	1,766	-380
Total	**940,313**	**916,479**	**-23,834**

- The outcome of the Spending Round 2013 indicated a reduction in baseline funding for local authorities of 13.2%. The reduction was due to the creation of new funding streams as well as the expansion of New Homes Bonus which were funded out of the overall settlement for local government. A number of other grants were allocated separately by the Department of Communities and Local Government.

- The Autumn Budget Statement in 2014 announced that business rates would only be increased by 2% in 2015-16 (instead of the 2.3% September RPI). The Local Government Finance Settlement included the impact of this lesser increase in the baseline of the retained share of business rates and the business rate top-up. We have been compensated by an additional un-ring-fenced grant.

- Council Tax - the final tax base from district councils showed a 1.7% increase over 2014-15. Initial analysis showed that the expected increase was due to a combination of more households being included on the valuation list and fewer discounts being applied.

- For residents there has been an increase in the County Council's element of the council tax for 2015-16 up to the 2% referendum limit (1.99%)

Spending Demands

Forecasts for spending demands were based upon a combination of in year monitoring of budgets, and estimates for the impact of anticipated changes over the forthcoming year. The impact of needing to replace one-off actions from reserves and underspends, agreed as part of setting the 2014-15 budget, were also shown as additional spending demand.

The final budget showed £83.6m of additional spending demands in 2015-16, the breakdown of spending demands is as follows:

- £11.4m as a result of pay and price rises.
- £27.8m arising from government and legislation decisions.
- £18.8m arising from additional demand and demographic changes.
- £12.6m to replace one-off savings in the previous year.
- £8.3m for local decision to improve services and assets.
- £4.7m for other minor demands.

Narrative

Savings and Income

Over the past few years the Council has had to make unprecedented levels of savings to offset the impact of reduced government funding and meeting the cost of additional spending demands. This trend has continued throughout the current MTFP and beyond. The final MTFP identified the need for £107.4m of savings and income in 2015-16, the main savings and income generation are as follows:

- £4.2m income generation including an increase in Social Care Charges in line with benefits uplift and an increase in trading income from schools, academies, other local authorities and public bodies.
- £24.3m increases in Grants and Contributions.
- £29.4m from efficiency savings.
- £27.3m from Transformation Savings.
- £22.2m from Financial and Policy savings.

Revenue Budget and Outturn

In February 2015 the Council approved a net revenue budget for 2015-16 of £916.479m. In addition £10.909m of 2014-15 underspending was rolled forward and added to the budget. During the year, there were some adjustments to our funding levels, totalling an additional £3.627m, largely one-off, which was also added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

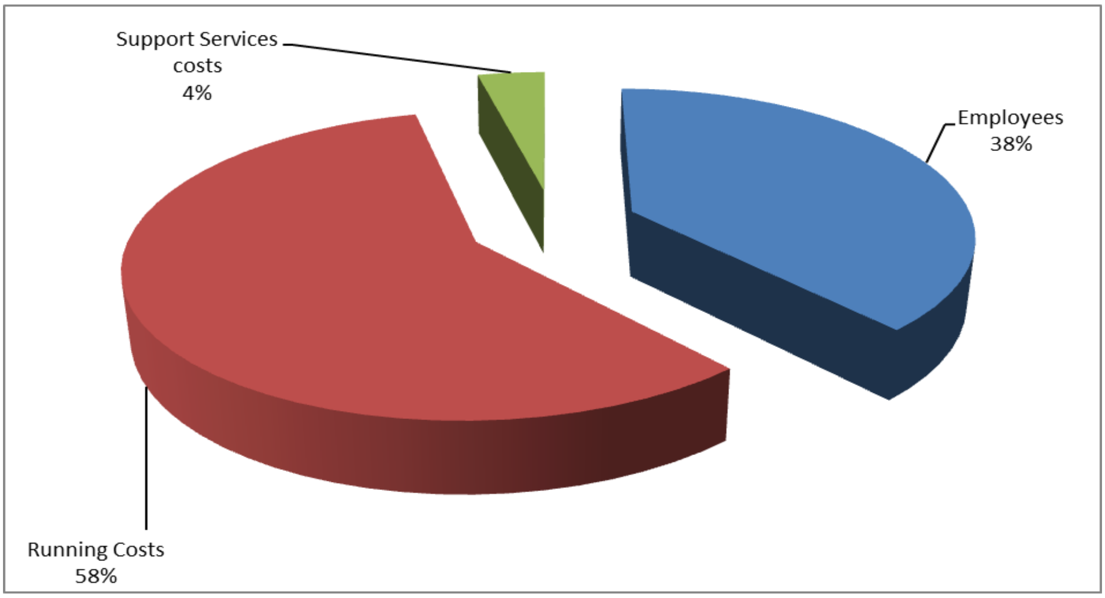
DIRECTORATE	Budget	Outturn	Variance
	£000's	£000's	£000's
Education & Young People	54,967	53,887	-1,080
Social Care, Health & Wellbeing:			
- Specialist Children's Services	133,365	132,295	-1,070
- Adult Social Care	343,073	347,868	4,795
- Public Health	0	0	0
Growth, Environment & Transport	173,518	170,790	-2,728
Strategic & Corporate Services	72,475	69,195	-3,280
Financing Items	153,617	149,167	-4,450
	931,015	923,202	-7,813
Delegated Schools Budgets	0	6,967	6,967
	931,015	930,169	-846
FUNDED BY:-			
Reserves	-10,909	-10,909	0
Formula Grant	-161,005	-161,005	0
Council Tax	-556,113	-556,113	0
Retained Business Rates incl retained levy	-51,155	-51,107	48
Business Rate Top Up	-122,939	-122,939	0
Business Rate Compensation Grant	-3,321	-3,321	0
Business Rates Flood Relief Grant	0	0	0
Small Business Rate Compensation Grant	-1,371	-1,154	217
New Homes Bonus Grant & Top Up	-7,886	-7,880	6
Education Services Grant	-14,550	-14,618	-68
Local Services Support Grant	-1,766	-1,766	0
Total Funding	-931,015	-930,812	203
NET OUTTURN POSITION	0	-643	-643

Narrative

The net underspending within the directorates of £7.610m, being £7.813m less £0.203m funding variance (excluding £6.967m delegated schools overspend) has been carried forward and will be added to the 2016-17 budget to support the re-scheduling of projects and to fund County Council and Cabinet decisions affecting the 2016-17 and future year's budgets.

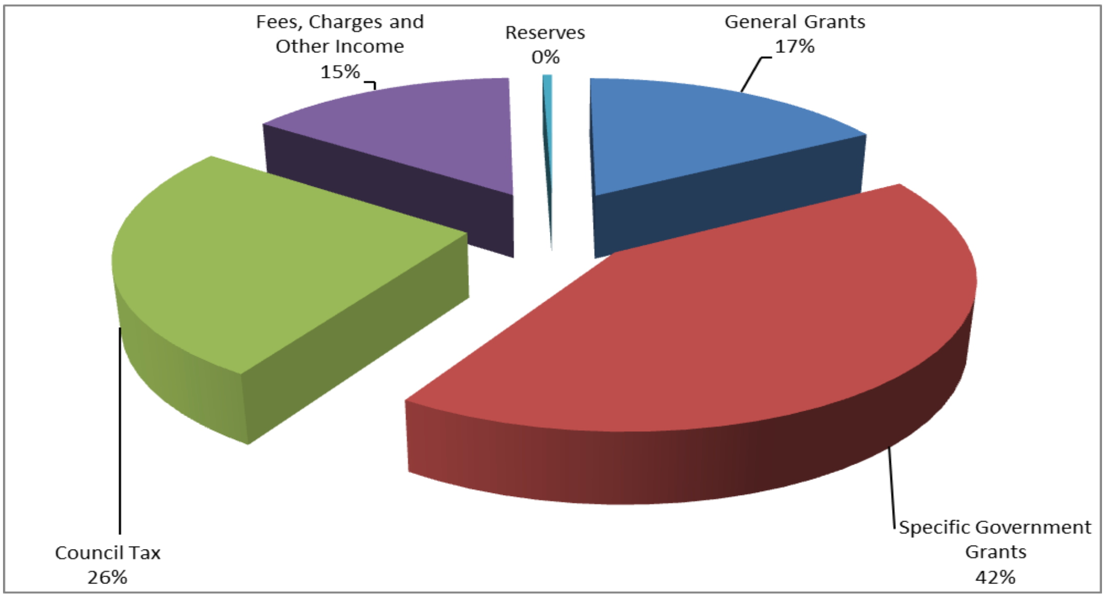
The charts below present a breakdown of the figures shown in the table above:

What the money is spent on



Employees costs account for 38% (40% in 2014-15) of the Council's expenditure. Running costs including cost of premises, transport, supplies and services and third party payments account for 58% (58% in 2014-15) of the expenditure.

Where the money came from



42% of our income came from Specific Government Grants (42% in 2014-15), 26% of our income came from residents through council tax (25% in 2014-15), 17% of our income came from general grants, including business rates (19% in 2014-15), and 15% of our income came from users of our services (13% in 2014-15)

Schools

In total, schools overspent against their delegated budgets by £2.930m, which has been drawn down from school reserves. This includes a £1.309m drawdown from school reserves as a result of 12 schools converting to new style academy status which allows them to take their reserves with them, and a £1.621m overspend against delegated budgets for the remaining Kent schools. In addition, there was £4.037m of overspending on the unallocated schools budget, largely due to £2.103m to fund the net deficits of closing schools; £0.635m for schools ICT; £1.200m for school improvement collaborations and other minor variances of £0.099m.

In addition, there is a further movement in the unallocated schools budget reserves of £0.681m as a result of a net underspend on Early Years Education of £0.373m which is due to an underspend on the Early Years Pupil Premium for disadvantaged three and four year olds, together with an overspend due to higher than affordable levels of parental demand for places for two year olds; this is more than offset by a net overspend on High Needs Education of £1.054m. Both Early Years and High Needs Education are funded by Dedicated Schools Grant, so any under or overspending must be carried forward, via the unallocated schools budget reserve, in accordance with Government regulations.

Schools reserves, including the unallocated schools budget reserves, have therefore reduced by £7.648m in 2015-16, as reflected in note 21 on page 72. Schools now have some £39.510m of revenue reserves and there is £6.851m of unallocated schools budget reserves.

Earmarked Reserves

The financial statements set out the detail and level of the Council's earmarked reserves. Earmarked reserves are an essential tool that allows the Council to manage risk exposure and smooth the impact of major costs. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement, and regard to LAAP 99: Local Authority Reserves and Balances.

Revenue earmarked reserves are £164.514m and Note 23 on pages 81 to 86 provides an explanation of the purpose of each significant reserve along with the balance held at 31 March 2016. The general reserve position at 31 March 2016 is £37.213m, which is an increase of £2.488m from the position as at 31 March 2015 recognising our increased financial risk in a climate of reducing Government funding levels and increasing demand for services such as social care.

At 31 March 2016 the Council has usable capital reserves of £74.856m as shown on page 72.

Certain reserves are held to manage the accounting processes for such items as capital assets, collection fund and retirement benefits and these are unusable reserves of the Council. The Council also has a number of provisions set aside to meet known liabilities. The main provisions are for insurance claims and redundancies. Provisions held at 31 March 2016 totalled £33.090m, see Note 24 on pages 87 to 88.

The level of the County Council General Fund is consistent with the overall financial environment and the key financial risks faced by the Council. A thorough review of the reserves was carried out during the 2015-16 budget setting process. Our Corporate Director of Finance and Procurement, who is responsible for setting the level of reserves, has deemed the level to be 'adequate' given the level of risk that we face.

Investments in Iceland

In 2008 the Council had £50.35m of deposits in Icelandic owned banks, including £16m invested on behalf of the Pension Fund and £1.3m on behalf of Kent and Medway Fire Authority. To date £50.28m has been received back, that includes a 100% recovery from Glitnir and Landsbanki and a 100% recovery is now forecast on Heritable.

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 is funded from a variety of sources including: grants, capital receipts, borrowing, external contributions including developer contributions and revenue contributions. Capital expenditure for the year was £251.462m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education & Young People	126,594	123,038	-3,556
Social Care, Health & Wellbeing:			0
- Specialist Children's Services	827	928	101
- Adult Social Care	7,027	3,643	-3,384
- Public Health	180	0	-180
Growth, Environment & Transport	108,756	91,902	-16,854
Strategic & Corporate Services	21,568	17,741	-3,827
	264,952	237,252	-27,700
Devolved Capital to Schools	4,434	14,210	9,776
TOTAL	269,386	251,462	-17,924

Expenditure excluding that incurred by schools under devolved arrangements was £27.700m less than cash limits. Of this, £26.529m reflected re-phasing of capital expenditure plans across all services and £1.171m was due to real variations on a small number of projects. These unspent capital resources will be carried forward into 2016-17 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2015-16 was £14.210m.

Details of the financing of capital expenditure are on page 61.

Insurance Fund

IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires that full provision should be made for all known insurance claims.

Based on current estimates of the amount and timing of fund liabilities, the insurance provision at 31 March 2016 is established at a level sufficient to meet all known insurance claims where the likely cost can be estimated and there is reasonable certainty of payment. It is therefore in accordance with the requirements of IAS 37. Details can be found on page 87.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of IAS 19 - Employee Benefits. Under IAS 19, the Council is required to reflect in the primary statements of the Accounts, the assets and liabilities of the Pension Fund attributable to the Council and the cost of pensions. IAS 19 is based upon the principle that the Council should account for retirement benefits when it is committed to give them even though the cash payments may be many years into the future. This commitment is accounted for in the year that an employee earns the right to receive a pension in the future. These disclosures are reflected in the Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

IAS 19

The 2015-16 IAS 19 report shows that the Kent County Council Pension Fund now has a deficit of £1,214.1m. This is a decrease in the deficit of £133m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2015-16, earlier years and for future years. The balance currently stands at £993m as shown on the balance sheet on page 18. Future capital expenditure will be financed from, revenue contributions, sale of surplus fixed assets, capital grants and contributions, and relevant funds within earmarked reserves. Borrowing will only be undertaken as a last resort.

East Kent Opportunities

East Kent Opportunities (EKO) is a "Jointly Controlled Operation" and in 2015-16 the transactions and balances of EKO relating to KCC have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

2016-17 onwards

Local authorities in the United Kingdom will continue to keep their Accounts in accordance with 'proper practices'. CIPFA/LASAAC continue to consider future changes to IFRS for Local Government, as it reinforces the drive to improve financial reporting and enhance accountability for public money.

The Council's 2016-19 MTFP was approved by County Council on 11 February 2016. The MTFP highlighted that there will be continued reductions in the role of the public sector, as the government seeks to reduce public spending to 36.4% of the overall economy by 2020-21 as part of redressing the public finances. The Council can no longer rely on central government funding, principally Revenue Support Grant (RSG), as this is being phased out over the next 4 years. This means the Council will have to find alternative sources of funding those services previously supported by RSG, deliver further efficiency savings, or find other ways to reduce the cost of services.

The Council will continue to manage as much as possible of this reduction through transformation (delivering better outcomes for less money) or efficiencies (delivering similar outcomes for less money). This means the Council may have to reduce some services and in some cases may have to question whether to continue to provide services at all. This fits well with the Council's objective to move from being a service provider to a service commissioner.

The Council must also find ways to reduce dependence on public funded local authority services through prevention and promoting greater self-reliance. This will mean a dramatic change in the way local authority services are viewed by the public. The Council needs to find ways of providing advice and support to help more people help themselves or access services elsewhere, and encourage them to view local authority service delivery (whether provided directly or commissioned) as the last resort for those who can't help themselves or have no other alternative.

Narrative

This is a new way of looking at how local government can contribute to improving the lives of our residents and promoting local communities whilst recognising the financial reality. It is imperative that residents and local businesses (as well as county council elected members and staff) understand and embrace that resources are finite and that the destiny for the local authority and the services we provide for local communities is very much in our own hands. The Council must continue to change, adapt and innovate, with the clear aim to deliver better outcomes for people at lower cost to the public purse.

The budget for 2016-17 includes a 1.998% Council Tax increase (the maximum permitted without a formal referendum) to help fund the additional spending requirements across the full range of services.

Under the new powers to support adult care spending, we are increasing Council Tax by a further 2% to meet the growing demand for adult social care. Adult social care faces a number of challenges including growing demand from an aging population, increase complexity of client's needs, and substantial additional cost pressures.

The Council's Stewardship, Responsibilities and Financial Management Policies

The Council is responsible for handling a significant amount of public money. The Council's Financial Regulations must comply with the Constitution and set the control framework for five key areas of activity:

- Financial Planning
- Financial Management
- Risk Management and Control of Resources
- Systems and Procedures
- External Arrangements

The Council needs to ensure that it has sound financial management and procedures in place and that they are adhered to. The Financial Regulations are reviewed annually to reflect changes in structures and working practices; and to ensure our regulations reflect current best practice and strengthen areas where there were known gaps. The regulations provide clarity about the accountability of the following:

- Cabinet
- Members
- the Monitoring Officer
- the Chief Finance Officer (Corporate Director of Finance and Procurement)
- Corporate Directors

Further information about the Accounts can be obtained from Emma Feakins, Chief Accountant.

Telephone Maidstone (03000) 416082 or e-mail emma.feakins@kent.gov.uk.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Finance and Procurement;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to approve the Statement of Accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 21 July 2016 on behalf of Kent County Council and have been re-signed as authorisation to issue.

Councillor Richard Long
Chairman of the Governance and Audit Committee
21 July 2016

The Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance & Procurement is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this Statement of Accounts the Corporate Director of Finance and Procurement 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 Corporate Director of Finance and Procurement has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that these accounts give a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31 March 2016.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood
Corporate Director of Finance and Procurement
21 July 2016

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Restated Year ended 31 March 2015				
	General Fund Balance	**Earmarked GF Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2014	**-31,725**	**-210,051**	**-34,707**	**-118,967**	**-395,450**
Movement in reserves during 2014-15					
Surplus or (Deficit) on Provision of Services	27,956				**27,956**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**27,956**	**0**	**0**	**0**	**27,956**
Adjustments between accounting basis & funding basis under regulations - Note 10	-46,139		11,478	31,207	**-3,454**
Net increase/Decrease before Transfers to Earmarked Reserves	**-18,183**	**0**	**11,478**	**31,207**	**24,502**
Transfers to/from Earmarked Reserves (total of *s on Note 21)	15,183	-15,183			**0**
Increase/Decrease (movement) in Year	**-3,000**	**-15,183**	**11,478**	**31,207**	**24,502**
	Year ended 31 March 2016				
Balance at 31 March 2015 carried forward	**-34,725**	**-225,234**	**-23,229**	**-87,760**	**-370,948**
Movement in reserves during 2015-16					
Surplus or (Deficit) on Provision of Services	43,365				**43,365**
Other Comprehensive Expenditure and Income					
Total Comprehensive Expenditure & Income	**43,365**	**0**	**0**	**0**	**43,365**
Adjustments between accounting basis & funding basis under regulations - Note 10	-32,073		-300	36,433	**4,060**
Net increase/Decrease before Transfers to Earmarked Reserves	**11,292**	**0**	**-300**	**36,433**	**47,425**
Transfers to/from Earmarked Reserves (total of *s on Note 21)	-13,780	13,780			**0**
Increase/Decrease (movement) in Year	**-2,488**	**13,780**	**-300**	**36,433**	**47,425**
Balance at 31 March 2016 carried forward	**-37,213**	**-211,454**	**-23,529**	**-51,327**	**-323,523**

Movement in Reserves Statement

	Restated Year ended 31 March 2015		
	Total Usable Reserves	**Unusable reserves**	**Total Council Reserves**
	£'000	**£'000**	**£'000**
Balance at 31 March 2014	**-395,450**	**315,467**	**-79,983**
Movement in Reserves during 2014-15			
Surplus or (Deficit) on Provision of Services	27,956		27,956
Other Comprehensive Expenditure and Income (total of *'s on CIES)		147,921	147,921
Total Comprehensive Expenditure and Income	**27,956**	**147,921**	**175,877**
Adjustments between accounting basis & funding basis under regulations	-3,454	3,454	0
Net increase/Decrease before Transfers to Earmarked Reserves	**24,502**	**151,375**	**175,877**
Transfers to/from Earmarked Reserves (total of *s on Note 21)	0	0	0
Increase/Decrease (movement) in Year	**24,502**	**151,375**	**175,877**
	Year ended 31 March 2016		
Balance at 31 March 2015 carried forward	**-370,948**	**466,842**	**95,894**
Movement in reserves during 2015-16			
Surplus or (Deficit) on Provision of Services	43,365		43,365
Other Comprehensive Expenditure and Income (total of *'s on CIES)		-384,439	-384,439
Total Comprehensive Expenditure & Income	**43,365**	**-384,439**	**-341,074**
Adjustments between accounting basis & funding basis under regulations	4,060	-4,060	0
	47,425	**-388,499**	**-341,074**
Transfers to/from Earmarked Reserves (total of *s on Note 21)	0	0	0
Increase/Decrease (movement) in Year	**47,425**	**-388,499**	**-341,074**
Balance at 31 March 2016 carried forward	**-323,523**	**78,343**	**-245,180**

Comprehensive Income and Expenditure Statement

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

	Notes	**Year ended 31 March 2016**		
		Gross Expenditure	**Gross Income**	**Net Expenditure**
Service		**£'000**	**£'000**	**£'000**
Cultural and Related Services		42,053	8,812	33,241
Environmental and Regulatory Services		84,866	4,010	80,856
Planning Services		36,631	8,425	28,206
Central Services to the public		2,970	930	2,040
Children's and Education Services		1,214,293	967,126	247,167
Highways and Transport Services		172,443	22,776	149,667
Adult Social Care		505,697	125,495	380,202
Public Health		71,476	66,574	4,902
Corporate and Democratic Core		48,867	23,755	25,112
Non Distributed Costs		22,370	13,758	8,612
Cost of Services		**2,201,666**	**1,241,661**	**960,005**
Other operating Expenditure	**11**			26,401
Net Surplus on trading accounts	**33**			-4,360
Financing and Investment Inc and Exp	**12**			92,320
Taxation and Non Specific Grant Income	**13**			-1,031,001
(Surplus) or deficit on Provision of Services				**43,365**
(Surplus)/deficit arising on revaluation of non current assets			*	-187,864
Remeasurement of the net defined benefit liability			*	-195,936
(Surplus)/deficit on revaluation of available for sale financial assets			*	-639
Other Comprehensive Income and Expenditure				**-384,439**
Total Comprehensive Income and Expenditure				**-341,074**

Comprehensive Income and Expenditure Statement

Service	Notes	Restated Year ended 31 March 2015 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural and Related Services		44,399	9,648	34,751
Environmental and Regulatory Services		86,014	8,110	77,904
Planning Services		36,720	9,656	27,064
Central Services to the public		3,381	986	2,395
Children's and Education Services		1,198,671	948,611	250,060
Highways and Transport Services		170,772	20,406	150,366
Adult Social Care		473,112	117,182	355,930
Public Health		64,636	63,256	1,380
Corporate and Democratic Core		41,249	24,851	16,398
Non Distributed Costs		21,327	11,640	9,687
Cost of Services		**2,140,281**	**1,214,346**	**925,935**
Other operating Expenditure	**11**			32,815
Net Surplus on trading accounts	**33**			-5,525
Financing and Investment Inc and Exp	**12**			110,450
Taxation and Non Specific Grant Income	**13**			-1,035,719
(Surplus) or deficit on Provision of Services				**27,956**
(Surplus)/deficit arising on revaluation of non current assets			*	-121,651
Remeasurement of the net defined benefit liability			*	270,199
(Surplus)/deficit on revaluation of available for sale financial assets			*	-627
Other Comprehensive Income and Expenditure				**147,921**
Total Comprehensive Income and Expenditure				**175,877**

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.

				Restated
		31 March 2016		31 March 15
	Notes	**£'000**	**£'000**	**£'000**
Property Plant & Equipment	**15**	2,380,546		2,182,242
Heritage Assets	**19**	7,663		7,375
Investment Property	**16**	48,649		34,151
Intangible assets		5,400		5,838
Long-term investments	**38**	130,782		118,700
Long-term debtors	**25**	89,921		86,900
Total long-term assets			2,662,961	2,435,206
Inventories		5,235		4,915
Assets held for sale (<1yr)		2,332		3,635
Short term debtors	**25**	168,203		168,555
Short-term investments	**38**	127,965		110,364
Cash and Cash equivalents	**27**	51,469		102,771
Total current assets			355,204	390,240
Temporary borrowing	**38**	-32,943		-31,760
Short term Lease Liability	**38**	-5,403		-4,777
Short term provisions	**24**	-19,906		-22,309
Creditors	**26**	-229,348		-226,776
Total Current liabilities			-287,600	-285,622
Creditors due after one year	**26**	-47		-5,341
Provisions	**24**	-13,184		-13,518
Long-term borrowing	**38**	-959,991		-965,932
Other Long Term Liabilities	**37/38**	-1,459,035		-1,594,937
Capital Grants Receipts in Advance	**14**	-53,128		-55,990
Long Term Liabilities			-2,485,385	-2,635,718
Net Assets/(Liabilities)			245,180	-95,894
Usable Reserves	**21**	-323,523		-370,948
Unusable Reserve	**22**	78,343		466,842
Total Reserves			-245,180	95,894

The balance sheet as at 31 March 2015 together with associated notes have been restated to reflect the reinstatement of an operational asset following clarification of ownership in 2015-16.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or income from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

	Notes	2015-2016 £'000	Restated 2014-2015 £'000
Net (Surplus) or deficit on the provision of services		43,365	27,956
Adjustments to net surplus or deficit on the provision of services for non cash movements	**28**	-298,549	-258,070
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**28**	194,182	149,042
Net cash flows from operating activities		-61,002	-81,072
Investing Activities	**30**	105,462	36,445
Financing Activities	**31**	6,842	49,261
Net increase(-) or decrease in cash and cash equivalents		51,302	4,634
Cash and cash equivalents at the beginning of the reporting period		102,771	107,405
Cash and cash equivalents at the end of the reporting period	**27**	51,469	102,771

Note 1. Basis for Preparation/General

The notes to the financial statements on the following pages are in order of significance, primarily based on aiding an understanding of the key drivers of the financial position of the Council, whilst maintaining the grouping of notes between the income and expenditure statement and the balance sheet where appropriate.

The notes relating to specific financial statement lines include the corresponding accounting policy. As a result there is not a separate principal accounting policies note but note 2 details general accounting policies or those where there are not accompanying notes.

Details of the order of the notes can be found in the index on page 2 of the financial statements.

Note 2. General Accounting Policies (where there is no accompanying note)

General

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Council Accounting in the UK 2015-16 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis.

Accruals of Income and Expenditure

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

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

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

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

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

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Note 2 - Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Accounting for Schools

The accounting policies for Schools are in line with the Council's and therefore are compiled on an accruals basis. Schools balances are consolidated into the Council's accounts, with income and expenditure being attributed to the appropriate service line in the Comprehensive Income and Expenditure Statement and assets and liabilities included on the Balance Sheet. The Schools Reserve is held in a separate reserve and is located within Usable Reserves.

Non-current assets for maintained schools are included on the balance sheet where they are owned or controlled by the Authority or the school governing body. Each school is considered on an individual basis taking into account ownership rights and, where relevant, the circumstances under which the school is using the asset.

Intangible Assets

Assets that do not result in the creation of a tangible asset (which is an asset that has physical substance), but are identifiable and are controlled by the Council, e.g. software licences, are classified as intangible assets. This expenditure is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the life of the asset. For software licences this is normally between 3 to 5 years.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Fair Value

The Council measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Valuation techniques for levels 2 and 3 include market approach, cost approach and income approach.

Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with the Service Reporting Code of Practice 2015-16 (SerCOP):

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Accounting for Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Inventories

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

Carbon Reduction Commitment Allowances

The Authority is participating in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The allowances are purchased in advance and any unused allowances at the end of the financial year are treated as a payment in advance.

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

For 2015-16 there are amendments to the following accounting standards:

IAS 19 Employee Benefits (Defined Benefit Plans: Employees Contributions) - clarification on how contributions from employees that are linked to services should be attributed to periods of service.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of acceptable methods of depreciation and amortisation

IFRS 11 Joint Arrangements - Accounting for acquisitions of Interests in Joint Operations

IAS 1 Presentation of Financial Statements - amendments relating to the Disclosure Initiative. The initiative clarifies materiality, presentation of main statements and the order of the notes.

Note 3 - Accounting Standards that have been issued but have not yet been adopted & Note 4 - Critical Judgements in applying Accounting Policies

There are changes in format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis. These changes will require the 2015-16 statements to be restated.

An accounting policy will be required for Highways Network Assets to reflect the change from measuring the assets at historical replacement cost to depreciated replacement cost. There will be no requirement to restate 2015-16 information or the opening balance as at 1 April 2016.

There will be changes to the format of the Pension Fund Account and the Net Assets Statement.

The impact of the above amendments will be reflected in the 2016-17 accounts.

Note 4. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council will make a provision where a future event is uncertain but there is a legal or constructive obligation.

- The Council has a policy to revalue its land and buildings at least every 4 years and undertakes an annual review to ensure that the carrying amount of assets not revalued in year is not materially different to their fair value at the balance sheet date. Due to continued significant increases in construction costs during 2015-16 which could have had a material impact on asset values we have revalued more assets than were due as part of our rolling programme of asset valuations. £432m worth of assets in the balance sheet have not been revalued in 2015-16. Due to the value, nature and prior valuation date of these assets we are confident that the value of these assets is not materially different to their fair value at the balance sheet date.

One Community school on the balance sheet as at 31 March 2016 converted to academy status between 1 April 2016 and 1 May 2016. The net book value of this asset as at 31 March 2016 is £7.5m. A further ten schools are due to convert to academy status between 1 June 2016 and 1 November 2016. The net book value of these assets as at 31 March 2016 is £32.3m. An additional £0.2m included in the balance sheet as at 31 March 2016 relates to playing fields at Voluntary Aided/Church schools that have or will convert to academy status in 2016-17

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

- The Council holds unquoted equity which is measured at cost as the fair value cannot be reliably measured. The total value of the unquoted equity is £11.4m, of which £4m is held in a wholly-owned subsidiary of the Council and for all other investments we only have a minority interest. The fair value cannot be reliably measured either because there is no reliable trading history as the companies have only recently begun trading and/or there are no established companies with similar aims in Kent whose shares are traded and that might provide comparable data.

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

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Property, Plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £3.13m for every year that useful lives had to be reduced. Over a period of 3 years (before the next valuation takes place) this could result in an error of £9.39m - this is not material.
	Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2015-16 the following de minimus thresholds were applied: Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m Highways & Waste Depots: £2m County Offices: £2m Libraries: £2m Youth & Community Centres: £2m	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £8.248m. Over 3 years this would give a difference of £24.74m - this is not material.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The decrease in pension deficit during the year has arisen principally due to the technical decrease in the valuation of the liabilities. Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation from corporate bonds increased from 0.1% to 0.4% during the year due to a decrease in corporate bond yields. Asset performance being less than expected over the year has also led to an increase in pension deficit. During 2015-16, the Council's actuaries advised that the net pensions liability had decreased by £0.1m as a result of estimates being corrected due to experience and increased by £236m attributable to the updating of the assumptions.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Leases	For a number of leases identified by schools and directorates we have had to make assumptions on the fair value of the assets. This has been obtained by identifying the current costs of similar assets.	As the total depreciated value of leases is only £722k the effect of the estimation is not material.
Fair Value measurements	Surplus and Investment Properties cannot be measured based on quoted prices in active markets (ie Level 1 inputs), so their fair value is measured using income or market approach valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible unobservable inputs, which require judgement, are used to establish fair values. The significant unobservable inputs used in the fair value measurement include assumptions regarding passing rents and yields, estimated sale values, revenue streams and discount rates. Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 15, 16 and 38 below.	Significant changes in any of the unobservable inputs would result in a significant lower or higher fair value measurement for those assets held at fair value.
Debtors and creditors	Activity is accounted for in the year that it takes place not when the cash payments are made or received. Debtors and creditors are raised when they meet the agreed criteria and have the appropriate evidence. In implementing a faster closure changes have been made to the criteria including an increase in the de minimus for debtors and creditors to £1,000 from £500 for revenue and to £10,000 from £500 for capital. The cut off date for raising invoices and processing payments was shortened by 8 days resulting in more manual debtor and creditors being raised.	Implementing the changes have caused no significant issues. The only change is a shift between computer generated and manual debtor/creditor values.

Note 6. Officers Remuneration

<u>Accounting Policy</u>

Employee Benefits

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Service lines within the Comprehensive Income and Expenditure Statement, but is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Note 6 - Officers Remuneration

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the cost for restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits
The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- **Teachers and NHS Staff**

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

- **Other employees**

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

The assets of Kent pension fund attributable to the Council are included in the Balance Sheet at their fair value:
– quoted securities – current bid price
– unquoted securities – professional estimate
– unitised securities – current bid price
– property – market value.

The change in the net pensions liability is analysed into the following components:

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

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

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

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

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.

– contributions paid to the Kent Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2015 to 31 March 2016

Regulations require the Council to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Head of Paid Services and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2015-16, was £50,000 or more.

Remuneration includes:-

a) all sums paid to or receivable by an employee including non-taxable termination payments, redundancy payments and pay in lieu of notice. This includes all payments, regardless of whether or not they were due in the year e.g. advance payment of salary in lieu of notice.

b) expense allowances chargeable to tax i.e. the profit element of car allowances; and

c) the money value of benefits such as leased cars and health insurance

d) but excludes Employer's Pension contributions

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2016	Schools 31 March 2016	Non-Schools 31 March 2015	Schools 31 March 2015
50,000 - 54,999	188	180	181	197
55,000 - 59,999	115	154	118	157
60,000 - 64,999	48	103	46	92
65,000 - 69,999	44	52	37	57
70,000 - 74,999	31	32	34	35
75,000 - 79,999	15	19	15	16
80,000 - 84,999	19	7	13	10
85,000 - 89,999	10	6	6	6
90,000 - 94,999	14	7	7	7

Note 6 - Officers Remuneration

Remuneration	Total number of employees			
(£)	Non-Schools 31 March 2016	Schools 31 March 2016	Non-Schools 31 March 2015	Schools 31 March 2015
95,000 - 99,999	8	6	4	6
100,000 - 104,999	4	2	2	2
105,000 - 109,999	6	4	4	3
110,000 - 114,999	4	3	5	2
115,000 - 119,999	0	3	1	2
120,000 - 124,999	3	0	2	0
125,000 - 129,999	0	0	1	1
130,000 - 134,999	2	1	2	0
135,000 - 139,999	2	0	1	0
140,000 - 144,999	0	0	1	0
145,000 - 149,999	1	0	1	0
150,000 - 154,999	0	0	0	0
155,000 - 159,999	0	0	1	0
160,000 - 164,999	1	0	0	0
165,000 - 169,999	1	0	1	0
170,000 - 174,999	0	0	1	0
175,000 - 179,999	0	0	1	0
180,000 - 184,999	1	0	0	0
185,000 - 189,999	0	0	0	0
190,000 - 194,999	0	0	0	0
195,000 - 199,999	0	0	1	0
200,000 - 204,999	1	0	0	0
Total	**518**	**579**	**486**	**593**

The number of employees shown against the above remuneration band will not tie up with the information on the following pages. This is because the table above refers to remuneration which includes items a-c as per the note on the previous page, whereas the following table relates purely to salary entitlement in the year and requires the employer's pension contribution to be disclosed but only for senior officers. The Code defines senior officers as those whose annual salary is £150k or more, or those whose salary is above £50,000 and holds a chief officer position. The following tables are set-out in the format prescribed in the CIPFA Code, issued by The Chartered Institute of Public Finance and Accountancy.

The increase in the number of employees earning over £50,000 is due to the number of agency staff in substantive posts; agency staff cost more that substantive staff.

The slight reduction in the number of school employees earning over £50,000 is mainly due to the transfer to Academy status for a number of schools; figures for Academies are not included in the above table.

The remuneration paid to the Authority's senior employees for 2015-16 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		200,950					200,950	42,199	243,149
Corporate Director Families & Social Care - Andrew Ireland		184,402					184,402	38,724	223,126
Corporate Director Education Learning & Skills - Patrick Leeson		160,789		7,141			167,930	35,265	203,195
Director of Governance & Law - Geoff Wild		145,981					145,981	29,716	175,697
Corporate Director Growth, Environment & Transport -Barbara Cooper		139,456					139,456	29,586	169,042

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2015-16 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Finance & Procurement - Andy Wood		138,287					138,287	29,040	167,327
Corporate Director Human Resources - Amanda Beer		132,435					132,435	27,811	160,246
Director Public Health - Andrew Scott-Clark		107,086					107,086		107,086
							0		0
							0		0

* This includes all contractual entitlements.

The remuneration paid to the Authority's senior employees for 2014-15 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		199,898					199,898	41,979	241,877
Corporate Director Families & Social Care - Andrew Ireland		178,166					178,166	37,415	215,581
Corporate Director Education Learning & Skills - Patrick Leeson		161,537		7,070			168,607	35,408	204,015
Director of Governance & Law - Geoff Wild		141,780					141,780	28,834	170,614
Corporate Director Finance & Procurement - Andy Wood		130,460					130,460	27,396	157,856

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2014-15 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Growth, Environment & Transport -Barbara Cooper		129,762					129,762	27,250	157,012
Corporate Director Human Resources - Amanda Beer		124,844					124,844	26,217	151,061
Corporate Director Customer & Communities - Amanda Honey	1	72,992			73,218		146,210	5,696	151,906
Interim Corporate Director Growth, Environment & Transport - Mike Austerberry	2	79,421			40,813		120,234		120,234
Director Public Health - Andrew Scott-Clark		104,996					104,996		104,996

* This includes all contractual entitlements.

Note 6 - Officers Remuneration

Notes

The remuneration paid to the Authority's senior employees for 2014-15 is as follows:

1 Ms Honey left KCC during May 2014. The annualised salary for this post was £156,075

2 Mr Austerberry left KCC during September 2014. The annualised salary for this post was £157,637.

Note 6 - Officers Remuneration

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. Of the total redundancies made 25% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000, £20,001 - £40,000 and £40,001 - £80,000 and have applied this percentage equally to each of those bands. The total cost in 2015-16 of £2.2m includes schools and commitments in 2016-17.

(a) Exit package cost band (inc special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2014/15	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15 £**	**2015/16 £**
100,001-450,000	0	0	0	0	0	0	0	0
80,001-100,000	0	0	0	0	0	0	0	0
40,001-80,000	4	0	4	2	8	2	356,769	88,686
20,001-40,000	23	9	30	25	53	34	1,376,421	896,910
0-20,000	143	35	182	103	325	138	2,507,629	1,257,397
Total	**170**	**44**	**216**	**130**	**386**	**174**	**4,240,819**	**2,242,993**

Note 7. Members Allowances

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

	2015-16 £'000	2014-15 £'000
Salaries	0	0
Allowances	1,641	1,634
Expenses	127	114
Total	**1,768**	**1,748**

In 2015-16 the cost of the County Cars was £48.2k (£38.8k in 2014-15).

Note 8. Deposits in Icelandic banks

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landbanki's UK subsidiaries Heritable went into administration. The Council had £50.35m deposited across these 3 institutions, with varying maturity dates and interest rates. Of the £50.35m, £1.3m was deposited on behalf of the Kent and Medway Fire Authority and £16m on behalf of the Pension Fund.

Investments included in the current assets figure in the Balance Sheet include the following deposits that have been impaired because of the financial difficulties experienced by Icelandic Banks.

Bank	Amount Invested £000's	Interest Rate	Amount due as at Claim Date £000's	Repayments to date £000's
Heritable	1,500	6.15	1,513	1,422
Heritable	2,000	6.19	2,113	1,987
Heritable	2,000	5.6	2,010	1,890
Heritable	3,250	6.1	3,253	3,058
Heritable	4,600	5.9	4,717	4,434
Heritable	5,000	6.25	5,004	4,704
Glitnir	5,000	5.5	5,276	5,127
Glitnir	5,000	6.3	5,212	5,065
Glitnir	5,000	6	5,150	5,004
LBI hf	2,000	6.19	2,125	2,100
LBI hf	5,000	6	5,300	5,264
LBI hf	5,000	5.96	5,291	5,230
LBI hf	5,000	5.93	5,028	4,998
Total	**50,350**		**51,992**	**50,283**

Heritable

There is an outstanding amount of £300,000 relating to Heritable Bank where the final dividend is delayed due to litigation involving a property development.

LBI hf (formerly Landsbanki)

The Council received 100% of the recoverable amount during 2015-16.

Glitnir Bank hf

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

As part of the 100% recovery we received £2.96m in Icelandic Kroner for Iceland-domiciled accounts during 2011-12. This is placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

Note 9. Material Items of Income and Expense

Accounting Policy

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Material Items of Income and Expense

The net loss on disposal of non-current assets of £25.8m includes a loss of £27.5m which relates to schools transferring to academy status, at nil value.

Note 10 - Adjustments between accounting basis & funding basis under regulations

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

31 March 2016	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-138,966			138,966
Revaluation losses on Property Plant and Equipment and Assets held for Sale	23,731			-23,731
Movements in the fair value of Investment Properties	9,992			-9,992
Amortisation of intangible assets	-2,222			2,222
Capital Grants and contributions applied	137,590			-137,590
Income in relation to donated assets	26,341			-26,341
In year revenue expenditure funded from capital under statute	-97,544			97,544
Prior year revenue expenditure funded from capital under statute	-3,599			3,599
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement*	-31,199			31,199
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	64,511			-64,511
Capital expenditure charged against the General Fund	14,857			-14,857
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	23,605		-23,605	0
Application of grants to capital financing transferred to the Capital Adjustment Account			56,658	-56,658
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,999	-4,999		0
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	1,229	-1229		0

Note 10 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Use of the Capital Receipts Reserve to finance new capital expenditure		16,874		-16,874
Transfer of loan repayment balances		-3380	3380	0
Loan repayments	18	-7566		7,548
Movement in Donated Asset Account	400			-400
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-3,009			3,009
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-133,376			133,376
Employer's pensions contributions and direct payments to pensioners payable in the year	69,990			-69,990
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	1,104			-1,104
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-525			525
Total Adjustments	**-32,073**	**-300**	**36,433**	**-4,060**

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

31 March 2015	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-136,483			136,483
Revaluation losses on Property Plant and Equipment and Assets held for Sale	19,760			-19,760
Movements in the fair value of Investment Properties	-983			983
Amortisation of intangible assets	-1,914			1,914
Capital Grants and contributions applied	110,764			-110,764
Income in relation to donated assets	19			-19
In year revenue expenditure funded from capital under statute	-74,602			74,602
Prior year revenue expenditure funded from capital under statute	-312			312
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement*	-38,206			38,206
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	65,312			-65,312
Capital expenditure charged against the General Fund	13,978			-13,978
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	31,136		-31,136	0
Application of grants to capital financing transferred to the Capital Adjustment Account			62,343	-62,343
Correction to prior year capital receipt				
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,335	-7,335		0

Note 10 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Cash sale proceeds from disposal of investment properties				
Use of the Capital Receipts Reserve to finance new capital expenditure		18,601		-18,601
Correction to prior year capital receipt	-212	212		0
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-2,116			2,116
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-117,822			117,822
Employer's pensions contributions and direct payments to pensioners payable in the year	70,571			-70,571
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	5,642			-5,642
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,994			-1,994
Total Adjustments	**-46,139**	**11,478**	**31,207**	**3,454**

Note 11. Other Operating Expenditure

	2015-16 £000's	2014-15 £000's
Levies	735	729
Gains/Losses on the disposal of non-current assets	25,782	31,083
Assets held for Sale - revaluation movements	-116	1,003
	26,401	32,815

Note 12. Financing and investment income and expenditure

	2015-16 £000's	2014-15 £000's
Interest payable and similar charges	73,549	77,188
Net interest on the net defined benefit liability	43,041	43,447
Interest receivable and similar income	-8,660	-6,643
Income and expenditure in relation to investment properties and changes in their fair value	-11,916	379
Other investment income	-3,694	-3,921
	92,320	110,450

Note 13. Taxation and non specific grant income

Collection Fund Accounting Policy

To reflect that billing authorities act as agents for major preceptors in collecting their share of Council Tax and Non-Domestic Rating income, transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of Council Tax and Non-domestic Rates collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing Council from Council Tax and Non-domestic Rates debtors that belongs proportionately to the billing Council and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers and Non-domestic Ratepayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

Part of the arrangement for the retention of business rates is that authorities will assume the liability for refunding ratepayers that have successfully appealed against the rateable value of their property. At the end of 31 March 2016 the Council's estimated share of these liabilities is £6.4m.

	2015-16 £000's	2014-15 £000's
Income from Council Tax	-560,377	-537,522
Non-domestic rates income and expenditure	-47,947	-47,245
Non-ringfenced government grants	-422,677	-450,952
	-1,031,001	-1,035,719

Note 14. Grant Income

Accounting Policy

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015-16:

	2015-16	2014-15
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-560,377	-537,522
Business Rates	-47,947	-47,245
Revenue Support Grant	-283,944	-333,725
Local Services Support Grant	-1,766	-2,146
Other Grants	-14,619	-18,811
New Homes Bonus Grant	-7,880	-6,610
Business Rate Compensation Grant	-4,474	-4,144
Capital Government Grants and Contributions	-109,994	-85,516
Total	-1,031,001	-1,035,719
Credited to Services		
Dedicated Schools Grant	-677,826	-698,368
Education Funding Agency	-82,446	-80,319
Other DFES Grants	-76,457	-55,418
Department of Health Grants	-65,878	-60,962
Asylum	-27,651	-9,482
Other	-74,381	-72,779
Total	-1,004,639	-977,328

KCC's share of surplus on the Council Tax has increased by £4.3m (2014-15 surplus increased by £4.4m). For 2015-16 the Business Rate Collection Fund deficit increased by £3.2m. See the Collection Fund Adjustment Account detailed in Note 22.

Note 14 - Grant Income and Note 15 - Property, Plant and Equipment

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2015-16	2014-15
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	-4,865	-17,978
Other Grants	-14,821	-15,826
Other Contributions	-33,442	-22,186
Total	-53,128	-55,990

Note 15. Property, Plant and Equipment

Accounting Policy

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction".

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- surplus assets – fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

The Council has a policy in place to revalue its assets on a rolling programme basis. All assets will be revalued at least every four years. Assets will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset, such as a significant downturn in economic conditions. Revaluation gains are written to the Revaluation Reserve, after reversing any revaluation losses on that asset previously posted to the Comprehensive Income and Expenditure Statement. Revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

Note 15 - Property, Plant and Equipment

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Where impairment losses are identified, they are accounted for by:

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- useful life as determined by the valuer
Vehicles, plant and equipment	- 3-25 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil
Heritage Assets	- nil

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

Land

Structure

Mechanical and Electrical

Fixtures and Furnishings

Temporary Buildings

These components are a significant value of the asset as a whole and have significantly different useful lives.

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page 24.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Note 15 - Property, Plant and Equipment

Gains and Losses on Disposal of Non Current Assets

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Schools transferring to academy status within the financial year are derecognised. On transfer the full carrying value is derecognised as an asset disposal for nil consideration. The net loss on disposal of non-current assets of £25.8m includes a loss of £27.5m which relates to schools transferring to academy status.

Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Note 15. Property, Plant & Equipment
Movement on balances - Movements in 2015-2016

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2015	1,399,388	96,254	1,544,043	9,535	42,908	36,197	3,128,325	251,738
Additions	36,130	4,238	41,831	33	66,169	1,148	149,549	5,554
Donations	26,341					388	26,729	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	127,195					19,437	146,632	18,791
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	14,213					-4,648	9,565	1,580
Derecognition - Disposals	-26,763	-2,583			-484	-2,765	-32,595	

Property, Plant & Equipment - Movements in 2015-2016

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other	0	-8,699				-349	-9,048	
Assets reclassified (to) / from Held for Sale	-100					0	-100	
Other Movements in cost or valuation*	13,771	0	-5,474	296	-19,318	-10,498	-21,223	507
At 31 March 2016	**1,590,175**	**89,210**	**1,580,400**	**9,864**	**89,275**	**38,910**	**3,397,834**	**278,170**

* This line shows a movement of -£21,223k which includes -£19,318k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Property, Plant & Equipment - Movements in 2015-2016

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2015	-28,412	-74,534	-838,817	0	0	-4,320	-946,083	-6,197
Depreciation Charge	-54,336	-6,650	-76,928			-875	-138,789	-7,466
Depreciation written out to the Revaluation Reserve	38,155					2,790	40,945	4,703
Depreciation written out to the Surplus / Deficit on the Provision of Services	12,553					1,497	14,050	540
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	168				-345		-177	

Property, Plant & Equipment - Movements in 2015-2016

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	612	2,447				152	3,211	
Derecognition - Other	0	8,699				13	8,712	
Other movements in Depreciation and Impairment	-898	0	661		345	735	843	
At 31 March 2016	**-32,158**	**-70,038**	**-915,084**	**0**	**0**	**-8**	**-1,017,288**	**-8,420**
Net Book Value								
At 31 March 2016	**1,558,017**	**19,172**	**665,316**	**9,864**	**89,275**	**38,902**	**2,380,546**	**269,750**
At 31 March 2015	**1,370,976**	**21,720**	**705,226**	**9,535**	**42,908**	**31,877**	**2,182,242**	**245,541**

Note 15. Property, Plant & Equipment

Movement on balances - Movements in 2014-2015 - Restated

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2014	1,343,379	89,202	1,489,665	9,482	40,917	37,101	3,009,746	213,097
Additions	52,862	8,088	54,378	53	33,684	1,211	150,276	1,499
Donations						400	400	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	59,670					-208	59,462	18,208
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-13,001					-408	-13,409	18,934
Derecognition - Disposals	-26,211	-1,117			-57	-5,306	-32,691	

Property, Plant & Equipment - Comparative Movements in 2014-2015 - Restated

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other	-7,050					-3,678	-10,728	
Assets reclassified (to) / from Held for Sale	-1,506					-411	-1,917	
Other Movements in cost or valuation*	-8,755	81			-31,636	7,496	-32,814	
At 31 March 2015	**1,399,388**	**96,254**	**1,544,043**	**9,535**	**42,908**	**36,197**	**3,128,325**	**251,738**

* This line shows a movement of -£32,814k which includes -£31,636k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Property, Plant & Equipment - Comparative Movements in 2014-2015 - Restated

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2014	-75,649	-68,078	-764,334	0	0	-3,668	-911,729	-11,838
Depreciation Charge	-52,899	-7,507	-74,483			-1,311	-136,200	-10,187
Depreciation written out to the Revaluation Reserve	61,958					28	61,986	8,969
Depreciation written out to the Surplus / Deficit on the Provision of Services	34,160					12	34,172	6,859
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-180				-103		-283	

Property, Plant & Equipment - Comparative Movements in 2014-2015 - Restated

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	1,637	1,056				497	3,190	
Derecognition - Other	1,574					897	2,471	
Other movements in Depreciation and Impairment	987	-5			103	-775	310	
At 31 March 2015	**-28,412**	**-74,534**	**-838,817**	**0**	**0**	**-4,320**	**-946,083**	**-6,197**
Net Book Value								
At 31 March 2015	**1,370,976**	**21,720**	**705,226**	**9,535**	**42,908**	**31,877**	**2,182,242**	**245,541**
At 31 March 2014	**1,262,417**	**21,124**	**725,331**	**9,482**	**40,917**	**33,433**	**2,092,704**	**201,259**

Note 15 - Property, Plant and Equipment

Valuations of Property, Plant and Equipment carried at current value

The following statement shows the progress of Kent County Council's rolling programme for the revaluation of fixed assets. The valuations as at 31 March 2016 were carried out by Montagu Evans, overseen by Gary Howes MRICS. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings £'000
Valued at current value as at:	
1 April 2011	424,096
1 April 2012	350,976
Restated 1 April 2013	905,326
31 March 2015	1,304,025
31 March 2016	1,288,023

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 2015-16 all land and buildings which have not had a valuation within the last four years have been valued. All schools, highways / waste depots, county offices and surplus assets have been revalued.

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

We have considered and analysed the assets which have not been revalued in 2015-16 and are confident that the carrying amount of these assets as at 31 March 2016 is not materially different to their current value as at 31 March 2016.

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

Surplus Assets Fair Value Hierarchy

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2016 (excluding in year additions) are as follows:

Recurring fair value measurements using:	Level 2 inputs	Level 3 inputs	Fair value as at 31 March 2016	Level 2 Valuation Technique	Level 3 Valuation Technique
	£000's	£000's	£000's		
Residential developments	6,297	14,587	20,884	*Market approach*	*Market approach*
Non-residential institutions		7,086	7,086		*Income approach*
Over 55 sheltered housing		3,997	3,997		*Market approach*
Industrial development/commercial development/amenity land/educational land/woodland		3,790	3,790		*Market approach*
Residential dwellings		2,018	2,018		*Market approach*
	6,297	**31,478**	**37,775**		

NB The council does not have any Level 1 valuations

Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

The movements during the year of level 3 surplus assets held at fair value, are analysed below:

	2015-16
	£000's
Opening balance	15,932
Transfers into Level 3	
Transfers out of Level 3	
Additions	
Donations	388
Derecognition	-17
Total gains or (losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-1,462
Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure resulting from changes in the fair value	17,226
Depreciation charge	-589
Closing balance	31,478

£1.5m of losses arising from changes in the fair value of surplus assets have been recognised in the Surplus or Deficit on the Provision of Services within the 'Non Distributed Costs' line and £17.2m of gains were recognised in Other Comprehensive Income and Expenditure within the '(Surplus)/deficit arising on revaluation of non current assets' line .

Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs - Level 3

	Fair Value as at 31/03/16 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	14,587	1) Estimated revenue streams 2) Estimated construction costs 3) Estimated profit margins	1) £54,000 - £400,000 per unit 2) £110.00 - £130.00 per square foot 3) 20%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	7,086	1) Estimated rent 2) Estimated yield	1) £4.00 - £15.00 per square foot 2) 5% - 12%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Over 55 sheltered housing	3,997	1) Estimated land value 2) Planning uplift	1) £543,750 - £2,625,000 per hectare 2) 25%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/commercial development/amenity land/educational land/woodland	3,790	Estimated land value	£11,000 - £1,475,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Residential dwellings	2,018	1) Estimated sales value 2) Discount rate (lifelong tenancy)	1) £150,000 - £450,000 per unit 2) 40%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Total	31,478			

Note 15 - Property, Plant and Equipment and Note 16 - Investment Property

Valuation Process for Surplus Assets

The fair value of the council's surplus assets is measured at least every four years in line with your revaluation policy for PPE. All valuations are carried out by appointed external valuers in accordance with the professional standards of the Royal Institution of Chartered Surveyors and reviewed internally by finance officers.

Highest & Best Use of Surplus Assets

In estimating the fair value of the council's surplus assets, the highest and best use of 19 of the 64 assets is their current use. Of the remaining 45 assets, 34 are vacant, 5 are under construction for highest and best use, 5 have alternative uses as a result of existing lease arrangements and 1 is held for highways expansion.

Contractual Liabilities

We are contractually committed to make the following payments over £10m in future years:

	2015-16
	£000
LED Conversion	33,958
Broadband Contract 2	11,231

Note 16 - Investment Property

<u>Accounting Policy</u>

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2015-16	**2014-15**
	£000's	**£000's**
Rental income from Investment Property	696	604
Direct operating expenses arising from Investment Property	-262	-49
Net gain/(loss)	434	555

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

Note 16 - Investment Property

The following table summarises the movement in the fair value of investment properties over the year:

	2015-16	2014-15
	£000's	£000's
Balance at start of the year	34,151	33956
Additions:		
• Purchases	3,235	
• Construction		
• Subsequent expenditure		
Disposals	-76	-145
Net gains/losses from fair value adjustments	10,096	-983
Transfers:		
• to/from Inventories		
• to/from Property, Plant & Equipment	1,243	1,323
Other Changes		
Balance at end of the year	**48,649**	**34,151**

Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2016 (excluding in year additions) are as follows:

Recurring fair value measurements using:	**Level 2 inputs**	**Level 3 inputs**	**Fair value as at 31 March 2016**	**Level 2 Valuation Technique**	**Level 3 Valuation Technique**
	£000's	**£000's**	**£000's**		
Residential developments	20,740	3,110	23,850	*Market approach*	*Market approach*
Offices	8,344		8,344	*Income approach*	
Industrial development/commercial development/amenity land	2,335	3,167	5,502	*Market approach*	*Market approach*
Residential dwellings		2,366	2,366		*Market approach*
Non-residential institutions		2,310	2,310		*Income approach*
Age related assisted living	1,646		1,646	*Market approach*	
Ransom Strip	1,000		1,000	*Market approach*	
Golf Course	338		338	*Income approach*	
Commercial Property	47		47	*Income approach*	
Agricultural Land		11	11		*Income approach*
	34,450	**10,964**	**45,414**		

NB The council does not have any Level 1 valuations

Note 16 - Investment Property

Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

The movements during the year of level 3 investment property held at fair value, are analysed below:

	2015-16 £000's
Opening balance	8,075
Transfers into Level 3	
Transfers out of Level 3	
Additions	
Disposals	
Total gains or (losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in the fair value	2,889
Closing balance	10,964

£2.9m of gains arising from changes in the fair value of the investment property have been recognised in the 'Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure' line.

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs - Level 3

	Fair Value as at 31/03/16 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	3,110	1) Estimated revenue streams 2) Estimated construction costs 3) Estimated profit margins	1) £90,000 - £400,000 per unit 2) £129.00 per square foot 3) 20%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/commercial development/amenity land	3,167	Estimated land value	£20,000 - £2,100,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Residential Dwellings	2,366	1) Estimated sales value 2) Discount rate (access issues and lifelong tenancy)	1) £87,000 - £400,000 per unit 2) 25% and 40%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	2,310	1) Estimated rent 2) Estimated yield	1) £5.00 - £15.00 per square foot 2) 5% - 12%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Agricultural Land	11	1) Limited rental growth 2) Estimated yield	1) N/A 2) 5%	Due to the low fair value of this category a significant change in unobservable inputs would not result in a significantly lower or higher fair value
Total	10,964			

Valuation Process for Investment Properties

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out by appointed external valuers in accordance with the professional standards of the Royal Institution of Chartered Surveyors and reviewed internally by finance officers.

Highest & Best Use of Investment Properties

In estimating the fair value of the council's investment properties, the highest and best use of 43 of the 53 properties is their current use. Of the remaining 10 properties, 6 are held for capital appreciation as investments and 4 have alternative uses as a result of existing lease arrangements.

Note 17. Capital Expenditure and Financing

Accounting Policy

Government Grants and Contributions

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute represents expenditure which may be properly capitalised, but does not result in the creation of a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Capital expenditure on assets that do not belong to the council such as Academy schools are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Movement in Reserves Statement to mitigate any impact on council tax.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Note 17 - Capital Expenditure and Financing and Note 18 - PFI and Similar Contracts

	2015-16 £000's	Restated 2014-15 £000's
Opening Capital financing requirement	1,382,856	1,435,263
Capital investment		
Property, Plant and Equipment	134,183	121,539
Revenue expenditure funded from capital under statute	97,544	74,602
Long Term Debtors	16,475	21,979
Other	7,113	3,771
	1,638,171	1,657,154
Sources of finance		
Capital receipts	-16,874	-18,601
Government grants and other contributions	-193,670	-176,407
Direct revenue contributions	-14,857	-13,978
(MRP/loans fund principal)	-64,511	-65,312
Closing Capital Financing Requirement	1,348,259	1,382,856
Movement	**-34,597**	**-52,407**

	2015-16 £000's	2014-15 £000's
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	0	-2,519
Increase in underlying need to borrow (unsupported by Government financial assistance)	-38,339	-49,888
Assets acquired under PFI contracts	3,742	
Increase/(decrease) in Capital Financing Requirement	**-34,597**	**-52,407**

Note 18. PFI and Similar Contracts

Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Note 18. PFI and Similar Contracts

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs - recognised as additions to Property, Plant and Equipment.

Value of PFI assets at each balance sheet date and analysis of movement in those values

Value of assets

	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	3 BSF Schools	Excellent Homes for All	TOTAL £'000
As at 31 March 2015	104,791	3,164	9,528	84,959	36,278	0	238,720
Additions	961	50	238	363	199	3,743	5,554
Transfers in						360	360
Revaluations	17,850	431	0	0	7,464	16	25,761
Depreciation	-3,801	-117	-238	-2,062	-1,071	0	-7,289
As at 31 March 2016	119,801	3,528	9,528	83,260	42,870	4,119	263,106

The Excellent Homes for All PFI has been added to the balance sheet in 2015-16. More detail on this new PFI contract is provided on page 66.

Value of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values

Finance Lease Liability

	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	3 BSF Schools	Excellent Homes for All	TOTAL £'000
As at 31 March 2015	71,587	8,725	13,355	55,112	60,135	0	208,914
Additions						3,743	3,743
Liability repaid	-1,581	-245	-402	-1,094	-1,311	-74	-4,707
As at 31 March 2016	70,006	8,480	12,953	54,018	58,824	3,669	207,950

The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For the 6 Schools PFI, the liability was written down by an initial capital contribution of £4.541m. For the Better Homes, Active Lives PFI the liability was written down by an initial capital contribution of £0.65m.

Note 18 - PFI and Similar Contracts

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,739	6,127	3,195	950	12,011
Within 2-5 years	7,687	23,054	13,600	5,081	49,422
Within 6-10 years	12,197	24,692	19,002	9,668	65,559
Within 11-15 years	17,986	18,650	21,499	11,338	69,473
Within 16-20 years	30,396	8,817	24,311	7,374	70,898
Within 21-25 years	0	0	0	0	0

RPIx is used as the basis for indexation in the 6 schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	167	1,245	708	695	2,815
Within 2-5 years	1,583	4,618	3,030	1,616	10,847
Within 6-10 years	4,320	3,887	4,295	1,822	14,324
Within 11-15 years	2,410	501	1,370	264	4,545

RPIx is used as the basis for indexation in the Swanscombe schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Westview/Westbrook

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	500	1,002	1,542	140	3,184
Within 2-5 years	1,026	3,730	6,619	2,681	14,056
Within 6-10 years	2,335	4,035	9,401	3,036	18,807
Within 11-15 years	4,379	2,904	10,846	1,462	19,591
Within 16-20 years	4,715	831	4,795	544	10,885

The RPIx and Average Weekly Earnings (AWE) indices are both used as bases for indexation in the Westview/ Westbrook PFI Contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract and AWE has been assumed to be 2% higher than this at 4.5% over the same period.

Better Homes, Active Lives

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,120	3,836	0	415	5,371
Within 2-5 years	4,816	14,568	0	2,100	21,484
Within 6-10 years	7,791	16,089	0	2,975	26,855
Within 11-15 years	11,989	12,736	0	2,130	26,855
Within 16-20 years	16,038	8,040	0	2,777	26,855
Within 21-25 years	12,265	1,676	0	382	14,323

No indexation is applied to the Better Homes, Active Lives PFI contract.

Note 18 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,257	5,466	2,029	536	9,288
Within 2-5 years	6,681	20,536	8,634	1,837	37,688
Within 6-10 years	10,366	21,788	12,064	5,442	49,660
Within 11-15 years	13,779	16,461	13,649	9,403	53,292
Within 16-20 years	26,740	8,170	13,226	3,626	51,762
Within 21-25 years	0	0	0	0	0

RPIx is used as the basis for indexation in the BSF Wave 3 PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Excellent Homes for All

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	107	158	64	2	331
Within 2-5 years	456	584	256	25	1,321
Within 6-10 years	620	614	320	97	1,651
Within 11-15 years	668	480	320	182	1,650
Within 16-20 years	788	325	320	218	1,651
Within 21-25 years	1,030	141	288	192	1,651

No indexation is applied to the Excellent Homes for All PFI contract.

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year - short term	4,890	17,834	7,538	2,738	33,000
Within 2-5 years	22,249	67,090	32,139	13,340	134,818
Within 6-10 years	37,629	71,105	45,082	23,040	176,856
Within 11-15 years	51,211	51,732	47,684	24,779	175,406
Within 16-20 years	78,677	26,183	42,652	14,539	162,051
Within 21-25 years	13,294	1,817	288	574	15,973
Total	207,950	235,761	175,383	79,010	698,104

Swan Valley and Craylands, 6 Group Schools, and 3 BSF Schools

On 24 May 2001, the Council contracted with New Schools (Swanscombe) Ltd to provide Swan Valley Secondary School and Craylands Primary School under a Private Finance Initiative (PFI). The schools opened in October 2002. Under the PFI contract the Council pays an agreed charge for the services provided by the PFI contractor. The unitary charge commenced in October 2002, PFI credits were received from April 2003 and were backdated to October 2002. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £65.5m over the 25 year (termination end of September 2027) contract period. In September 2013 Swan Valley Community School converted into Ebbsfleet Academy.

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College, The North School, Ellington School for Girls, The Malling School and Aylesford School - Sports College) under a Private Finance Initiative (PFI). The development of these schools straddled both the 2006-07 and 2007-08 financial years. Three of these schools opened part of their new buildings during the 2006-07 financial year (Hugh Christie, Holmesdale and The North). The other three schools opened their new buildings during 2007-08 (Ellington School for Girls, The Malling and Aylesford). From September 2009 Ellington School for Girls merged with Hereson Boys school to become Ellington and Hereson School, which is also a Trust. The school has now been renamed the Royal Harbour Academy.

Note 18 - PFI and Similar Contracts

The unitary charge commenced in November 2006, PFI credits commenced in June 2007 and were backdated to November 2006. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £373.9 million over the 28 year contract period.

On 24 October 2008, the Council contracted with Kent PFI Company1 Ltd to provide 3 new secondary schools in Gravesend (St John's Catholic School, Thamesview School and Northfleet Technology College) under a Private Finance Initiative (PFI) which formed part of the Building Schools for the Future programme. All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010 upon the opening of the three schools, PFI credits commenced in March 2011 and were backdated to July 2010. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £250.8 million over the 25 year contract period.

Central Government provides a grant to support the PFI schemes. This Revenue Support Grant is based on a formula related to the Capital Expenditure in the scheme: this is called the notional credit approval, and amounts to £11.62m of credits for Swan Valley and Craylands, £80.75m for the 6 schools and £98.94m for the 3 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 years (Swan Valley and Craylands), 28 years (6 schools) and 25 years (3 schools). This grant amounts to just under £23m (Swan Valley and Craylands), just over £177m (6 schools) and just over £193m (3 schools).

Westbrook and West View

In 2015-16 the Council made payments of £3.91m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payments of £4.02m for 2016-17 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 2016-17 the Council is committed to making payments estimated at £2.77m 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 (£2.69m was paid in 2015-16). The contract will run until April 2036.

Better Homes Active Lives PFI

In October 2007 the Council signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 340 units of accommodation of which 275 units are Extra Care accommodation, 58 units for people with learning difficulties and 7 units for people with mental health problems. The contract for the provision of services will last until 2038-39. In 2015-16 the Council made payments of £5.4m to the contractor, and is committed to paying the same amount next year, although this will depend on the performance of Kent Community Partnership delivering the services under the contract.

Excellent Homes for All PFI

In June 2014 the Council signed a PFI contract with Galliford Try PLC who will provide 238 units of specialist accommodation on seven sites across Kent. There will be 218 units of Extra Care accommodation, 9 units for people with mental health problems and 11 move-on apartments. Galliford Try has partnered with West Kent Housing Association to help manage the facilities. The construction work is underway and two buildings were completed towards the end of 2015-16 and are fully operational. The operational assets, and the corresponding lease liability have been recognised on the balance sheet for the first time in 2015-16. During the year the Council made unitary charge payments of £104k to the contractor but will pay more next year as each building is completed and becomes operational. The contract runs until 2040/41.

Note 19. Heritage Assets

Accounting Policy

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage assets above our de minimus of £10k are recognised in the balance sheet wherever possible at valuation or cost. In most cases, insurance valuations are used. However, the unique nature of many heritage assets makes valuation complex and so where values cannot be obtained, either due to the nature of the assets or the prohibitive cost of obtaining a valuation, they are not recognised in the balance sheet but comprehensive descriptive disclosures are included in the statement of accounts.

An impairment review of heritage assets is carried out where there is physical deterioration of a heritage asset.

	Historic Buildings **£000s**	Artwork - Paintings & Sculptures **£000s**	Archives **£000s**	Historical & Archaeo-logical Artefacts **£000s**	Civic Regalia **£000s**	Total Heritage Assets **£000s**
Cost or Valuation						
At 1 April 2014	**1,213**	**3,290**	**2,515**	**100**	**16**	**7,134**
Additions				19		**19**
Donations				19		**19**
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		144	58		1	**203**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2015	**1,213**	**3,434**	**2,573**	**138**	**17**	**7,375**
Cost or Valuation						
At 1 April 2015	**1,213**	**3,434**	**2,573**	**138**	**17**	**7,375**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		288				**288**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2016	**1,213**	**3,722**	**2,573**	**138**	**17**	**7,663**

Note 19 - Heritage Assets

Historic Environment & Monuments

Eight windmills are included in the balance sheet at a value of £1.102m, which represents spend on these assets. These are either Grade I or II listed buildings and are located across Kent. KCC first took windmills into our care in the 1950s when, with the millers gone, there was no one else to protect these landmark buildings. We now own eight, ranging from Post Mills of Chillenden and Stocks at Wittersham to the magnificent Smock Mill at Cranbrook – the tallest in England

Kent County Council works with local groups to actively preserve the future of the windmills and to support their repair and, where records exist, restoration. We also encourage improvements to the buildings and sites, to encourage greater public access and greater use of the windmills as an educational resource.

Thurnham Castle, located within White Horse Wood Country Park is a late 11th/early 12th century motte and bailey castle with gatehouse and curtain walls in flint and traces of an oval or polygonal shell keep, built on a steep spur of the North Downs. Above ground remains consist of some surviving sections of walling and earthworks of the main castle mound. This is valued at £111k in the balance sheet which represents spend on the asset. Situated within Shorne Woods Country Park is the site of the medieval manor house **Randall Manor**. The site now consists of below ground archaeological remains, along with earthworks relating to associated fish ponds and field systems.

Hildenborough war memorial consists of a cross shaft with a carved relief of a crucifixion scene. It stands on a plinth on a stepped dais. The inscription to the dead of the First World War is on the front face of the plinth below the cross with names on the side faces and additional names of the fallen on the risers of the steps.

The former World War II Air Raid Wardens' post stands in a fenced and partly walled enclosure at the side of the steps down from Folkestone Road to the approach to Dover Priory railway station. It is a small flat-roofed concrete structure with all apertures boarded up.

Martello Tower No. 5 situated at Folkestone Grammar School is a Scheduled Monument, one of a chain of forts that protected the south coast from the threat of invasion in the Napoleonic period. It stands within the grounds of the school, immediately west of the buildings.

The **church of St Martin-le-Grand and remains of the Dover Classis Britannica fort** are incorporated and displayed at the Dover Discovery Centre, which houses Dover Library. It was formerly the White Cliffs Experience. The Roman remains relate to the 2nd century fort that occupied the site and the area to the southwest. The church of St Martin-le-Grand was an early foundation that developed through the medieval period. At the time of the Reformation it fell into disuse and buildings were constructed in and around the church. The remains of the church are exposed in the land between the centre and the museum to the northeast.

A grade ll listed **Statue of Queen Victoria** is situated outside of the Adult Education Centre, Gravesend.

Artwork

Included in the balance sheet, at insurance valuations, are the following collections:
The Master collection of 16th-19th century prints and drawings, valued at £1545k, currently on loan to Folkestone Town Council but still held at the Kent History and Library Centre.

Kent Visual Arts Loan Service, a collection of c.1500 pieces of original artwork currently held in storage at Sessions House, valued at £595k.

The Antony Gormley Boulders Sculpture, the sculptors' first professional commission, valued at £700k. The sculpture is a single piece, in that the two parts are inextricably linked. The hollow bronze piece is a facsimile of the granite stone. The work represents the "old and the new" sitting side by side in harmony and is located at the Kent History and Library Centre.

Contemporary collection of c. 200 artworks (6 out 7 collections) in storage in Sessions House, valued at £273k.

KCC Sessions House collection, valued at £68k.

Glass Screen by Chris Ofili valued at £400k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

Kent History Tree & Leaves valued at £141k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condron. It is an 8 metre stainless steel tree, adorning the front of the building, with translucent mosaic at its base and 17 steel and mosaic leaves changing from green to red blowing along the pillars.

Note 19 - Heritage Assets

Archive Collections

Kent County Council looks after its own records and those of its predecessor authorities. In addition it collects and makes accessible other historic records under the terms of the 1962 Public Records Act and the 1972 Local Government Act. These records include those of public bodies such as courts, health trusts and coroners, of district councils and of individuals and organisation in the county. There are about 12kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the Kent History Centre in Maidstone. Approximately 25% of the records are owned by KCC, the values of which are included in the balance sheet as follows (valuations are insurance valuations unless otherwise specified):

General archive collections - £706k

Knatchbull/Brabourne Manuscripts. £1,367k. Family and estate papers relating to the Knatchbull/Brabourne family comprising of accounts, correspondence, legal papers and manorial records.

Rare Books collection, valued at £200k based on an informal estimate given by an antiquarian book dealer.

Amherst Family Papers £300k based on a valuation obtained before they were bought via a Heritage Lottery Fund bid.

The **Kent Historic Environment Record** is primarily a digital database (including GIS display) of Kent's archaeological sites, find spots, historic buildings and historic gardens. It also includes paper records of archaeological, historic building and historic landscape reports. The County aerial photograph series is now located in the Kent History centre.

Archaeological & historical artefacts

Kent County Council has accepted ownership of the majority of the **HS1 archaeological archives** as owner of last resort to prevent the collections from being broken up or disposed of. The collections comprise approximately 70 cubic metres of boxes containing archaeological artefacts including pottery, bone, stone, metalwork and worked flint. They are generally of little financial value. The collections are currently housed half at Kent Commercial Services, Aylesford, half in a store at Dover Eastern Docks, a small number of items in Invicta House, Maidstone and waterlogged wood in Chatham Historic Dockyard. During 2014-15 in order to keep the HS1 archive together in one ownership KCC has also acquired the finds from the Anglo-Saxon cemetery excavations at Saltwood Tunnel which have been declared as treasure under the Treasure Act 1996 and valued at £37.5k. The finds are currently stored at the British Museum but will be moved to Kent in 2016.

KCC owns approximately 2,900 objects of social history, archaeological and geological, prints and drawings and other material housed at **Sevenoaks Kaleidoscope Museum**. A marble **roman bust & portrait**, found at Lullingstone Villa, dating back to 2nd Century AD are valued at £60k and £40k respectively. These are currently on long term loan from Sevenoaks Museum to the British Museum.
There is a collection of around 100 artefacts kept at **Ramsgate Library**, remnants of a fire at the library in 2004, including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

Folkestone library museum collection includes around 10,000 artefacts and archival material relating to the history of Folkestone. It includes around 500 artworks housed at Folkestone library, one at Sandgate Library, and up to 10 at Sessions House. The museum includes archaeology, social, military and civil history and includes collections in store and on display in the History Resource Centre. During 14/15 the collection was placed on a 5 year loan to Folkestone Town Council.

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

Civic Regalia

KCC's silver collection is valued at £17k. This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup and The 500 Squadron Silver collection.

Note 20. Leases

Accounting Policy

Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- contingent rents, the difference between the rent paid in year and the original amount agreed in the contract (e.g. following a rent review) also debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense on the same basis as rental income.

Note 20 - Leases

The Council as Lessee

Operating Leases

Following a review on the materiality of lease values we found that only operating leases where the Council is the lessee were deemed to be material. The values are represented in the tables below.

The Council has acquired property, motor vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 Mar 2016 £'000	31 Mar 2015 £'000
Not later than one year	5,380	9,416
Later than one year and not later than five years	13,042	14,828
Later than five years	17,847	16,485
	36,269	40,729

KCC sub-lets some properties held as operating leases. In most cases the amount charged to the tenants for sub-leases is nil. For those where we do charge, the future minimum sub-lease payments expected to be received by the Authority is £16.6m over the remaining life of the 25 year lease.

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

	31 Mar 2016 £'000	31 Mar 2015 £'000
Minimum lease payments	6,404	10,031
Contingent rents	74	161
Sublease payments receivable	-757	-757
	5,721	9,435

Note 21. Usable Reserves

Accounting Policy

The Council holds general fund reserves as a consequence of income exceeding expenditure, budgeted contributions to reserves or where money has been earmarked for a specific purpose. These reserves are set at a level appropriate to the size of the budget and the level of assessed risk.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

Reserve	**Balance 1 April 2015 £'000**	**Net Movement in year £'000**	**Balance 31 March 2016 £'000**	**Purpose of Reserve**
Usable Capital Receipts	-23,229	-300	-23,529	Proceeds of fixed assets and loan repayments available to meet future Capital Expenditure
General Fund	-34,725	-2,488	-37,213	Resources available to meet future unforeseen events
Capital Grants unapplied	-87,760	36,433	-51,327	See note below
Earmarked Reserves*	-168,276	3,762	-164,514	See Note 23
Schools Reserve*	-54,009	7,648	-46,361	See over page
Surplus on Trading Accounts*	-2,949	2,370	-579	Commercial Services and Oakwood House
Total	**-370,948**	**47,425**	**-323,523**	

Capital grants unapplied of £51.327m as at 31 March 2016 include schools capital reserves of £61k. This has increased from the -£552k held by schools as at 31 March 2015. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2016 funds held in school revenue reserves stood at £46,361k. These reserves are detailed in the table below.

	Balance at 1 April 2015 £'000	Movement £'000	Balance at 31 Mar 2016 £'000
School delegated revenue budget reserves - committed	-9,849	-625	-10,474
School delegated revenue budget reserves - uncommitted	-32,289	3,504	-28,785
Unallocated Schools budget	-11,569	4,718	-6,851
Community Focused Extended School Reserves	-302	51	-251
	-54,009	7,648	-46,361

Note 22. Unusable Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice.

Reserve	Balance 1 April 2015 £'000	Net Movement in year £'000	Balance 31 March 2016 £'000	Purpose of Reserve
Revaluation Reserve	-349,263	-166,850	-516,113	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-551,563	-90,890	-642,453	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	18,099	2,059	20,158	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-13,496	-1,104	-14,600	Movement between the I & E and amount required by regulation to be credited to the General Fund
Pensions Reserves				
- KCC	1,344,583	-132,281	1,212,302	Balancing account to allow inclusion of Pensions Liability in Balance Sheet
- DSO	2,070	-269	1,801	
Available for Sale Financial Instruments	297	311	608	
Accumulated Absences Account	10,021	1	10,022	This absorbs the differences on the General Fund from accruing for untaken annual leave

Note 22 - Unusable Reserves

Reserve	Balance 1 April 2015 £'000	Net Movement in year £'000	Balance 31 March 2016 £'000	Purpose of Reserve
Post Employment Account	6,094	524	6,618	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	**466,842**	**-388,499**	**78,343**	

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment . The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2015-16 £'000		2014-15 £'000	
Balance as at 1st April		-349,263		-243,709
Upward revaluation of assets	-207,013		-158,372	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	19,149		36,721	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-187,864		-121,651
Difference between fair value depreciation and historical cost depreciation	11,918		6,902	
Accumulated gains on assets sold or scrapped	9,096		9,195	
Amount written off to the Capital Adjustment Account		21,014		16,097
Balance at 31 March		-516,113		-349,263

Note 22 - Unusable Reserves

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2015-16 £'000		2014-15 Restated £'000	
Balance at 1 April		-551,563		-497,190
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
- Charges for depreciation and impairment of non-current assets	138,967		136,483	
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	-23,731		-19,760	
- Income in relation to donated assets	-26,341		-19	
- Amortisation of intangible assets	2,222		1,914	
- Revenue expenditure funded from capital under statute	101,143		74,914	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	31,199		38,207	
		223,459		231,739
Adjusting amounts written out of the Revaluation Reserve		-21,014		-16,096
Net written out amount of the cost of non-current assets consumed in the year		-349,118		-281,547
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	-16,874		-18,601	

Note 22 - Unusable Reserves

	2015-16		2014-15	
	£'000		£'000	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-137,590		-110,764	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-56,658		-62,344	
- Statutory provision for the financing of capital investment charged against the General Fund	-64,511		-65,312	
- Capital expenditure charged against the General Fund	-14,857		-13,978	
		-290,490		-270,999
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-9,992		983
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-400		
Write down of long term debtors		7,548		
Balance at 31 March		-642,452		-551,563

Note 22 - Unusable Reserves

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2015-16		2014-15	
	£'000		£'000	
Balance at 1 April		18,099		16,933
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0		0	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-950		-950	
		-950		-950
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		3,009		2,116
Balance at 31 March		20,158		18,099

Note 22 - Unusable Reserves

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	1,346,653	1,029,203
Remeasurement of the net defined liability/(asset)	-195,936	270,199
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	133,376	117,822
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,990	-70,571
Balance at 31 March	1,214,103	1,346,653

Collection Fund Adjustment Account

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

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	-13,496	-7,854
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	-1,104	-5,642
Balance at 31 March	-14,600	-13,496

Note 22 - Unusable Reserves

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2015-16		2014-15	
	£'000		£'000	
Balance at 1 April		10,021		10,525
Settlement or cancellation of accrual made at the end of the preceding year	-10,021		-10,525	
Amounts accrued at the end of the current year	10,022		10,021	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1		-504
Balance at 31 March		10,022		10,021

Post Employment Account

The Post Employment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for early retirement and redundancy payments that are agreed in year but are due in future years. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2015-16		2014-15	
	£'000		£'000	
Balance at 1 April		6,094		7,583
Settlement or cancellation of accrual made at the end of the preceding year	-3,104		-3,918	
Amounts accrued at the end of the current year	3,628		2,429	
		524		-1,489
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements				
Balance at 31 March		6,618		6,094

Note 22 - Unusable Reserves

Available for Sale Financial Instruments Reserve

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

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

	2015-16		2014-15	
	£'000		£'000	
Balance at 1 April		297		-26
Upward revaluation of investments	-866		-437	
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Service	1,177		760	
		311		323
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income				
Balance at 31 March		608		297

Note 23. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2015-16 budget setting process. A similar process was undertaken as part of the 2016-17 budget setting process and as a result a further draw down of reserves is planned for 2016-17. Our Corporate Director of Finance and Procurement, who is responsible for setting the level of Reserves, has deemed the level to be 'adequate' given the level of risk that we face.

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2015 or 31 March 2016, the sum of which are shown in the tables on pages 85 and 86.

Vehicles, plant and equipment (VPE)

This is a reserve for the replacement and acquisition of vehicles, plant and equipment.

Special funds

These are reserves held primarily to facilitate the implementation of economic development and tourism initiatives and policy and regeneration expenditure.

Kings Hill development smoothing reserve

Comprises the County Council share of distribution from proceeds of the Kings Hill development received in accordance with the terms of the Development Agreement. These distributions can vary considerably from year to year so this reserve is used to smooth the impact on the revenue budget over the medium term.

Swanscombe School PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments for the Swanscombe School PFI scheme. The reserve will comprise of contributions from the Education revenue budget and a proportion of grant funding received from the UK Government.

Six Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 6 schools' PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the UK Government.

Three Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 3 schools' PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the UK Government.

Excellent Homes for All 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 Excellent Homes for All PFI scheme.

Westview and Westbrook PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, Section 31 pooled budget contributions and government grant funding for the Westview and Westbrook PFI scheme.

Better Homes Active Lives PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, contract management costs and government grant funding for the Better Homes Active Lives scheme.

Note 23 - Earmarked Reserves

Responding to Government Deficit Reduction Reserve

This reserve is to support further transformation of services in order for the Council to be able to set future budgets that reflect continuing demand for services within reducing government funding levels.

Corporate Reserve for Social Care funding issues

This reserve is to cover the several new and ongoing issues within Social Care, including Better Care Fund, Care Act and Deprivation of Liberty Safeguards, where we are at risk that funding levels are insufficient.

Payments Reserve

This reserve provides funding for a proportion of unreceipted orders between KCC and suppliers and potential future iProc obligations relating to previous years. The need for and level of the reserve will be reviewed each year.

Council Tax Equalisation Reserve

The reserve will be called upon each year to smooth the impact of the Council Tax increases plus any amounts need to pay for agreements with individual district councils regarding the impact of Council Tax Support claimants.

Corporate Restructuring Reserve

Given the level of savings required in Local Government over recent and future years, this reserve was set up, largely from underspending in 2009-10, to fund invest-to-save projects which are essential to helping us re-engineer our business efficiently.

NHS Support for Social Care Reserve

Kent PCT funding transferred to Kent County Council to aid the provision of Social Care Services which are to benefit health and to improve overall health gain. KCC and the Clinical Commissioning Groups continued to work together to agree jointly appropriate areas for investment which were funded from this reserve.

Drug & Alcohol Treatment Reserve

This reserve is funding from the National Treatment Agency which is to be spent on the provision of substance misuse treatment and Family Drug & Alcohol Courts as qualifying expenditure is incurred.

Public Health reserve

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

Environmental Initiatives reserve

This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners.

External Funding Pump Priming reserve

This reserve is to provide a pump priming facility for externally funded projects whilst the new project bids are being prepared and to assist in providing match funding for partnership projects.

Rolling budget reserve

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

Emergency Conditions reserve

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

Note 23 - Earmarked Reserves

Safety Camera Partnership reserve

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

Elections reserve

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and by-elections. A contribution is made to the reserve each year in order to even the impact upon the council tax.

Dilapidations reserve

This reserve is to provide for the potential dilapidation costs that the Council faces when existing leases for office accommodation cease.

Modernisation of the Council (formerly Workforce Reduction) reserve

This reserve is to provide for the redundancy and other costs relating to modernising the services of the council and for potential staffing reductions required to achieve budget savings.

IT Asset Maintenance reserve

This reserve will contribute to the funding of the IT refresh programme which will give the Council ongoing and sustainable capacity to replace ageing technology.

Finance Business Solutions reserve

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

Earmarked Reserve to support future year's budget

The approved medium term plan for 2016-19 includes support from central reserves from the residual underspending in 2014-15 and from a review of reserve balances which includes the Reserve for projects previously classified as capital but now considered to be revenue, the Economic Downtown reserve and the Supporting People reserve. These funds have been transferred to the reserve to be drawndown over the medium term in line with the approved budget proposals.

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.

Dedicated Schools Grant (Central Expenditure) Reserve

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

Note 23 - Earmarked Reserves

Turner Contemporary Investment Reserve

This reserve has been created from the settlement from the original Turner Contemporary gallery design and will be supplemented at the end of each year by the interest earned from its investment as part of KCC balances. It is used to part fund the annual contribution to the Turner Contemporary trust under the grant agreement dated 30th March 2010.

Kent Lane Rental Scheme Reserve

This is a scheme, approved by the Department of Transport, where companies, such as utility companies, pay to rent lanes on the most critical/busiest roads of our network, whilst they undertake works. The Council will retain revenues obtained from operating the scheme to meet the costs incurred in operating the scheme, with any surplus revenue used for initiatives associated with the objectives of the scheme. A board, including representatives from each utility area and from Kent County Council, oversee the administration of the surplus revenues in this reserve.

Public Inquiries Reserve

This reserve is required to smooth the fluctuations in costs incurred in major strategic developments and defence of the County Council's position at a public inquiry, either at an appeal against a County Council's enforcement decision or in response to a strategic decision determined by a Local Planning Authority.

Insurance Reserve

This is a reserve for the potential cost of insurance claims in excess of the amount provided for in the insurance fund provision.

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 2016-17 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 23 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2015	Movement	Balance at 31 Mar 2016
	£'000	£'000	£'000
VPE reserve	-11,928	-1,000	-12,928
Special funds	-688	123	-565
Kings Hill development smoothing reserve	-7,016	2,000	-5,016
Swanscombe School PFI equalisation reserve	-1,075	260	-815
Six schools PFI	-373	-226	-599
Three schools PFI	-7,086	-1,577	-8,663
Excellent Homes for All PFI	0	-1,048	-1,048
Westview/Westbrook PFI equalisation reserve	-2,880	-280	-3,160
Better Homes Active Lives PFI equalisation reserve	-3,014	-100	-3,114
Reserve for projects previously classified as capital - now revenue	-1,322	1,322	0
Economic Downturn reserve	-5,108	5,108	0
Responding to Government Deficit Reduction reserve	-11,463	2,873	-8,590
Corporate Reserve for Social Care Funding Issues	-3,972	-1,580	-5,552
Payments reserve	-2,980	-1,000	-3,980
Council Tax Equalisation reserve	-11,205	-750	-11,955
Corporate Restructuring reserve	-4,224	4,036	-188
Supporting People reserve	-1,729	1,729	0
NHS Support for Social Care reserve	-679	679	0
Drug & Alcohol Treatment reserve	-4,134	3,934	-200
Public Health reserve	-2,073	85	-1,988
Environmental initiatives reserve	-1,796	1,201	-595
External Funding Pump Priming reserve	0	-505	-505
Rolling budget reserve	-12,924	-2,661	-15,585
Emergency Conditions reserve	-1,983	0	-1,983
Safety Camera Partnership reserve	-881	-275	-1,156
Elections reserve	-570	-531	-1,101
Dilapidations reserve	-4,576	838	-3,738
Modernisation of the Council (formerly Workforce Reduction) reserve	-8,708	-1,857	-10,565
IT Asset Maintenance reserve	-5,439	-2,245	-7,684
Finance Business Solutions reserve	-1,049	644	-405
Earmarked reserve to support future year's budget	-5,900	-4,955	-10,855
Prudential Equalisation reserve	-8,840	0	-8,840
Dedicated Schools Grant - Central Expenditure	-10,375	1,825	-8,550
Turner Contemporary Investment reserve	-1,351	195	-1,156
Kent Lane Rental Scheme reserve	-641	-821	-1,462
Public Inquiries reserve	-648	97	-551
Other	-3,382	1,316	-2,066
Total	-152,012	6,854	-145,158
Insurance Reserve			
KCC	-8,435	-2,470	-10,905
	-160,447	**4,384**	**-156,063**
Commercial Services Earmarked Reserves	-2,848	-622	-3,470
EKO	-4,981	0	-4,981
Total Earmarked Reserves	**-168,276**	**3,762**	**-164,514**

Note 23 - Earmarked Reserves

Other Earmarked Reserves	**Balance at 1 April 2014**	**Movement**	**Balance at 31 Mar 2015**
	£'000	£'000	£'000
VPE reserve	-11,080	-848	-11,928
Special funds	-2,546	1,858	-688
Kings Hill development smoothing reserve	-6,596	-420	-7,016
Swanscombe School PFI equalisation reserve	-1,359	284	-1,075
Six schools PFI	-221	-152	-373
Three schools PFI	-5,847	-1,239	-7,086
Westview/Westbrook PFI equalisation reserve	-2,632	-248	-2,880
Better Homes Active Lives PFI equalisation reserve	-2,914	-100	-3,014
Reserve for projects previously classified as capital - now revenue	-1,345	23	-1,322
Economic Downturn reserve	-19,086	13,978	-5,108
Responding to Government Deficit Reduction reserve	0	-11,463	-11,463
Corporate Reserve for Social Care Funding Issues	0	-3,972	-3,972
Payments reserve	0	-2,980	-2,980
Council Tax Equalisation reserve	-10,537	-668	-11,205
Corporate Restructuring reserve	-6,959	2,735	-4,224
Supporting People reserve	-1,943	214	-1,729
NHS Support for Social Care reserve	-5,054	4,375	-679
Drug & Alcohol Treatment reserve	-4,134	0	-4,134
Public Health reserve	-2,906	833	-2,073
Environmental initiatives reserve	-1,928	132	-1,796
Rolling budget reserve	-10,919	-2,005	-12,924
Emergency Conditions reserve	0	-1,983	-1,983
Flood Repairs reserve	-3,344	2,845	-499
Safety Camera Partnership reserve	-605	-276	-881
Elections reserve	0	-570	-570
Dilapidations reserve	-4,186	-390	-4,576
Workforce Reduction reserve	-7,213	-1,495	-8,708
KPSN Re-procurement reserve	-568	553	-15
IT Asset Maintenance reserve	-4,892	-547	-5,439
Finance Business Solutions reserve	-1,029	-20	-1,049
Earmarked reserve to support future year's budget	-4,000	-1,900	-5,900
Prudential Equalisation reserve	-8,993	153	-8,840
Dedicated Schools Grant - Central Expenditure	-9,926	-449	-10,375
Turner Contemporary Investment reserve	-1,545	194	-1,351
Kent Lane Rental Scheme reserve	-98	-543	-641
Public Inquiries reserve	-858	210	-648
Other	-2,803	-65	-2,868
Total	-148,066	-3,946	-152,012
Insurance Reserve			
KCC	-5,622	-2,813	-8,435
	-153,688	**-6,759**	**-160,447**
Commercial Services Earmarked Reserves	-2,128	-720	-2,848
EKO	-4,981		-4,981
Total Earmarked Reserves	**-160,797**	**-7,479**	**-168,276**

Note 24. Provisions

Accounting Policy

It is the policy of Kent County Council to make provisions in the Accounts where there is a legal or constructive obligation to make a payment but the amount or timing of the payment is uncertain. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

The Council has made a provision for insurance claims. The Council's insurance arrangements involve both internal and external cover. For internal cover an Insurance fund has been established to provide cover for property, combined liability and motor insurance claims. The fund comprises a Provision for all claims notified to the Council at 31 March each year and a Reserve for claims not yet reported but likely to have been incurred.

The Post Employment Provision covers the costs of early retirements, redundancy costs and any other post employment costs for ex-employees/employees who have confirmed leaving dates.

The Accumulated Absences Provision is required to cover the costs of annual leave entitlements carried over to the following financial year. If an employee were to leave, they would be entitled to payment for this untaken leave.

	Insurance	Post Employment	Accumulat-ed Absences	Other Provisions	Total
	£'000	£'000	£'000	£'000	£'000
Short Term					
Balance at 1 April 2015	-4,939	-4,611	-10,021	-2,738	-22,309
Additional Provisions made in 2015-16	-2,812	-3,290	-6,756	-1,970	-14,828
Amounts used in 2015-16	3,398	4,547	6,755	1,393	16,093
Unused amounts reversed in 2015-16		131		1,007	1,138
Balance at 31 March 2016	**-4,353**	**-3,223**	**-10,022**	**-2,308**	**-19,906**
Long Term					
Balance at 1 April 2015	-9,848	-2,991	0	-679	-13,518
Additional/Reduction in Provisions made in 2015-16	536	-791			-255
Amounts used in 2015-16				209	209
Unused amounts reversed in 2015-16				380	380
Balance at 31 March 2016	**-9,312**	**-3,782**	**0**	**-90**	**-13,184**
Total Provisions at 31 March 2016	**-13,665**	**-7,005**	**-10,022**	**-2,398**	**-33,090**

Insurance

Included within the insurance provision is £980k for the MMI provision.

Post Employment

The provision relates to early retirements and redundancies, and are individually insignificant.

Accumulated Absences

The provision relates to annual leave entitlement carried forward at 31 March 2016. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

All other provisions are individually insignificant.

Note 25 - Amounts owed to the Council by debtors

	At 31 March 2016 £000's	At 31 March 2015 £000's
Long Term debtors:		
Medway Council (transferred debtor)	38,511	40,116
Public bodies	675	967
Other	50,735	45,817
	89,921	86,900
Other debtors:		
Government Departments	26,449	21,424
Other Local Authorities	4,316	2,188
NHS Bodies	144	452
General debtors	120,194	127,907
Payments in advance	16,634	16,159
EKO	466	425
	168,203	168,555

Capital short term debtors amounting to £1.5m are included in the Accounts at 31 March 2016 (£3.4m in 2014-15). These relate to grants and external funding towards capital expenditure incurred in 2015-16 which had not been received by 31 March 2016.

Note 26 - Creditors and Note 27 - Cash and Cash Equivalents

Note 26. Amounts owed by the Council to creditors

	At 31 March 2016 £000's	At 31 March 2015 £000's
Central government bodies	11,108	9,819
Other local authorities	4,607	2,254
NHS bodies	1,752	2,480
General creditors	190,908	193,821
Receipts in advance	19,286	16,520
Deferred income	634	547
Kent and Essex Inshore Fisheries & Conservation Authority	1,030	1,296
EKO	23	39
	229,348	226,776
Creditors due after 1 year	47	5,341

Capital creditors amounting to £24m are included in the Accounts at 31 March 2016 (£20m in 2014-15).

Note 27. Cash and Cash Equivalents

Accounting Policy

Cash is represented by cash in hand/overdraft and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They comprise call and business accounts.

In the Cash Flow Statement and Balance Sheet, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

The balance of Cash and Cash Equivalents is made up of the following elements:

	At 31 March 2016 £000's	At 31 March 2015 £000's
Bank current accounts	1,760	1,711
Call accounts (same day access funds)	49,709	101,060
Total Cash and Cash Equivalents	51,469	102,771

Notes 28 and 29 - Cash Flow - Non Cash Adjustments and Operating Activities

Note 28. Cash Flow - Non Cash Adjustments

	2015-16	2014-15
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-63,386	-47,251
Carrying amount of non-current assets sold	-31,199	-38,206
Amortisation of fixed assets	-2,222	-1,914
Depreciation of fixed assets	-138,967	-136,200
Impairment & downward valuations	23,731	19,477
Increase/(decrease) debtors	-7,344	3,049
(Increase)/decrease creditors	9,446	8,353
Increase/(decrease) stock	321	-172
Movement on investment properties	9,992	-983
REFCUS	-101,143	-74,914
Other non-cash items charged to the net surplus/deficit on the Provision of Services	2,222	10,691
	-298,549	-258,070
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property plant and equipment, investment property and intangible assets	6,646	7,123
Capital grants applied	187,536	141,919
	194,182	149,042
	-104,367	-109,028

Note 29. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2015-16	2014-15
	£'000	£'000
Interest received	-7,529	-5,200
Interest paid	73,807	77,296
Employee Costs	834,302	849,956
Income from Council Tax	-608,324	-584,767
Government Grants	-1,364,074	-1,418,734

Notes 30 and 31 - Cash Flow - Investing and Financing Activities

Note 30. Cash Flow Statement - Investing Activities

	2015-16	2014-15
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	252,551	163,187
Purchase of short-term and long-term investments	654,927	1,337,008
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-6,228	-7,336
Proceeds from short-term and long-term investments	-631,589	-1,322,989
Other receipts from investing activities	-164,199	-133,425
Net cash flows	105,462	36,445

Note 31. Cash Flow Statement - Financing Activities

	2015-16	2014-15
	£'000	£'000
Cash receipts of short- and long-term borrowing	-26,500	0
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities	0	0
relating to finance leases and on-balance sheet PFI contracts	2,341	23,068
Repayments of short- and long-term borrowing	31,001	26,193
Other payments for financing activities	0	0
Net cash flows from financing activities	6,842	49,261

Note 32. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

	Year ended 31 March 2016				
	Education & Young People	**Social Care, Health & Wellbeing**	**Growth, Environ-ment & Transport**	**Strategic & Corporate Services**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-114,515	-133,082	-39,823	-89,267	-376,687
Government Grants	-782,654	-113,590	-3,216	-7,144	-906,604
Total Income	-897,169	-246,672	-43,039	-96,411	-1,283,291
Employee expenses	553,632	149,102	49,021	71,087	822,842
Other operating expenses	376,556	548,037	161,595	217,159	1,303,347
Support Service recharges	20,868	29,696	3,213	26,527	80,304
Total operating expenses	951,056	726,835	213,829	314,773	2,206,493
Net Cost of Services	53,887	480,163	170,790	218,362	**923,202**

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

	£000's
Cost of Services in service analysis	923,202
Add services not included in main analysis	
Add amounts not reported to management	262,133
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-225,330
Net Cost of Services in Comprehensive Income & Expenditure Statement	**960,005**

Note 32 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2016 Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-376,687		114	28,630	-176,687
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants	-906,604		32,452		
Total Income	**-1,283,291**	**0**	**32,566**	**28,630**	**-176,687**
Employee expenses	822,842		20,345		
Other service expenses	1,303,347		118,134	-253,225	176,687
Support Service recharges	80,304				
Depreciation, amortisation and impairment			116,754		
IAS 19 Adjustments					
Interest payments					
Precepts & Levies				-735	
Gain or Loss on Disposal of Fixed Assets			-25,666		
Total operating expenses	**2,206,493**	**0**	**229,567**	**-253,960**	**176,687**
Surplus or deficit on the provision of services	**923,202**	**0**	**262,133**	**-225,330**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	£000's	£000's
Fees, charges & other service income	-524,630		**-524,630**
Surplus or deficit on associates and joint ventures			**0**
			0
Interest and Investment Income		-28,630	**-28,630**
Income from council tax	0	-608,324	**-608,324**
Government grants	-874,152	-379,636	**-1,253,788**
Total Income	**-1,398,782**	**-1,016,590**	**-2,415,372**
Employee expenses	843,187		**843,187**
Other service expenses	1,344,943		**1,344,943**
Support Service recharges	80,304		**80,304**
Depreciation, amortisation and impairment	116,754		**116,754**
IAS 19 Adjustments	0		**0**
Interest payments		73,549	**73,549**
Precepts & Levies	-735	735	**0**
Gain or Loss on Disposal of Fixed Assets	-25,666	25,666	**0**
Total operating expenses	**2,358,787**	**99,950**	**2,458,737**
Surplus or deficit on the provision of services	**960,005**	**-916,640**	**43,365**

Note 32 - Amounts Reported for Resource Allocation Decisions

	Restated Year ended 31 March 2015				
	Education & Young People	**Social Care, Health & Wellbeing**	**Growth, Environ-ment & Transport**	**Strategic & Corporate Services**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-95,996	-126,275	-39,699	-68,604	-330,574
Government Grants	-809,552	-75,779	-3,992	-9,415	-898,738
Total Income	-905,548	-202,054	-43,691	-78,019	-1,229,312
Employee expenses	565,965	142,441	51,111	76,079	835,596
Other operating expenses	373,927	513,522	166,615	236,725	1,290,789
Support Service recharges	22,920	14,589	3,351	5,585	46,445
Total operating expenses	962,812	670,552	221,077	318,389	2,172,830
Net Cost of Services	57,264	468,498	177,386	240,370	**943,518**

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

	£000's
Cost of Services in service analysis	943,518
Add services not included in main analysis	
Add amounts not reported to management	228,728
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-246,311
Net Cost of Services in Comprehensive Income & Expenditure Statement	**925,935**

	Restated Year ended 31 March 2015				
Reconciliation to Subjective Analysis	**Service Analysis**	**Services not in Analysis**	**Not reported to mgmt**	**Not included in I&E**	**Allocation of Recharges**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other service income	-330,574		-389	15,710	-141,604
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax			5,641		
Government grants	-898,738		29,112	0	
Total Income	**-1,229,312**	**0**	**34,364**	**15,710**	**-141,604**

Note 32 - Amounts Reported for Resource Allocation Decisions

Employee expenses	835,596		3,784		
Other service expenses	1,290,789		100,225	-260,249	141,604
Support Service recharges	46,445				
Depreciation, amortisation and impairment			118,637		
IAS 19 Adjustments			3,804		
Interest payments					
Precepts & Levies				-728	
Gain or Loss on Disposal of Fixed Assets			-32,086	-1,044	
Total operating expenses	**2,172,830**	**0**	**194,364**	**-262,021**	**141,604**
Surplus or deficit on the provision of services	**943,518**	**0**	**228,728**	**-246,311**	**0**

Reconciliation to Subjective Analysis	**Net Cost of Services**	**Corporate Amounts**	**Total**
	£000's	**£000's**	**£000's**
Fees, charges & other service income	-456,857		**-456,857**
Surplus or deficit on associates and joint ventures			**0** **0**
Interest and Investment Income		-15,709	**-15,709**
Income from council tax	5,641	-584,767	**-579,126**
Government grants	-869,626	-407,505	**-1,277,131**
Total Income	**-1,320,842**	**-1,007,981**	**-2,328,823**
Employee expenses	839,380		**839,380**
Other service expenses	1,272,369		**1,272,369**
Support Service recharges	46,445		**46,445**
Depreciation, amortisation and impairment	118,637		**118,637**
IAS 19 Adjustments	3,804	0	**3,804**
Interest payments		77,188	**77,188**
Precepts & Levies	-728	728	**0**
Gain or Loss on Disposal of Fixed Assets	-33,130	32,086	**-1,044**
Total operating expenses	**2,246,777**	**110,002**	**2,356,779**
Surplus or deficit on the provision of services	**925,935**	**-897,979**	**27,956**

Note 33. Trading Operations

The results of the various trading operations for 2015-16 are shown below prior to transfers to and from reserves.

Business unit/activity	**Turnover** £'000	**Expenditure** £'000	**Surplus/ Deficit(-) 2015-16** £'000	**Surplus/ Deficit(-) 2014-15** £'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	56,079	52,891	3,188	3,603
Brokerage Services Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for ELS, E&E & FSC	259,760	258,602	1,158	2,057
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	885	871	14	-135
Total surplus	316,724	312,364	4,360	5,525

The trading surplus excludes the wholly owned subsidiaries. Information on these can be found in Note 41 on page 116.

Note 34. Audit Costs

In 2015-16 the following fees were paid relating to external audit and inspection :

	2015-16 £'000	2014-15 £'000
Fees payable to Grant Thornton for external audit services carried out by the appointed auditor	156	208
Fees payable in respect of other services provided by the appointed auditor	76	23
	232	231

Note 35. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015-16 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2015-16 before Academy recoupment			1,073,753
Academy figure recouped for 2015-16			396,860
Total DSG after Academy recoupment for 2015-16			676,893
Brought forward from 2014-15			19,241
Carry Forward to 2016-17 agreed in advance			0
Agreed initial budget distribution in 2015-16	141,882	554,252	696,134
In year adjustments	-29,270	30,203	933
Final budgeted distribution in 2015-16	112,612	584,455	697,067
Less actual central expenditure	99,781		
Less Actual ISB deployed to schools		584,082	
Plus Local Council contribution for 2015-16	0	0	0
Carry Forward to 2016-17	12,831	373	13,204 *

Notes *
The total carry forward to 2016-17 of £13,204k represents a carry forward of £8,549k on the centrally retained DSG budget and £4,655k on the schools' unallocated budget. The schools unallocated reserve now stands at over £4.6m, and its use is determined by the Schools' Funding Forum. It should be noted that the Schools' Forum have now committed the majority of the unallocated reserve and it is estimated that the majority will be spent in 2017-18.

Note 36. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 31 on reporting for resources allocation decisions.

Other Public Bodies (subject to common control by central government)

The Council has pooled budget arrangements for the provision of a range of services including drug and alcohol related services, registered nursing care contribution in care homes and integrated care centres providing nursing, respite and recuperative care to Older People.

Payments of Employers' Pension Contributions were made to the Pension Fund in respect of members of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The amounts of these payments are detailed in notes to the Consolidated Income and Expenditure Statement, Note 37 on pages 99 to 105 of these Accounts.

As administrator of the Kent Pension Fund, KCC has direct control of the Fund. Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £2.706m and cash held by the Pension fund on behalf of KCC is £0.645m.

Payments to other local authorities and health bodies, excluding precepts, totalled £67.7m.

Receipts from other local authorities and health bodies totalled £61.3m.

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 41.

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

CST sales amounted to £2m. CST made purchases from KCC amounting to £2.8m.

CSK sales to KCC amounted to £21.2m. CSK made purchases from KCC amounting to £0.7m.

A loan of £0.429m was made to East Kent Opportunities LLP in 2010-11, and this, with existing loans and recharges of internal services provided, leaves a balance of £0.071m in 2015-16.

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

Active companies with less than 50% control	Payments made in 15-16
	£
Digital Contac Ltd	535
Groundwork Kent and Medway	-
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	-
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	377,018
Locate in Kent Ltd (as amended on 5/5/2000)	722,917
Trading Stds South East Ltd	59,731
Business Support Kent Community Interest	31,962
East Kent Spatial Development Company	-
Goetec Ltd	20,318
Kent PFI Holdings Company 1 Ltd	9,711,186
TRICS Consortium Ltd	3,070
TRN	-
Shearwater Systems	260,000
Vortex Exhaust Technology Ltd	-
Aylesham & District Community Workshop Trust	1,591
Michelson Diagnostics Ltd	53,664
Ancon Technology	225,000
Active companies with greater than 50% control	
Produced in Kent (PINK) Ltd	88,031
Dormant	
Kentish Fare Ltd - Transferred to Produced in Kent (PINK) Ltd	-
Dissolved	
Invicta Services Ltd	-
Kent Cultural Trading Ltd	-

Note 37. Pension Costs

Note 37a - Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015-16 Kent County Council paid £38.1m (£35.8m in 2014-15), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 15.5% (14.1% in 2014-15) 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 2015-16 these amounted to £4.6m (£4.6m in 2014-15), representing 1.9% (1.7% in 2014-15) of pensionable pay.

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

Note 37 - Pensions Costs

In 2015-16 Kent County Council paid £0.18m (£0.18m in 2014-15), to the NHS Pension Scheme in respect of public health pension costs, which represented 14.3% (14% in 2014-15) of employees pensionable pay.

Note 37b. Defined Benefit Pension Scheme

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

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

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

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

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

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when they are paid as pensions. However, the charge we are required to make against the Council Tax is based on the cash payable in the year, so the real cost is reversed out through the Movement in Reserves Statement.

Under the requirements of IAS19, the council is required to show the movement in the net pensions deficit for the year. This can be analysed as follows:

	Local Government Pension Scheme	
	2015-16	**2014-15**
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-98,597	-80,442
• Past service costs	-4,104	-4,218
• (Gain)/loss from settlements	13,758	11,640
• Administration expenses	-1,392	-1,355
Financing and Investment Income and Expenditure		
• Net interest expenses	-43,041	-43,447
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-133,376	-117,822

Note 37 - Pensions Costs

	2015-16	2014-15
	£000's	£000's
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expenses)	-44,531	121,326
• Actuarial gains and losses arising on changes in demographic assumptions	0	0
• Actuarial gains and losses arising on changes in financial assumptions	235,753	-395,971
• Other	4,714	4,446
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**195,936**	**-270,199**
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	133,376	117,822
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-69,990	-70,571

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 2015-16 Kent County Council paid an employer's contribution of £70.0m (£70.6m in 2014-15) into the Pension Fund, representing 20% (20% in 2014-15) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2015-16 was based on the review carried out as at 31 March 2013. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

In addition Kent County Council is responsible for all pension payments relating to added years' benefits it has awarded, together with the related increases. However, Medway Council is required to contribute towards the liabilities incurred prior to reorganisation on 1 April 1998. Kent County Council is required to disclose the capital cost of the discretionary pension payments it has made using a formula recommended by CIPFA. There is zero capital value of discretionary increases in pension payments (i.e. discretionary added years) agreed by the Council in 2015-16 (zero in 2014-15). The capital value of payments agreed in earlier years is £121m (£127m in 2014-15).

Pension Assets and Liabilities in the Balance Sheet

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

	Local Government Pension Scheme £'000	
	2015-16	**2014-15**
Present value of the defined benefit obligation	3,169,434	3,298,603
Fair value of plan assets	-2,016,782	-2,018,268
Sub-total	1,152,652	1,280,335
Other movements in the liability/(asset)	61,451	66,318
Net liability arising from defined benefit obligation	**1,214,103**	**1,346,653**

Note 37 - Pensions Costs

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

	Local Government Pension Scheme £'000	
	2015-16	**2014-15**
Opening fair value of scheme assets	2,018,268	1,808,316
Pensions Reserve - Adj to opening bal (re Commercial Services)	0	30,448
Interest income	66,258	80,441
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	-44,531	123,366
• Other	0	0
Contributions from employer	74,605	76,942
Contributions from employees into the scheme	21,893	20,751
Benefits paid	-108,493	-108,967
Other	-11,218	-13,029
Closing fair value of scheme assets	**2,016,782**	**2,018,268**

The actual return on scheme assets in the year was £21,727k (2014-15 : £200,336k)

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

	Liabilities: Local Government Pension Scheme £'000	
	2015-16	**2014-15**
Opening balance at 1 April	3,364,921	2,837,519
Pensions Reserve - Adj to opening bal (re Commercial Services)	0	43,554
Current service cost	98,597	82,550
Interest cost	109,299	124,453
Contribution from scheme participants	21,893	20,751
Remeasurement gains/(losses):		
• Actuarial gains and losses arising on changes in demographic assumptions	0	0
• Actuarial gains and losses arising on changes in financial assumptions	-235,753	383,848
• Other	-4,714	-4,446
Past service costs	4,104	4,252
Benefits paid	-103,878	-104,269
Liabilities extinguished on settlements	-23,584	-23,291
Closing balance at 31 March	**3,230,885**	**3,364,921**

Note 37 - Pensions Costs

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	Fair value of scheme assets
	2015-16	**2014-15**
	£'000	**£'000**
Cash and cash equivalents	51,928	54,225
Equity instruments: *By industry type*		
• Consumer	220,169	212,186
• Manufacturing	171,708	113,034
• Energy and utilities	54,088	97,169
• Financial institutions	135,191	214,169
• Health and care	68,337	53,542
• Information technology	86,015	71,390
• Telecommunication services	30,485	0
• Miscellaneous/Unclassified	9,276	0
Sub-total equity	775,269	761,490
Bonds: *By sector*		
• Corporate		
• Government	0	20,740
• Collateralised		
• Consumer	0	17,848
• Financial services	1,590	47,593
• Health and care	0	5,949
• Information technology	0	17,847
• Energy and utilities	0	29,746
• Corporate Fixed Interest Pooled Funds	0	103,118
• Miscellaneous/Unclassified	133,711	0
Sub-total bonds	135,301	242,841
Property: *By type*		
• Retail	105,673	97,169
• Offices	48,621	47,593
• Industrial	38,794	33,712
Sub-total property	193,088	178,474
Private equity:		
• UK	3,435	2,403
• Overseas	21,765	15,994
Sub-total private equity	25,200	18,397
Other investment funds:		
• Infrastructure	22,845	21,866
• Property	99,875	69,407
• Equity Pooled Funds	622,288	550,363
Sub-total other investment funds	745,008	641,636
Derivatives		
Forward currency contracts	3,345	0
Target Return Portfolio	87,643	85,983
Total assets	**2,016,782**	**1,983,046**

Note 37 - Pensions Costs

The decrease in pension deficit during the year has arisen principally due to the technical decrease in the valuation of the liabilities. International Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds increased from 0.1% to 0.4% during the year in part due to the impact of quantitative easing and other technical factors on bond and gilt markets. Had these markets remained at their 2015 levels then the pensions deficit would have been £235,852,000 more at £1,449,955,000.

IAS19 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2017 is £66,512k, this is in line with the revised IAS19 Standard

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liability has been assessed by Barnett Waddingham.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2015-16	**2014-15**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.9	22.8 years
Women	25.3	25.2 years
Longevity at 65 for future pensioners:		
Men	25.2	25.1 years
Women	27.7	27.6 years
Rate of inflation	3.2%	3.2%
Rate of increase in Consumer Price Index	2.3%	2.4%
Rate of increase in salaries	3.6%	3.7%
Rate of increase in pensions	2.3%	2.4%
Rate for discounting scheme liabilities	3.6%	3.3%
Take-up option to convert annual pension into retirement lump sum	50%	50%

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £'000	Decrease in Assumption £'000
Adjustment to discount rate (increase or decrease by 0.1%)	3,175,797	3,289,532
Adjustment to long term salary increase (increase or decrease by 0.1%)	3,237,877	3,226,431
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)	3,284,470	3,180,738
Adjustment to mortality age rate assumption (increase or decrease in 1 year)	3,331,897	3,135,456

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £1.8m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2016 in accordance with IAS19.

Commercial Services

The Balance Sheet includes the assets and liabilities for Commercial Services, a wholly-owned subsidiary of KCC. Commercial Services has closed resolution body status which allows them to treat the pension as a defined contribution pension scheme with the Council keeping the assets and liabilities on its Balance Sheet.

Note 38. Financial Instruments

Accounting Policy

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Note 38 - Financial Instruments

Financial assets

Financial assets are held under the following three classifications:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale financial assets – assets that have a quoted market price
- unquoted equity investments held at cost because it is impracticable to determine fair value

Loans and Receivables

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

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

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

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

Available-for-Sale Financial Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Note 38 - Financial Instruments

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

The Council's financial liabilities held during the year are measured at amortised cost and comprised of:

- long-term loans from the Public Works Loan Board and commercial lenders
- overdraft with NatWest Bank
- finance leases on land and buildings
- Private Finance Initiative contracts detailed in Note 18
- trade payables for goods and services received

Financial Assets

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

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising of:

- cash
- bank accounts
- fixed term deposits with the DMO
- fixed term deposits with banks and building societies
- impaired investments in Icelandic banks
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising of:

- money market funds
- certificates of deposit issued by banks and building societies
- treasury bills and gilts issued by the UK Government
- covered bonds issued by financial institutions and backed by a pool of assets
- corporate bonds
- pooled property and equity investment funds

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

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

Note 38 - Financial Instruments

Financial Instrument Balances

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

	Long Term		Current	
	31 Mar 2016	31 Mar 2015	31 Mar 2016	31 Mar 2015
	£000's	£000's	£000's	£000's
Investments				
Loans and receivables			87,838	76,325
Available-for-sale financial assets	119,321	110,613	40,127	34,039
Unquoted equity investment at cost	11,461	8,087		
Total investments	**130,782**	**118,700**	**127,965**	**110,364**
Debtors				
Loans and receivables	89,921	86,900		
Financial assets carried at contract amounts			150,570	144,613
Total included in Debtors	**89,921**	**86,900**	**150,570**	**144,613**
Cash and Cash Equivalents				
Cash equivalents at amortised cost			7,049	101,060
Cash equivalents available for sale			42,660	
Cash and Bank Accounts			1,760	1,711
Total Cash and Cash Equivalents	**0**	**0**	**51,469**	**102,771**
Borrowings				
Financial liabilities at amortised cost	959,991	965,932	32,943	31,760
Total Borrowing	**959,991**	**965,932**	**32,943**	**31,760**
Other Liabilities				
PFI and Finance Lease Liabilities	206,420	207,767	5,016	4,777
Total other long-term liabilities	**206,420**	**207,767**	**5,016**	**4,777**
Creditors				
Financial liabilities carried at contract amounts	47	5,341	209,560	209,709
Total Creditors	**47**	**5,341**	**209,560**	**209,709**

Unquoted Equity Instruments Measured at Cost (where fair value cannot be reliably measured)

The Council has a shareholding in Commercial Services Trading Ltd (representing 100% of the company's capital). The shares are carried at cost of £4m and have not been valued as a fair value cannot be measured reliably. There are no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shareholding.

The Council is a minority interest shareholder in a number of companies . These shares are carried at cost of £7.4m and have not been valued as a fair value cannot be measured reliably. Many of the companies invested in have no reliably trading history as they have only recently been formed. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shares held in these companies.

Note 38 - Financial Instruments

Financial Instruments Gains / Losses

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

	2015-16		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest expense - Debt	-52,988		-52,988
Losses on derecognition	-950		-950
Impairment losses			0
	-53,938	**0**	**-53,938**
Interest expense - Finance leases	-19,831		-19,831
Interest expense - PFI	-116		-116
Interest payable and similar charges	**-73,885**	**0**	**-73,885**

	2015-16		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest income		6,502	6,502
Reduction in Impairment losses		335	335
Interest and investment income	**0**	**6,837**	**6,837**
Available-for-sale investments - Losses on revaluation		311	311
Amounts recycled to I&E Account after impairment			
Loss arising on revaluation of financial assets	**0**	**311**	**311**
Net gain/(loss) for the year	**-73,885**	**7,148**	**-66,737**

Fair Value of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Note 38 - Financial Instruments

Financial assets measured at fair value

Recurring fair value measurements	**Input Level in fair value hierarchy**	**Valuation technique used to measure fair value**	**As at 31 Mar 2016**
			£'000
Available for sale:			
Money market funds	Level 1	Unadjusted quoted prices in active markets for identical shares	42,671
Bond, equity and property funds	Level 1	Unadjusted quoted prices in active markets for identical shares	30,866
Covered bonds	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	88,888
Certificates of Deposit	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	40,134
			202,559

The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets held by the authority are classified as loans and receivables and long-term debtors and creditors and are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows:

	31 March 2016	
Financial Liabilities	**Carrying Amount**	**Fair Value**
	£'000	**£'000**
Financial liabilities held at amortised cost		
PWLB loans	544,799	677,857
Long-term LOBO Loans	446,325	680,835
Other Long-term loans	1,500	1,500
PFI and finance lease liabilities	211,437	271,070
Total	**1,204,061**	**1,631,262**

The fair value of borrowings is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

Note 38 - Financial Instruments

Financial Assets	31 March 2016 Carrying Amount	Fair Value
	£'000	£'000
Loans and receivables		
- short term investments	87,692	87,692
- cash and cash equivalents	7,050	7,050
Long-term debtors	89,921	95,167
Total	**184,663**	**189,909**

The fair value of long term debtors is higher than the carrying amount due to the expected interest rates used to amortise soft loans being higher than the current interest rates.

Short-term debtors and long and short term creditors are carried at cost as this is a fair approximation of their value.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

	31 March 2016 Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total
Recurring fair value measurements using:	£'000	£'000	£'000	£'000
Financial Liabilities				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		677,857		**677,857**
• Long-term LOBO Loans		680,835		**680,835**
PFI and finance lease liabilities			271,070	**271,070**
Total	**0**	**1,358,692**	**271,070**	**1,629,762**
Financial Assets				
Loans and receivables:				
• Soft loans to third parties			39,207	**39,207**
• Other loans and receivables (describe)				**0**
Total	**0**	**0**	**39,207**	**39,207**

The fair value for financial liabilities and financial assets included in level 2 and Level 3 in the table above have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016 using the following methods and assumptions:

• PWLB loans have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans

• LOBO loans have been increased by the value of the embedded options. Lender's options to increase the interest rates of the loans have been valued according to the proprietry model for Bermudan cancellable swaps. Borrower's options have been valued at zero on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

• PFI and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements)

• Soft loans have been valued by discounting the contractual payments at the market rate of interest for a similar loan

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Financial Assets	**Financial Liabilities**
• no early repayment or impairment is recognised	• no early repayment or impairment is recognised
• estimated ranges of interest rates at 31 March 2016 based on new lending rates for equivalent loans at that date	• estimated ranges of interest rates at 31 March 2016 based on new lending rates for equivalent loans at that date
• the fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount. For trade receivables this equates to the invoiced or billed amount.	• The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

Note 39. Nature and Extent of Risks Arising from Financial Instruments

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2011).
As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measurables as interest rates and stock market movements.

Credit Risk: Investments
The Council manages credit risk by ensuring that investments are placed with the organisations of high quality as set out in the Treasury Management Strategy.

The criteria for the selection of counterparties are:
• A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
• Publicised credit ratings for institutions (excluding the DMO).
• Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.
• Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.
• Exposure to other parts of the same banking group.
• Reputational issues.
• Minimum long-term credit rating of A-.

Note 39 - Nature and Extent of Risks Arising from Financial Instruments

Limits are placed on the amount of money that can be invested with a single counterparty. For 2015-16 these limits were: DMO £450m, UK banks and building societies £40m with a group limit of £40m, Australian and Canadian banks £20m with a country limit of £40m. The maximum duration for any new deposit is twelve months.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £400m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

The credit quality of £88.4m of the Council's holdings of covered bonds is enhanced by collateral held in the form of residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	**31 Mar 2016**	**31 Mar 2015**
	£000's	**£000's**
AAA	131,077	93,661
AA-	750	85,000
A	128,600	117,510
A-	1,300	0
Unrated Pooled Funds/Equity	41,461	26,854
Total Investments	**303,188**	**323,025**

All deposits outstanding as at 31 March 2016 met the Council's credit rating criteria on 31 March 2016.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £3.785m.

Credit Risk: Receivables

The Council does not generally allow credit for its debtors, as such £1.582m of the £2.170m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2016	**31 Mar 2015**
	£000's	**£000's**
One to three months	739	122
Three to six months	524	70
Six months to one year	74	325
More than one year	245	89
	1,582	**606**

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2016 was £32.4m.

Note 39 - Nature and Extent of Risks Arising from Financial Instruments

Liquidity risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and at higher rates from banks. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity	31 Mar 2016	31 Mar 2015
Years	£000's	£000's
Not over 1	32,334	31,000
Over 1 but not over 2	32,334	32,001
Over 2 but not over 5	56,835	67,002
Over 5 but not over 10	100,003	97,003
Over 10 but not over 20	102,474	126,474
Over 20 but not over 30	119,000	119,000
Over 30 but not over 40	104,800	109,800
Over 40	140,600	181,100
Uncertain date *	291,200	220,700
Total	**979,580**	**984,080**

* The Council has £291.2m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely repay these loans. The maturity date is therefore uncertain.

Market risk

Interest Rate Risk: The Council is exposed to risks arising from movements in interest rates. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

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

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as "available for sale" will be reflected in Other Comprehensive Income and Expenditure. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 40% on external debt that can be subject to variable interest rates. At 31 March 2016, 70.3% of the debt portfolio was held in fixed rate instruments, and 29.7% in variable rate instruments (LOBO loans within option periods).

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	2,912
Increase in interest receivable on variable rate investments	-1,381
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**1,531**
Decrease in fair value of fixed rate investment assets	-433
Impact on Other Comprehensive Income and Expenditure	**-433**
Decrease in fair value of fixed rate borrowings / liabilities*	**-128,612**

*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Investments are also subject to movements in interest rates. The Council's policy of holding variable rate and short term fixed rate investments increases the exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £25m. A 5% fall in commercial property prices would result in a £1.25m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

The Council's investment in a pooled equities fund is also governed by the risk of falling share prices. This risk is limited by the Council's maximum exposure to such funds of £5m. A 5% fall in share prices would result in a £0.255m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

Foreign Exchange Risk: the Council currently has approximately £3m in Icelandic Krona held in escrow pending the relaxation of capital controls by the Icelandic Government, and is therefore exposed to the risk of adverse movements in the exchange rate.

Note 40. Contingent Liabilities

Accounting Policy

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. They are factored into the consideration of an adequate level of reserves.

Employment

There are seven claims relating to discrimination and breach of contract in employment. Of these, five are limited to unfair dismissal, one is a discrimination and breach of contract case and one is a detriment case. Although the governing bodies of schools are the legal employer of teaching staff, by operation of the Education (Modification of Enactments Relating to Employment) (England) Order 2003, where an award of damages is made by an Employment Tribunal, in most cases Kent County Council will be liable to pay the award. Employment tribunals can in discrimination cases award unlimited damages to a successful claimant. Based on available information on these cases, the total amount in damages being sought by the claimants exceeds £163k and an additional amount of approximately £200k for those not officially pleaded. However, on a number of these claims the prospects of success are assessed to be good. It is extremely rare for employment tribunals to award all of the damages that are claimed.

Childcare

All care proceedings are subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 162 live cases where proceedings have actually been issued. The costs to KCC of taking these proceedings are in excess of £10k each.

Litigation

There are five such cases of which legal costs for four of these are expected to exceed £50k in total. The remaining case is in relation to disputes over rental agreements, the claims are significant and range from £25k to £350k.

Criminal Cases

There are three criminal cases and the costs for all three cases could exceed £10k.

Asylum, Ordinary Residence & Judicial review cases

There are 10 judicial review cases of age assessment, all of these cases the costs are likely to exceed £10k. There are seven Ordinary Residence claims which if successful would be in excess of £10k. There are two judicial review cases and for both of these cases the costs are likely to exceed £10k.

Court of Protection

There are matters of Court of Protection in relation to persons who are deemed to lack mental capacity within the meaning of the Mental Health Act 2005. There is a wide discretion for the Court in such litigation and individual costs may exceed £10k.

Note 41. Subsidiary Undertakings

<u>Accounting Policy</u>

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of wholly owned subsidiaries and jointly controlled entities. An assessment of the transactions between the Council and the subsidiaries and the jointly controlled entities is conducted each year. The majority of the transactions (largely with Commercial Services Kent) are between the Council and the subsidiary which would mean if preparing group accounts the transactions between the two parties would be eliminated. As there would be no major impact on our accounts we are not preparing group accounts.

Note 41 - Subsidiary Note

Subsidiary Undertakings

Kent Top Temps Limited (KTT) is a subsidiary of Kent County Trading Limited, wholly owned by Kent County Council (KCC). It commenced trading on the 4th April 2005. KTT was a recruitment business that focused on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT had specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, nursery staff, drivers and industrial, catering, interpreters and translation and professionals. The permanent appointment desk operated via the name of Connect2Staff. On 1st April 2013, the recruitment business ceased trading in KTT and transferred its operations to two other associated subsidiaries within the group. KTT also operated buses for contract and private hire trading as Kent Top Travel. This operation was closed in October 2013 and the Company has subsequently ceased trading.

In 2014-15 its net assets were £1.2m and in 2015-16 its net assets are £1.3m.

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

CS Trading had a turnover in 2015-16 of £18.0m (2014-15 £19.1m) with a net profit of £0.2m before tax (2014-15 £0.4m). In 2014-15 its net assets were £2.2m and in 2015-16 its net assets are £2.3m. A loan of £1.95m has been provided by KCC Commercial Services to Commercial Services Trading Limited during the year on which interest is charged at commercial rates.

Commercial Services Kent Limited (CS Kent) is a subsidiary of Kent County Trading Limited, wholly owned by Kent County Council. It commenced trading on the 7 April 2010. From 1st April 2013, the Company resumed trading as a Teckal company providing services to KCC. Business operations previously carried out by KTT, CS Trading and Kent County Council Commercial Services, were transferred into the business. This included a recruitment business that focused on the supply of both temporary and permanent placements to KCC operating under the brand name of Connect2Kent. This covers specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, nursery staff, drivers and industrial, catering, interpreters and translation and professionals. Commercial Services Kent Limited also provides waste management services to KCC across a number of municipal waste collection and transfer centres in Kent and print and design services for both KCC and some other public sector bodies.

CS Kent had a turnover in 2015-16 of £53.4m (2014-15 £55.1m) with a net profit of £0.2m before tax (2014-15 £0.5m). In 2014-15 its net assets were £0.4m and in 2015-16 its net assets are £0.6m. A loan of £7.95m has been provided by Kent County Council to CS Kent during the year on which interest is charged at commercial rates.

Kent County Council (KCC) and Thanet District Council (TDC) wished to bring forward the economic development and regeneration of the sites known as Eurokent and Manston Park. A Member Agreement was signed on the 22 August 2008 and a joint arrangement vehicle was set up, the East Kent Opportunities LLP (EKOLLP), which was incorporated on 4 March 2008. KCC and TDC have 50:50 ownership, control and economic participation in the joint arrangement. KCC and TDC contributed 38 acres of land each to EKOLLP. The land was valued for stamp duty land tax (SDLT) at £5.5m (KCC contribution) and £4.5m (TDC contribution).

The powers used are the 'well-being powers' provided to local authorities in Part 1 of the Local Government Act 2000. In 2015-16, in the draft, unaudited EKOLLP accounts, the net assets of the joint arrangement are £14.2m with an operating loss before members remuneration and profit shares available for discretionary division among members of £0.23m.

Collectively the subsidiaries do not have a material impact on the Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2015-16. This situation is reviewed on an annual basis.

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

Note 42. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

There have been no events since 31 March 2016, up to the date when these accounts were authorised, that require any adjustment to these accounts.

Note 43. Other Notes

Pension Fund

Once credited to the Pension Fund, monies may only be used to provide for the statutory determined pension and other payments attributable to staff covered by the Fund. The assets and liabilities of the Pension Fund are shown separately from those of Kent County Council, although the legal position is that they are all in the ownership of Kent County Council as the administering Council. Any actuarial surplus or deficit is apportioned to the constituent member bodies of the Fund. Details of the Fund are disclosed in the Pension Fund Accounts found on pages 119-145.

Pension Fund Accounts

The following financial statements are taken from the Kent County Council Pension Fund's Annual Report and Accounts 2016 which are also available from the Fund's website at **www.kentpensionfund.co.uk**. Alternatively a copy can be obtained from the Treasury and Investments team, email: investments.team@kent.gov.uk, telephone: 03000 413291.

Description of the Fund

General

The Kent Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Kent County Council (KCC) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. The Pension Fund is a reporting entity and KCC as the Administering Authority is required to include the Fund's accounts as a note in its Report and Accounts. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The LGPS is a contributory defined benefit pension scheme.

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme manager). The Local Pension Board which was established in 2015 assists the Scheme manager to ensure the effective and efficient governance and administration of the Scheme.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the Scheme or to make personal arrangements outside the Scheme. Employers in the Fund include Scheduled Bodies which are Local Authorities and similar entities whose staff are automatically entitled to be members of the Scheme; and Admitted Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admitted bodies include voluntary, charitable and similar entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 352 employers actively participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2016	31Mar 2015	31Mar 2016	31Mar 2015	31Mar 2016	31Mar 2015
Kent County Council	22,363	22,706	19,716	19,135	22,792	22,581
Other Employers	27,453	25,962	17,544	16,782	19,684	18,953
Total	49,816	48,668	37,260	35,917	42,476	41,534

Funding

The 2013 valuation certified a common contribution rate of 20% of pensionable pay to be paid by each employer participating in the Kent Pension Fund. In addition to this, each employer has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Benefits

Pension benefits under the LGPS are based on the following:

	Service pre April 2008	Membership from 1 April 2008 to 31 March 2014	Membership from 1 April 2014
Pension	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x career average revalued salary
Lump sum	Automatic lump sum of 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There is a range of other benefits provided under the Scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: **www.kentpensionfund.co.uk**

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2015-16 £000's	2014-15 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	220,961	217,714
Transfers In from other pension funds	6	3,405	4,463
		224,366	222,177
Benefits	7	-210,281	-207,356
Payments to and on account of leavers	8	-6,033	-70,002
		-216,314	-277,358
Net additions from dealings with Members		**8,052**	**-55,181**
Management Expenses	9	-17,835	-16,464
Returns on Investments			
Investment Income	10	113,337	94,639
Taxes on Income		-5,160	-4,062
Profits and losses on disposal of investments and changes in the market value of investments	13a	-39,891	382,846
Net Return on Investments		**68,286**	**473,423**
Net increase in the Net Assets Available for benefits during the year		**58,503**	**401,778**

Net Assets Statement as at 31 March

	Notes	2016 £000's	2015 £000's
Investment Assets		4,512,339	4,426,242
Investment Cash and Cash Equivalents		70,117	101,593
Investment Liabilities		-5,300	-9,503
Net Investment Assets	13	**4,577,156**	**4,518,332**
Current Assets	21	35,356	35,814
Current Liabilities	22	-14,972	-15,109
Net Assets available to fund benefits at the period end		**4,597,540**	**4,539,037**

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in note 20 to the accounts.

Notes to the Pension Fund Account

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015-16 financial year and its position at 31 March 2016.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 20 of these accounts.

2. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employers Deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.
Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipt basis and are included in 'transfers in'. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, interest, and stock lending income on securities and rental income on property have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. A large number of the Fund's investments are held in income accumulating funds that do not distribute income. The accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year. Property related income mainly comprises of rental income. This is recognised when it becomes due.

Fund Account - expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund has been accepted by the HM Revenue and Customs as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from tax on interest received and from capital gains tax on proceeds of investments sold. Tax is therefore only applicable to dividend income from equity investments. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.
By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

f) Investment management, administrative, governance and oversight expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund, and overheads are incurred by the County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Assets Statement

g) Financial assets

Financial assets other than debtors and cash are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as amounts receivable for sales and amounts payable for purchases. From the trade date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on the final day of the accounting period.

- Fixed interest securities are recorded at net market value based on their current yields

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager

- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.

- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund.

- The Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2015. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2016.

- Debtors / receivables being short duration receivables with no stated interest rate are measured at original invoice amount.

h) Derivatives

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. At the reporting date the Fund only held forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

i) Foreign currency transactions

Assets and liabilities in foreign currency are translated into sterling at spot market exchange rates ruling at the year-end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in investment income.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash and cash equivalents managed by fund managers and cash equivalents managed by Kent County Council are included in investments. All other cash is included in Current Assets.

k) Financial Liabilities

The Fund recognises financial liabilities other than creditors at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Creditors are measured at amortised cost using the effective interest rate method, as required by IAS 39.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2016 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

m) Contingent Assets and Liabilities and Contractual Commitments

A contingent asset/liability arises where an event has taken place that gives the Fund a possible right/obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund. Contingent assets/liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an inflow/outflow of resources will be required or the amount of the right/obligation cannot be measured reliably. Contingent assets/liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

3. Judgements and Assumptions made in applying accounting policies

Item	**Uncertainties**	**Effect if actual results differ from assumption**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £0.65m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £0.010m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.23m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £115m. There is a risk that this investment may be under-or-over stated in the accounts.

4. Events after the Balance Sheet date

There have been no events since 31 March 2016, up to the date when these accounts were authorised, that require any adjustment to these accounts.

5. Contributions Receivable

	2015-16 £000's	2014-15 £000's
By Category		
Employers	170,651	168,363
Members	50,310	49,351
	220,961	**217,714**
By authority		
Kent County Council	90,676	89,453
Scheduled Bodies	116,874	115,489
Admitted Bodies	13,411	12,772
	220,961	**217,714**
By type		
Employees - normal contributions	50,310	49,351
Employers - normal contributions	106,877	104,414
Employers - deficit recovery contributions	58,326	58,390
Employers - augmentation contributions	5,448	5,559
	220,961	**217,714**

6. Transfers in from other pension funds

	2015-16 £000's	2014-15 £000's
Individual	3,405	4,463
Group	0	0
	3,405	**4,463**

7. Benefits Payable

	2015-16 £000's	2014-15 £000's
By Category		
Pensions	171,890	165,653
Retirement Commutation and lump sum benefits	34,383	37,811
Death benefits	4,008	3,892
	210,281	**207,356**
By authority		
Kent County Council	100,596	99,564
Scheduled Bodies	99,045	96,233
Admitted Bodies	10,640	11,559
	210,281	**207,356**

8. Payments to and on account of leavers

	2015-16 £000's	2014-15 £000's
Group transfers	993	64,392
Individual transfers	4,099	5,193
Payments for members joining state scheme	247	138
Refunds of contributions	694	279
	6,033	**70,002**

The Group Transfer refers to a payment of £0.993m made to the London Pension Fund Authority in respect of the Valuation Tribunal Service group transfer effective from 1 July 2015. Group transfers in 2014-15 included a transfer of £63.7m to the Greater Manchester Pension Fund (GMPF) in respect of the Probation Service effective from 1 June 2015.

9. Management Expenses

	Notes	2015-16 £000's	2014-15 £000's
Administration costs		2,413	2,607
Governance and oversight costs		324	384
Investment management expenses	12	15,098	13,473
		17,835	16,464

10. Summary of Income from Investments

	Notes	2015-16		2014-15	
		£000's	%	£000's	%
Fixed Interest Securities		14,074	12.4	14,359	15.2
Equities		53,053	46.9	46,726	49.4
Pooled Investments		12,684	11.2	12,567	13.3
Private Equity / Infrastructure		10,586	9.3	-2,240	-2.4
Property	11	16,999	15.0	16,249	17.2
Pooled Property Investments		5,369	4.7	5,941	6.3
Cash and cash equivalents		227	0.2	710	0.7
Stock Lending		345	0.3	327	0.3
Total		**113,337**	**100.0**	**94,639**	**100.0**

11. Property Income and Expenditure

	2015-16 £000's	2014-15 £000's
Rental Income from Investment Properties	21,692	19,622
Direct Operating Expenses	-4,693	-3,373
Net operating income from Property	**16,999**	**16,249**

12. Investment Expenses

	2015-16 £000's	2014-15 £000's
Investment Managers Fees	14,459	13,319
Transaction Costs	502	See Note
Custody fees	137	154
Total	**15,098**	**13,473**

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

In November 2015 with the change in the Fund's Custodians, there was a change in the accounting for transaction costs. Prior to that, the transaction costs were included in the value of Purchase/ Sales of investments and were not accounted for separately. Transaction costs for 2015-16 reflected above therefore do not include £489,495 (incurred prior to November 2015) that have been included in purchase and sale figures. The total transaction costs for the year amounted to £1m (2014-15: £1.3m)

13. Investments

	Market Value as at 31 March 16 £000's	Market Value as at 31 March 15 £000's
Investment Assets		
Fixed Interest Securities	310,896	313,962
Equities	1,732,669	1,744,779
Pooled Investments	1,664,750	1,695,987
Private Equity/Infrastructure	114,699	96,958
Property	438,105	407,182
Pooled Property Investments	226,697	156,019
Derivative contracts - Forward Currency contracts	7,607	0
Investment Cash and cash equivalents	70,117	101,593
Investment Income due	12,702	11,355
Amounts receivable for sales	4,214	0
Total Investment Assets	**4,582,456**	**4,527,835**
Investment Liabilities		
Amounts payable for purchases	-5,300	-1,510
Derivative contracts - Forward Currency contracts	0	-7,993
Total Investment Liabilities	**-5,300**	**-9,503**
Net Investment Assets	**4,577,156**	**4,518,332**

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 15 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 16 £000's
Fixed Interest Securities	313,962	36,555	-38,392	-1,229	310,896
Equities	1,744,779	386,150	-340,372	-57,888	1,732,669
Pooled Investments	1,695,987	156,700	-154,068	-33,869	1,664,750
Private Equity/Infrastructure	96,958	20,456	-17,655	14,940	114,699
Property	407,182	21,291	-26,926	36,558	438,105
Pooled Property Investments	156,019	66,782	-7,792	11,688	226,697
	4,414,887	687,934	-585,205	-29,800	4,487,816
Derivative contracts					
- Forward Currency contracts	-7,993	6,446,800	-6,421,109	-10,091	7,607
	4,406,894	**7,134,734**	**-7,006,314**	**-39,891**	**4,495,423**
Other Investment balances					
- Investment Cash and cash equivalents	101,593				70,117
- Amounts receivable for sales	0				4,214
- Amounts payable for purchases	-1,510				-5,300
- Investment Income due	11,355				12,702
Net Investment Assets	**4,518,332**			**-39,891**	**4,577,156**

	Market Value as at 31 March 14 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 15 £000's
Fixed Interest Securities	291,458	28,172	-29,226	23,558	313,962
Equities	1,518,121	380,031	-318,474	165,101	1,744,779
Pooled Investments	1,734,423	221,788	-408,467	148,243	1,695,987
Private Equity/Infrastructure	73,486	25,817	-12,629	10,284	96,958
Property	282,117	88,359	-7,648	44,354	407,182
Pooled Property Investments	111,803	69,751	-40,386	14,851	156,019
	4,011,408	813,918	-816,830	406,391	4,414,887
Derivative contracts					
- Forward Currency contracts	-694	6,116,731	-6,100,485	-23,545	-7,993
	4,010,714	**6,930,649**	**-6,917,315**	**382,846**	**4,406,894**
Other Investment balances					
- Investment Cash and cash equivalents	85,470				101,593
- Amounts receivable for sales	5,853				0
- Amounts payable for purchases	0				-1,510
- Investment Income due	10,637				11,355
Net Investment Assets	**4,112,674**			**382,846**	**4,518,332**

Until October 2015 Transaction costs were included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred in this financial year that are included in the purchases and sales amounted to £489,495 (2014-15: £1,331.6k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

14. Analysis of Investments (excluding cash and derivative contracts)

	Market Value as at 31 March 16 £'000's	Market Value as at 31 March 15 £'000's
FIXED INTEREST SECURITIES		
UK		
Corporate Quoted	19,926	25,500
OVERSEAS		
Public Sector Quoted	39,923	47,418
Corporate Quoted	251,047	241,044
	310,896	**313,962**
EQUITIES		
UK		
Quoted	782,037	825,228
OVERSEAS		
Quoted	950,632	919,551
	1,732,669	**1,744,779**
POOLED FUNDS		
UK		
Fixed Income Unit Trusts	228,876	237,773
Unit Trusts	557,991	593,127
OVERSEAS		
Unit Trusts	877,883	865,087
	1,664,750	**1,695,987**
PROPERTY		
UK	438,105	407,182
Property Unit Trusts		
UK	223,526	151,285
Overseas	3,171	4,734
	664,802	**563,201**
Private Equity Funds		
UK	8,232	5,593
Overseas	53,921	37,651
Infrastructure		
UK	0	5,543
Overseas	52,546	48,171
	114,699	**96,958**
TOTAL	**4,487,816**	**4,414,887**

14a. Analysis of Derivative Contracts

Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager fully hedges the overseas, excluding emerging markets, exposure of the portfolio. This is approximately 75% of the portfolio managed by Goldman Sachs.

Settlement	Currency bought	Local value £000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,673	USD	2,378	19	
Up to one month	GBP	18,515	EUR	23,778		-340
Up to one month	GBP	129,035	USD	179,822	3,926	
Up to one month	GBP	127,597	USD	177,640	4,006	
Up to one month	USD	217	GBP	154		-4
					7,951	-344
Net forward currency contracts at 31 March 2016						**7,607**
Prior year comparative						
Open forward currency contracts at 31 March 2015					192	-8,185
Net forward currency contracts at 31 March 2015						**-7,993**

14b. Property Holdings

	Year ending 31 March 16 £000's	Year ending 31 March 15 £000's
Opening Balance	407,182	282,116
Additions	21,291	88,360
Disposals	-26,926	-7,648
Net increase in market value	36,558	44,354
Closing Balance	**438,105**	**407,182**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the fund is not under contractual obligation to purchase, construct or develop these properties.

The future minimum lease payments receivable by the fund are as follows:

	Year ending 31 March 16 £000's	Year ending 31 March 15 £000's
Within one year	22,210	20,132
Between one and five years	70,679	63,677
Later than five years	79,254	84,150
	172,143	**167,959**

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2016		Market Value as at 31 Mar 2015	
	£000's	%	£000's	%
Baillie Gifford	910,953	19.9	871,881	19.3
DTZ	486,979	10.6	459,706	10.2
Fidelity	106,854	2.3	64,352	1.4
Goldman Sachs	327,612	7.2	324,910	7.2
HarbourVest	53,921	1.2	37,651	0.8
Henderson	0	0.0	5,543	0.1
Impax	33,067	0.7	31,579	0.7
Kames	60,644	1.3	40,278	0.9
M&G	244,275	5.3	216,945	4.8
Partners Group	52,546	1.2	48,171	1.1
BMO (Pyrford)	199,931	4.4	196,588	4.4
Sarasin	164,354	3.6	173,843	3.8
Schroders	1,165,045	25.5	1,221,200	27.0
State Street Global Advisors	521,371	11.4	559,679	12.4
YFM	8,233	0.2	5,593	0.1
Kent County Council Investment Team	19,248	0.4	44,331	1.0
Woodford Investments	222,123	4.8	216,082	4.8
	4,577,156	100	4,518,332	100

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

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

	31 March 2016	
Asset Class / Investments	£000's	% (of asset class)
Pooled Funds		
UK		
UK Fixed Income Unit Trusts		
SISF Strategic Bond GBP Hedged	228,876	29.1
UK Equity Unit Trusts		
MPF UK Equity Index Sub-Fund	313,020	39.8
CF Woodford Equity Income Fund	222,123	28.2
Overseas		
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	199,931	22.8
M&G Global Dividend Fund	231,689	26.4
MPF International Equity Index Sub-Fund	208,351	23.7
Schroder GAV Unit Trust	204,844	23.3
Property Unit Trusts		
Fidelity	106,854	47.1
Kames	60,144	26.5
M&G Residential Property Fund	12,536	5.5

Asset Class / Investments		31 March 2016 £000's	% (of asset class)
Private Equity and infrastructure funds			
Private Equity			
UK			
Chandos Fund (YFM)		4,325	7.0
YFM Equity Partners 2015		3,907	6.3
Overseas			
HIPEP VI- Cayman		25,101	40.4
HarbourVest Partners IX		28,820	46.4
Infrastructure			
Overseas			
Partners Group Global Infrastructure 2009		37,561	71.5
Partners Group Direct Infrastructure 2011		14,986	28.5
Property			
Location	**Type of Property**		
3-5 Charing Cross Road, London	Office	24,488	5.6
Drury House, London	Office	39,149	8.9
49/59 Battersea Park Road, London	Industrial	30,161	6.9
Lakeside Village, Doncaster	Mixed Use	32,290	7.4
151-161 Kensington High Street	Retail	26,087	6.0
The Sanctuary	Office	22,837	5.2
Colingdale Retail Park	Retail	24,454	5.6
Suncourt House, London	Office	22,840	5.2

Notes to the Pension Fund Account

Asset Class / Investments	31 March 2015 £000's	% (of asset class)
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	126,356	15.2
SISF Strategic Bond GBP Hedged	111,417	13.4
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	352,052	42.4
CF Woodford Equity Income Fund	216,082	26.0
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	196,588	22.7
M&G Global Dividend Fund	216,945	25.1
MPF International Equity Index Sub-Fund	207,627	24.0
Schroder GAV Unit Trust	212,347	24.5
Property Unit Trusts		
L & G Leisure	9,158	5.9
Fidelity	64,352	41.2
Kames	39,663	25.4
Hercules	10,456	6.7
IPIF	9,172	5.9
Lothbury	9,584	6.1

Asset Class / Investments	31 March 2015 £000's	% (of asset class)
Private Equity and infrastructure funds		
Private Equity		
UK		
Chandos Fund (YFM)	3,589	8.3
Overseas		
HIPEP VI- Cayman	17,439	40.3
HarbourVest Partners IX	20,212	46.7
Infrastructure		
UK		
Henderson Secondary PFI Fund I	5,543	10.3
Overseas		
Partners Group Global Infrastructure 2009	36,680	68.3
Partners Group Direct Infrastructure 2011	11,490	21.4

Property

Location	**Type of Property**		
3-5 Charing Cross Road, London	Office	23,483	5.8
Drury House, London	Office	34,885	8.6
49/59 Battersea Park Road, London	Industrial	23,989	5.9
Lakeside Village, Doncaster	Mixed Use	31,405	7.7
151-161 Kensington High Street	Retail	24,250	6.0
The Sanctuary	Office	22,740	5.6
Colingdale Retail Park	Retail	22,683	5.6

16. Stock Lending

The Custodians undertake a conservative programme of stock lending to approved UK counterparties against non cash collateral mainly comprising of Sovereigns and Treasury Bonds.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

31 March 16

Loan Type	Market Value	Collateral Value	Collateral type
	£000's	£000's	
Equities	69,555	74,333	Sovereigns, Treasury Bills, Bonds & Notes
Bonds	2,880	3,077	Sovereigns, Treasury Bills, Bonds & Notes
	72,435	**77,410**	

31 March 15

Loan Type	Market Value	Collateral Value	Collateral type
	£000's	£000's	
Equities	100,690	106,730	Sovereigns, Treasury Bills, Bonds & Notes
Bonds	10,824	11,523	Sovereigns, Treasury Bills, Bonds & Notes
	111,514	**118,253**	

17. Financial Instruments

17a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

	31 March 16			31 March 15		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Financial Assets						
Fixed Interest Securities	310,896			313,962		
Equities	1,732,669			1,744,779		
Pooled Investments	1,664,750			1,695,987		
Property Pooled Investments	226,697			156,019		
Private Equity/Infrastructure	114,699			96,958		
Derivative contracts	7,607			0		
Cash & Cash equivalents		78,013			102,622	
Other Investment Balances	16,916			11,355		
Debtors/ Receivables		27,460			34,785	
	4,074,234	**105,473**	**0**	**4,019,060**	**137,407**	**0**
Financial Liabilities						
Derivative contracts	0			-7,993		
Other Investment balances	-5,300			-1,510		
Creditors			-14,972			-15,109
	-5,300	**0**	**-14,972**	**-9,503**	**0**	**-15,109**
Total	**4,068,934**	**105,473**	**-14,972**	**4,009,557**	**137,407**	**-15,109**

17b. Net Gains and Losses on Financial Instruments

	31 March 16	31 March 15
	£000's	£000's
Financial assets		
Fair value through profit and loss	-76,449	338,492
Total	**-76,449**	**338,492**

17c. Valuation of Financial Instruments carried at Fair Value

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted fixed interest securities, quoted index linked securities and quoted unit trusts.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data. Investments include unquoted Unit Trusts and Property Unit Trusts.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested. Assurances over the valuation are gained from the independent audit of the accounts.

These valuations are prepared by the Fund Managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the Fund Managers, and cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£000's	£000's	£000's	£000's
Financial Assets				
Financial assets at fair value through profit and loss	3,732,838	226,697	114,699	4,074,234
Loans and Receivables		105,473		105,473
Total Financial Assets	**3,732,838**	**332,170**	**114,699**	**4,179,707**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-5,300			-5,300
Financial Liabilities at amortised costs		-14,972		-14,972
Total Financial Liabilities	**-5,300**	**-14,972**	**0**	**-20,272**

Values at 31 March 2015	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000's	£000's	£000's	£000's
Financial Assets				
Financial assets at fair value through profit and loss	3,766,083	156,019	96,958	4,019,060
Loans and Receivables		137,407		137,407
Total Financial Assets	**3,766,083**	**293,426**	**96,958**	**4,156,467**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-9,503	0	0	-9,503
Financial Liabilities at amortised costs		-15,109		-15,109
Total Financial Liabilities	**-9,503**	**-15,109**	**0**	**-24,612**

18. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a strategic allocation to Equities at 64% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to security and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016-17 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Equities	3.70%
Overseas Equities	7.00%
Global Pooled Equities inc UK	6.40%
Bonds	3.60%
Property	14.60%
Alternatives	0.30%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of market returns of our investments over a period of 3 years. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 16 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	78,013	0.00	78,013	78,013
Investment portfolio assets:				
UK Equities	782,037	3.70	810,972	753,102
Overseas Equities	950,632	7.00	1,017,176	915,459
Global Pooled Equities inc UK	1,435,874	6.40	1,527,770	1,382,747
Bonds incl Fixed Income Funds	539,772	3.60	559,204	519,800
Property Pooled Funds	226,697	14.60	259,795	218,309
Private Equity	62,153	0.30	62,339	59,853
Infrastructure Funds	52,546	0.30	52,704	50,602
Net derivative assets	7,607	0.00	7,607	7,607
Investment income due	12,702	0.00	12,702	12,702
Amounts receivable for sales	4,214	0.00	4,214	4,214
Amounts payable for purchases	-5,300	0.00	-5,300	-5,300
Total	**4,146,947**		**4,387,196**	**3,997,108**

Asset Type	Value as at 31 March 15	Percentage change	Value on increase	Value on decrease
	£000's	%	£000's	£000's
Cash and cash equivalents	102,622	0.00	102,622	102,622
Investment portfolio assets:				
UK Equities	825,228	3.70	855,761	794,695
Overseas Equities	919,551	7.00	983,920	885,528
Global Pooled Equities inc UK	1,458,214	6.40	1,551,540	1,404,260
Bonds incl Fixed Income Funds	551,735	3.60	571,597	531,321
Property Pooled Funds	156,019	14.60	178,798	150,246
Private Equity	43,244	0.30	43,374	41,644
Infrastructure Funds	53,714	0.30	53,875	51,727
Net derivative assets	-7,993	0.00	-7,993	-7,993
Investment income due	11,355	0.00	11,355	11,355
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	-1,510	0.00	-1,510	-1,510
Total	**4,112,179**		**4,343,339**	**3,963,894**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair

Asset Type	31 March 16	31 March 15
	£000	£000
Cash and cash equivalents	70,117	101,593
Cash Balances	7,896	1,029
Fixed Interest Securities		
- Directly held securities	310,896	313,962
- Pooled Funds	228,876	237,773
Total	**617,785**	**654,357**

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund’s risk management strategy. The Fund’s investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying amount as at 31 March 16	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	70,117	701	-701
Cash Balances	7,896	79	-79
Fixed Interest Securities			
- Directly held securities	310,896	-3,109	3,109
- Pooled Funds	228,876	-2,289	2,289
Total change in assets available	**617,785**	**-4,618**	**4,618**

Asset Type	Carrying amount as at 31 March 15	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	101,593	1,016	-1,016
Cash Balances	1,029	10	-10
Fixed Interest Securities			
- Directly held securities	313,962	-3,140	3,140
- Pooled Funds	237,773	-2,378	2,378
Total change in assets available	**654,357**	**-4,492**	**4,492**

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than £UK, the functional currency of the Fund. Most of these assets are not hedged for currency risk. The Fund is exposed to currency risk on these financial instruments. However, a large part (£251m) of the assets managed by Goldman Sachs Asset Management held in non £UK currencies is hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2016 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 16	Asset value as at 31 March 15
	£000's	£000's
Overseas Equities	950,632	919,551
Overseas Pooled Funds	877,883	865,087
Overseas Bonds	39,923	47,418
Overseas Private Equity, Infrastructure and Property funds	109,638	90,556
Non GBP Cash	8,302	18,731
Total overseas assets	**1,986,378**	**1,941,343**

Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2016-17 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 16	Change to net assets available to pay benefits	Change to net assets available to pay benefits
		+5.8%	-5.8%
	£000's	£000's	£000's
Overseas Equities	950,632	1,005,769	895,495
Overseas Pooled Funds	877,883	928,800	826,966
Overseas Bonds	39,923	42,239	37,607
Overseas Private Equity, Infrastructure and Property funds	109,638	115,997	103,279
Non GBP Cash	8,302	8,784	7,820
Total change in assets available	**1,986,378**	**2,101,589**	**1,871,167**

Currency exposure - asset type	Asset value as at 31 March 15	Change to net assets available to pay benefits	Change to net assets available to pay benefits
		+5.8%	-5.8%
	£000's	£000's	£000's
Overseas Equities	919,551	972,885	866,217
Overseas Pooled Funds	865,087	915,262	814,912
Overseas Bonds	47,418	50,168	44,668
Overseas Private Equity, Infrastructure and Property funds	90,556	95,808	85,304
Non GBP Cash	18,731	19,817	17,645
Total change in assets available	**1,941,343**	**2,053,940**	**1,828,746**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund’s financial assets and liabilities.

In essence the Fund’s entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balance as at 31 March 16 £000's	Balance as at 31 March 15 £000's
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAAm**	0	23,330
Northern Trust Sterling Fund	**AAAm**	44,059	0
SSGA Liquidity Fund	**AAAm**	228	0
Blackrock Sterling Government Liquidity Fund	**AAAm**	0	133
Aberdeen Sterling Liquidity Fund	**AAAm**	22	0
Goldman Sachs Liquid Reserve Government Fund	**AAAm**	5,015	15,101
Aviva Investors Sterling Liquidity Fund	**AAAm**	6,921	14,346
Deutsche Managed Sterling Fund	**AAAm**	584	30
HSBC Global Liquidity Fund	**AAAm**	1,709	41
LGIM Liquidity Fund	**AAAm**	4,732	14,944
Insight Sterling Liquidity Fund	**AAAm**	2,613	4,753
		65,883	**72,678**
Bank Deposit Accounts			
HSBC BIBCA	**AA-**	2,430	10,021
NatWest SIBA	**BBB+**	8	0
		2,438	**10,021**

	Rating	Balance as at 31 March 16 £000's	Balance as at 31 March 15 £000's
Bank Current Accounts			
Natwest Current Account	**BBB+**	50	44
Natwest Current Account - Euro	**BBB+**	3,883	95
Natwest Current Account - USD	**BBB+**	9	0
JP Morgan Chase - Current Account	**A+**	0	18,894
Northern Trust - Current Account	**AA-**	4,463	0
Barclays - DTZ client monies account	**A**	1,287	890
		9,692	**19,923**
Total		**78,013**	**102,622**

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.
All financial liabilities at 31 March 2016 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

The key elements of the funding policy are:

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

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

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

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

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow new entrants. These methods assess the costs of benefits accruing to existing members during the year following valuation and the remaining working lifetime respectively, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

The main actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate
	Expected
Rate of return on investments (discount rate)	6.0% p.a.
Rate of general pay increases	2.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	2.7% p.a.

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the fund's liabilities on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

Notes to the Pension Fund Account

The actuarial present value of promised retirement benefits as at 31 March 2016 was £7,479.8m (31 March 2015: £7,676.6m). The Fair Value of the Scheme assets at Bid Value being £4,597.5m (31 March 2015: £4,539.0m) the Fund has a net liability of £2,882.3m as at 31 March 2016 (31 March 2015: £3,137.6m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 61.46% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above is calculated on an IAS 19 basis and therefore differs from the results of the 2013 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions used:	**% p.a.**
Salary increase rate	4.2%
Inflation/Pensions increase rate	2.4%
Discount rate	3.7%

21. Current Assets

		31 March 2016 £000's		31 March 2015 £000's
Debtors				
- Contributions due - Employees	2,860		4,003	
- Contributions due - Employers	17,092		20,415	
- Sundry debtors	5,257		4,998	
Total External Debtors		25,209		29,416
Amounts due from Kent County Council		2,251		5,369
Cash		7,896		1,029
		35,356		35,814
Analysis of External Debtors				
Other Local Authorities		19,462		24,994
Other Entities and individuals		5,747		4,422
		25,209		29,416

22. Current Liabilities

		31 March 2016 £000's		31 March 2015 £000's
Creditors				
- Benefits Payable	7,789		6,345	
- Sundry Creditors	4,288		5,499	
Total External Creditors		12,077		11,844
Owing to Kent County Council		2,895		3,265
Total		14,972		15,109
Analysis of External Creditors				
Central Government Bodies		0		0
Other Local Authorities		7,431		5,700
Other Entities and individuals		4,646		6,144
Total		12,077		11,844

23. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April	6,235	6,016	2,061	1,967	782	862
Value at 31 March	6,371	6,235	2,049	2,061	628	782
Contributions paid	1,237	1,245	175	153	2	3

24. Related Party Transactions

The Pension Fund is required to disclose material transactions with related parties, not disclosed elsewhere, in a note to the financial statements. During the year each member of the Kent County Council Superannuation Fund Committee is required to declare their interests at each meeting. None of the members of the Committee or senior officers undertook any material transactions with the Kent Pension Fund.

	2015-16	2014-15
	£000's	£000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	66,968	66,014
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website at:www.kentpensionfund.co.uk		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	2,706	2,889
Year end balance due from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-645	2,103

Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2015-16 were the Corporate Director of Finance and Procurement, the Head of Financial Services, the Treasury and Investments Manager and the Pensions Manager. Details of officers' remuneration and members' allowances can be found in the accounts of Kent County Council under notes 6 and 7.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2016 totalled £61.9m (31 March 2015: £107.3m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

26. Contingent Assets

29 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

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

Opinion on the Authority Financial statements

We have audited the financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until we have completed our consideration of question and objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Paul Hughes
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

21 July 2016

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

• present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and

• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and applicable law.

Opinion on financial statements

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

21 July 2016

Scope of Responsibility

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law and recognised standards of good practice, and that public money is safeguarded and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency and effectiveness.

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

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework guidance: Delivering Good Governance in Local Government. The Annual Governance Statement (AGS) explains how the Council has complied with the Code and during the past year and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement of internal control.

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values by which the Council is directed and controlled. The Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control.

All Corporate Directors have a range of duties to ensure that their directorates are run efficiently, effectively and with proper risk management and governance arrangements, including a sound system of control. As part of the AGS process, each Corporate Director is specifically required to confirm that this system is in place. They are also required to review internal controls to ensure they are adequate and effective taking into account the following:

(i) Outcomes from risk assessment and evaluation
(ii) Self-assessment of key service areas within the directorate
(iii) Internal audit reports and results of follow ups regarding implementation of recommendations
(iv) Outcomes from reviews of services by other bodies, including Inspectorates, external auditors, etc.
(v) Linkage between business planning and the management of risk

Separate submissions are provided by the Statutory Officers (the Head of Paid Service, the Monitoring Officer and the Section 151 Officer, Director of Adult Social Services and Director of Children's Services) in respect of issues that they are aware of for the Council as a whole. Corporate Directors put in place an action plan for each issue detailed in their AGS submission as soon as that issue is identified. Their action plans must include:

(i) an accountable officer
(ii) a specific timescale
(iii) the detailed action to be taken
(iv) updates on progress throughout the year

In addition, the Director of Governance & Law completed the annual review of the Code of Corporate Governance during 2015-16. The Code of Corporate Governance is included at Appendix 10 of the Constitution

The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Kent County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place within Kent County Council for the year ended 31 March 2016 and up to the date of approval of the annual report and accounts.

The Governance Framework

The Council sets out clearly its vision and purpose, with clarity on outcomes for residents. It engages with stakeholders to ensure robust public accountability through the following actions:

(i) Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a Vision for the local area

(ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles

(iii) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behavior

(iv) Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk

(v) Developing the capacity and capability of members and officers to be effective

(vi) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework. For each principle we have described the Councils relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism	Assurances Received
1. Focusing on the purpose of the Council and on outcomes for the community and implementing a Vision for the local area : Exercising strategic leadership by developing and clearly communicating the Council's purpose and vision, and its intended outcomes for citizens and service users. Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning. Ensuring the Council makes best use of resources, and that tax payers and service users receive excellent value for money.	• Develop and promote our purpose and vision to be used as a basis for corporate and service planning • Regularly review our vision for the local area and its impact on our governance and financial arrangements • Ensure that partnerships work to a common vision which all parties understand/agree • Publish annual reports communicating our activities and achievements, financial position and performance • Measure quality of service, and ensure availability of information needed to effectively review our service quality • Put in place effective procedures to identify and address failures in service delivery, including complaints and consultation mechanisms for our service users • Measure value for money, and ensure that we have the information needed to review value for money and performance effectively • Measure of the environmental impact of our policies, plans and decisions	A quarterly performance report is published showing how our services are performing against key performance indicators. Externally reported data; Government Single Data list; and CIPFA benchmarking. Strategic and service data published online to enable residents to hold the Council to account. Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement. Employment appraisals linked to the Council's strategic objectives.

Principle	Description of Governance Mechanism	Assurances Received
		Results of consultations e.g. Review of KCC Funded Bus Services, Mobile Library Service, Street Lighting, Post 16 Transport Policy for 2016/17, Tonbridge Gateway, various school expansions/closures and many others set out on a dedicated web page. Attendance of staff and managers at engagement sessions. Staff and managers accessing information on KNet. The KCC Annual Complaints, Comments and Compliments Report is presented to Governance & Audit Committee each year. The Kent Environment Board, chaired by the Corporate Director Growth Environment & Transport, consists of representatives from all Directorates. This group receives regular updates on progress on the delivery of KCC's commitments in the Kent Environment Strategy. The group also shares, disseminates and promotes improvements in performance to ensure KCC's compliance with ISO14001. Information available on KNet. Various policies, procedures and other documentation are available on KNet : Vision for Kent 2012-2022; Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement 2015-2020, Medium Term Financial Plan, Environmental Policy, Equality Impact Assessments Policy and Guidance, Comment, Complaints and Compliments Policy, Whistle Blowing Policy.

Principle	Description of Governance Mechanism	Assurances Received
2.Members and officers working together to achieve a common purpose with clearly defined functions and roles Ensuring effective leadership throughout the Council and being clear about executive, non-executive and scrutiny functions/roles Ensuring that a constructive working relationship exists between Council Members and officers, and that the responsibilities of members and officers are carried out to a high standard Ensuring relationships between the Council and the public are clear so that each knows what to expect of each other	• A clear statement of the respective roles and responsibilities of our executive, individual executive members, and the Scrutiny function, and our approach towards putting this into practice • A clear statement of the respective roles and responsibilities of our non-executive Members, Members generally, and our senior officers • A scheme of delegation and reserved powers within our Constitution, including a formal schedule of matters specifically reserved for collective decision of the Council, taking account of relevant legislation, to be monitored and revised as required • Making the Corporate Management Team responsible and accountable to the Council for all aspects of operational management • Protocols ensuring that the Leader and Chief Officers negotiate their respective roles and that a shared understanding of roles and objectives is maintained • Making the Section 151 Officer responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control • Making the Monitoring Officer responsible to the Council for ensuring that agreed procedures are followed, and for ensuring compliance with all applicable statutes and regulations • Protocols to ensure effective communication between members and officers • Set out terms and conditions for remuneration of Members and officers, and an effective structure for managing the process, including an independent remuneration panel, and effective mechanisms for monitoring performance and service delivery • Ensuring that our vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated • When working in partnership, ensuring that our Members are clear about their roles and responsibilities, both individually and collectively in relation to the partnership and to the Council, that there is clarity about the legal status of the partnership, and that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions	Regular performance reporting to Cabinet Committees provides an overview for Members of Council performance against target levels. The Performance and Evaluation Board provides assurance to Corporate Board that where agreed performance levels are not being met, appropriate action is put in place to address the shortfall. Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee / full Council. The Selection and Member Services Committee monitors and recommends changes to the Constitution to Council. The roles and duties of the statutory officers are documented within the Constitution. The Head of Paid Service works with Members and Corporate Directors to deliver the Councils objectives. The Head of Internal Audit has given adequate assurance for risk management and internal control and assurance for the Governance Framework. County Council receives the Report from the Independent Member Remuneration Panel, established under the Local Authorities Regulations 2003, and annually considers the panel's proposed Members Allowances Scheme.

Principle	Description of Governance Mechanism	Assurances Received
		The Director of Children's Services in responsible for education and children's social care in accordance with statutory guidance and the County Council's Accountability Protocol for the Director Children's Services and Lead Member for Children's Services as outlined in the Constitution. The Director of Public Health is responsible for ensuring that the County Council exercises its statutory public health functions as outlined in the Constitution. Kent County Council has published its Strategic Statement, "Increasing Opportunities, Improving Outcomes", which sets out the 5 year vision from 2015 to 2020, to improve the outcomes for the people of Kent. The strategic and supporting outcomes were agreed by County Council in March 2015, and these included a commitment to all elected Members to deliver an Annual Report to County Council on progress towards the outcomes, over the lifetime of the five year vision. It is anticipated that the first Annual Report will be delivered to County Council on the 20th October 2016.
3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behavior Ensuring Council members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	• Ensure that our leadership sets a tone for the organisation by creating a climate of openness, accountability, integrity, support and respect • Ensure that standards of conduct and personal behavior expected of our Members and officers, or work between our Members and officers, and between the Council, its partners and the community are defined and communicated through codes of conduct and protocols • Put in place arrangements to ensure that our Members and officers are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders, and put in place appropriate processes to ensure that they continue to operate in practice	Monitoring Officer reports to the Corporate Management Team and Corporate Board. Standards Committee minutes and decisions are available on KCC's website. Minutes and decisions of all committees are observed by the Monitoring and/or Head of Democratic Services.

Principle	Description of Governance Mechanism	Assurances Received
Ensuring that organisational values are put into practice and are effective	• Maintain shared values including leadership values for both the Members and officers reflecting public expectations, and communicate these with our Members, officers, the community and partners • Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice • Develop and maintain an effective ethical standards regime to ensure that high standards of conduct are embedded in our culture • Use our shared values to act as a guide for decision making, and as a basis for developing positive and trusting relationships within the Council • In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behavior both individually and collectively	Annual Performance Review for staff explicitly links to achievement of objectives, and demonstration of relevant values and behaviours. KCC's Equalities Policy is available on the intranet. Equalities Impact Assessments carried out for the 2015-16 and 2016-17 budget proposals were undertaken without legal challenge. The Member training and development programme provides focus on, and assurance of, appropriate skills and capability. The numbers of staff grievances and appeals is low, especially given the amount of change happening within the organisation. The Kent Code (the code of conduct for all employees) is available on the Council's intranet. The Council's Whistle Blowing Policy is available on the Council's intranet. The Council's Preventing Bribery Policy is available on the Council's intranet.
4. Taking informed and transparent decisions which are subject to scrutiny and managing risk : Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny	• Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances our performance overall, and that of any organization for which it is responsible • Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based • Put in place arrangements to safeguard Members and officers against conflicts of interest, and put in place appropriate processes to ensure that they continue to operate in practice	The Council has a Scrutiny Committee and a Health Overview and Scrutiny Committee with membership from the non-executive Members. Key decisions, and other significant decisions, are published in the Council's Forthcoming Executive Decision (FED) list.

Principle	Description of Governance Mechanism	Assurances Received
Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs Ensuring that an effective risk management system is in place Using legal powers to the full benefit of citizens and communities in the local area	• Develop and maintain an effective Governance & Audit Committee which is independent of the executive and scrutiny functions • Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints • Ensure that those making decisions for the Council or its partnerships are provided with information that is fit for purpose (relevant, timely, and giving clear explanations of technical issues and their implications) • Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately • Ensure that risk management is embedded within our culture, with Members and officers at all levels recognizing that risk management is part of their role • Ensure that arrangements are in place for whistle-blowing to which officers and all those contracting with the Council have access • Recognise the limits of lawful action and observe both the specific requirements or legislation and the general responsibilities placed on local authorities by public law	The Kent Code of Member conduct sets out the Member's obligations in relation to the registration and declaration of Disclosable Pecuniary Interests and other significant interests. The Kent Code (the code of conduct for all employees) , which is available on the intranet, sets out the staff's obligation to declare any interests, or commitments, which may conflict with KCC's interests. The Governance & Audit Committee, which has a membership of non-executive Members, meets regularly, independently of the scrutiny functions. The complaints procedure is available on KCC's website. Delegations are set out in the Council's Constitution. There is an Executive Scheme of Delegations in place. The Council's Risk Management Policy & Strategy is reviewed annually by the Governance & Audit Committee. The Corporate Risk Register is reviewed by Corporate Board quarterly. Progress against mitigating actions for corporate risks is monitored and reported to Cabinet as part of the Quarterly Performance Report. The Corporate Risk Register is underpinned by Directorate and Divisional (or service) risk registers that are also reviewed quarterly. The authority's Whistleblowing Policy is available on the Intranet. The Council's Preventing Bribery Policy is available on the Council's intranet.

Principle	Description of Governance Mechanism	Assurances Received
5. Developing the capacity and capability of Members and officers to be effective Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as groups Encouraging new talent for membership of the Council so that best use ca be made of individuals' skills and resources in balancing	• Provide induction programmes tailored to individual needs, and regular opportunities for Members and officers to update their knowledge • Ensure that statutory officers have the skills, resources and support necessary to perform their roles effectively, and that these roles are understood throughout the Council • Assess the skills required by our Members and officers, and make a commitments to develop those skills to enable roles to be carried out effectively • Develop skills on a continuing basis to improve performance, including the ability to scrutinize and challenge and to recognize when outside expert advice is needed • Ensure the effective arrangements are in place for reviewing the performance of our executive, and of individual Members, and addressing any training or development needs • Ensure that there are effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to, and participate in the work of the Council, including putting themselves forward for election as Members of the Council • Ensure that career structures are in place for Members and officers, to encourage participation and development	The Kent Code of Member Conduct states that all Members undertake such training and development as the Council, the Standards Committee or the Member's own Group may recommend from time to time. There is a Member training and development programme which provides focus on, and assurance of, appropriate skills and capability. Member PDP's are in place. Data Protection, Information Governance and PREVENT training is now mandatory for all staff. Completion of this training is closely monitored and regularly reported. This training is also available to elected Members. A tailored Staff Induction programme is available for all new staff and existing staff who wish to update their knowledge. Annual Performance Review for staff explicitly links to achievement of objectives and identifies where knowledge and skills need to be updated. During 2015-16 Managers completed a succession planning exercise. Managers will regularly review their successions plans to ensure continued service delivery. Succession planning tools are now available for managers on Knet. The majority of public meetings are webcast and available on the KCC's website.

Principle	Description of Governance Mechanism	Assurances Received
		Meetings of the Commissioning Advisory Board have taken place throughout the year. This board provides non-executive member engagement and advice on the analyse and plan stages of the strategic commissioning cycle. Kent Council Leaders, consisting of the Leaders of all 12 District Councils and Medway Council, meets regularly to discuss strategic issues. The use of Task & Finish Groups, within the Growth, Environment and Transport Directorate, have been successful in providing a forum for officers and Members to work together on specific issues.
6. Engaging with local people and other stakeholders to ensure robust public accountability : Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships Taking an active and planned approach to dialogue with, and accountability to, the public to ensure effective/appropriate service delivery whether directly by the Council, in partnership or by commissioning Making best use of human resources by taking an active and planned approach to meet responsibility to staff	• Making sure that the Council, all staff, and the community are clear about to whom the Council is accountable and for what • Consider those institutional stakeholders to whom the Council is accountable and assess the effectiveness of relationships and any changes required • Ensure clear channels of communication with all sections of the community and other stakeholders, with monitoring arrangements to ensure that they operate effectively • Hold meetings in public unless there are justifiable reasons for confidentiality • Ensure that there are arrangements enabling the Council to engage effectively with all sections of the community, recognising different priorities and establishing explicit processes for dealing with competing demands • Having a clear policy on what issues the Council will meaningfully consult on or engage with the public and service users about, including a feedback mechanism to demonstrate what has changed as a result	The Vision for Kent 2012-2022 is available on KCC's website. Annual Business Plans have been produced, and are available on KCC's website. Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement 2015-2020 is available on the internet and KNet. An annual report is produced providing information on the performance of the Council during the previous year. The staff Whistleblowing procedure is available on the authority's intranet. Kent Council Leaders, consisting of the Leaders of all 12 District Councils and Medway Council, meets regularly to discuss strategic issues.

Principle	Description of Governance Mechanism	Assurances Received
	• Publish an annual performance plan giving information on our vision, strategy, plans and financial statements as well as information about outcomes, achievements and the satisfaction of service users • Ensure that the Council is open and accessible to the community, service users and its staff, ensuring a commitment to openness and transparency in all dealings, including partnerships, subject only to specific circumstances where confidentiality is justified • Develop and maintain a clear policy on how our staff and their representatives are consulted and involved in decision making	The Petitions procedure is available for the public to access. The list of Forthcoming Executive Decisions is available for the public to access. Kent County Council's Constitution is available for the public to access on KCC's website. A quarterly performance report is published on the KCC's website, and is available for the public to access. The authority's Data Protection Act Policy and procedures, the Freedom of Information Act Policy and procedures and the Environmental Information Regulations are all available on KCC's website for the public to access. Results of consultations e.g. Review of KCC Funded Bus Services, Mobile Library Service, Street Lighting, Post 16 Transport Policy for 2016-17, Tonbridge Gateway, various school expansions/closures and many others set out on a dedicated web page

Review of Effectiveness

Every year, a return is submitted for each part of each Directorate (as well as by Statutory Officers) reviewing the effectiveness of its governance framework, including the system of internal control. Attached to each return is the appropriate evidence to support the statements in that return. The returns and their supporting evidence are the background information, in light of which the Corporate Director/Statutory Officer completes their Statement of Assurance.

The Returns cover each directorate's progress on implementing the actions/areas of improvement identified in the 2014-15 AGS. They also detail any new issues that have arisen since 1 April 2015, which have a significant impact on risk management or governance, including details of the sources used to identify such issues. Finally, they provide assurance that Corporate Directors have ensured compliance with the Constitution and Financial Regulations and whether any further actions/areas of improvement are required.

It is for each Corporate Director to decide the level of evidence that provides sufficient assurance that actions/improvements identified in the 2014/15 AGS have been implemented. In respect of all outstanding matters there is confirmation that a detailed action plan is in place, and the name of the responsible officer.

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

Internal Audit has concluded, overall, based on the scope and findings of work that it has performed and taking into account the individual strengths and areas for development identified, that substantial assurance can be given in relation to corporate governance, risk management and internal control arrangements.

In relation to internal controls, internal audit has concluded an overall substantial assurance over the control environment within the Council and its Directorate functions. This reflects a pattern of generally robust core support systems, with a number of exemplar areas identified. No incidences of material external or internal fraud or corruption have been detected or reported. Areas for further improvement have also been highlighted; more particularly the need to maintain controls and sustain improvements in transformational change programmes, ensure risk management is embedded within lower levels of the Council, that non-financial data quality is consistently maintained and that local controls in remote establishments are always properly applied and enforced.

The Council has been receptive to the addressing issues raised by Internal Audit and implementing agreed actions. This has been independently confirmed from the results of formal follow up work undertaken by the unit.

<u>Judgement and wording from Internal Audit and Counter Fraud Unit</u>

Internal Audit has concluded, overall, based on the scope and findings of work that it has performed and taking into account the individual strengths and areas for development identified, that substantial assurance can be given in relation to corporate governance, risk management and internal control arrangements.

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The Council has been receptive to addressing issues raised by Internal Audit and has improved its performance in implementing agreed actions. This has been independently confirmed from the results of formal follow up work undertaken by the unit.

The Council confirms that its financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Significant Governance Issues

A number of areas where key internal control still need to be enhanced have been identified; the following sets these out and also provides an update on actions taken during the past year.

Strategic Commissioning Approach

Following the completion of the Facing the Challenge programme, it was identified that there was a need to further embed the strategic commissioning approach as business as usual. During the year work progressed on the development of new executive member governance arrangements that fit better with the strategic commissioning cycle. This included the creation of a Strategic Commissioning Board, through a merger of the Transformation Advisory Group and the Procurement Board, and the creation of a Budget & Performance Board, through a merger of existing Budget Programme Board and Performance & Evaluation Board. The new governance arrangements began on 1st April 2016.

As part of the above agenda Kent County Council published its Strategic Statement, "*Increasing Opportunities, Improving Outcomes*", in March 2015, following formal County Council approval. The report that was presented to County Council included a commitment to all elected members to deliver an Annual Report on progress towards the outcomes, over the lifetime of the five year vision. It is anticipated that the first Annual Report will be presented to the County Council on the 20th October 2016

Devolution

KCC is working with Kent District Councils and Medway Unitary Authority to explore the potential opportunities and benefits from the Governments devolution agenda, including the agreement of devolution deals transferring some element of funding and responsibilities from central to local control, and the implications of Cities and Local Government Devolution Act 2016 (which includes the potential for local government reorganisation).

The Governments current position that for areas to receive a devolution deal they must accept a Mayoral Combined Authority for their area, including the introduction of a directly elected Mayor, does not have the support of the majority of Kent Leaders. As such, the County Council at both officer and member level, both bilaterally and through representative bodies such as the LGA and CCN is engaging ministers and civil servants to lobby for changes to the Governments position to place Kent in a better position to agree on a devolution deal.

The County Council is also exploring all opportunities for devolution outside of the scope of the devolution deal making process, including the potential for greater local authority leadership role in the National Health Service to support health and social care integration; the design of the scheme to allow for 100% business rate retention and utilising new transport powers, such as bus franchising and the creation of sub-national transport board (where the Secretary of State agrees).

Running parallel to the national devolution debate, KCC is also currently engaged in discussions with Districts at a sub-county level (North, East and West Kent) about greater devolution, co-commissioning and shared decision-making across county and district services as part of efforts to integrate public services and deliver greater value for money to the Kent taxpayer.

A paper will be taken to County Council for it to discuss and debate the implications and the potential ways forward. Further updates will be brought forward as necessary.

Financial climate

The reduced funding available to the Council over the next 3 years, allied to continued increase in demand for our services, and the cost pressures (including the impact of the National Living Wage) on services, will present the Council with a huge financial challenge. The certainty of Government Grant for the next two years, as offered by the 'four-year settlement' does at least provide a clear planning framework, and we are making good progress on considering options for balancing the next two years budgets. That work continues, and senior officers and Members are well aware of the enormity of the task.

Health and Social Care

Numbers of UASC arriving in Kent

The unprecedented and very significant number of Unaccompanied Asylum Seeking Children (UASC) arriving in Kent during 2015 has meant that on occasions the council has struggled to meet its statutory responsibilities to these children. Significant additional resource has been needed to provide sufficient accommodation and staff to address this and there has been close working with central government and other local authorities on the longer term national solution to this international issue.

As a County Council we have a number of the key statutory responsibilities that are set out in the Children Act. We are required to comply with that legislation and are mindful of the potential implications of non-compliance, even in circumstances where resources are stretched due to unprecedented events and circumstances. SCHWB DMT, chaired by Andrew Ireland as DCS, will continue to monitor this and manage and escalate issues as necessary.

Social Welfare Case Law - Informed Consent

In recent times, there have been a number of significant decisions by the courts which present challenges for all Local Authorities. Again, it is important for the council to reflect on the implications of non-compliance with statutory obligations or of ignoring the lessons that can be learned from the case law.

Our legal team are working closely with the Social Care teams to ensure that we are responding to these issues.

Impact of pressure in the health sector

Both increasing demand and the health organisations' long term work on managing this has required greater input from social care as integration continues to be developed. Work is ongoing and includes ensuring that the council's specific responsibilities and areas of expertise are understood and make a key contribution to this. Work is currently ongoing regarding the Strategic Transformation Plan and closer working with the health sector.

Mental Capacity Act and Deprivation of Liberty

A judgement by the Supreme Court in 2014 has mean that procedures for Deprivation of Liberty Safeguards, where the party is not present at the hearing, have changed. The risk here is around failure to complete DoLS applications in a timely manner which could lead to people not being subject to appropriate restrictions. The risk also includes legal challenge to the authority and the possible imposition of a financial penalty. Alongside this, the significantly increased number of DOLS assessments needed due to the 2014 Cheshire West judgement has continued.

Cases have been adequately triaged, using a defined process, but there is a substantial number that remain outside the statutory timescales. Additional funding has been agreed by KCC and by central government but the backlog is continuing, due to increased demand. This situation will be monitored regularly via the Social Care Health and Wellbeing Directorate Management Team, with appropriate escalation to CMT/Corporate Board as necessary.

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

Paul Carter
Leader
On behalf of Kent County Council

David Cockburn
Head of Paid Service

Glossary of terms

Agency

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

Accounting

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The Service Reporting Code of Practice provides guidance on the content and presentation of costs of service activities.

Budget

A statement defining the Council's policy over a specified period and expressed in financial or other terms.

Capital expenditure

Expenditure on the provision and improvement of permanent assets such as land, buildings and roads.

Capital receipts

Money obtained on the sale of a capital asset.

Derivatives

A derivative is a contract that derives its value from the performance of an underlying entity. Common derivatives include forwards, futures, options and swaps.

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.

Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Page 21 of the accounts provides clarification of level 2 and 3 inputs.

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.

Local Authority Accounting Panel

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, Service Reporting Code of Practice and the Prudential Code.

Long-term debtors

Amounts due to Kent County Council where payment is to be made over a period of time in excess of one year.

Minimum Revenue Provision

The amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

Net operating expenditure

This comprises all expenditure minus all income, other than the precept and transfers from reserves.

Glossary of terms

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.

Revenue expenditure funded from capital under statute (Refcus)

Refcus includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

Specific grants

See 'government grants'.

Support service costs

The 'overhead' cost to Service Directorates of support services, such as architects, accountants and solicitors.

Unusable reserves

Those reserves that the Council is not able to utilise to provide a service.

Usable capital receipts

The proportion of the proceeds arising from the sale of fixed assets that can be used to finance capital expenditure.