



# Statement of Accounts

2018/2019  
Statement of Accounts



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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 2018-19 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 2018-19.
- The Statement of Responsibilities - this details the responsibilities of the Council and the Corporate Director of Finance concerning the Council's financial affairs and the actual Statement of Accounts.
- The main Accounting Statements, comprise:
  - ~ 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 17 and 18)
  - ~ 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 19 and 20)
  - ~ 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 21)
  - ~ The Cash Flow Statement - this summarises the changes in cash and cash equivalents of the Council during the reporting period. (See page 22)
- The Expenditure and Funding Analysis - this note brings together the Council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund presented on the basis of how the Council is structured for decision making purposes. (See pages 23 to 24)
- Accounting Policies - notes relating to specific accounting statement lines as identified in the main statements of the accounts 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 23 to 133)
- The Pension Fund Accounts - the Kent County Council Superannuation Fund (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 134 to 161)
- The Independent Auditor's Report to the Council - this is provided by the external auditors, Grant Thornton UK LLP, following the completion of the annual audit. (See pages 162 to 168)
- 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 2018-19. (See pages 169 to 179)
- 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 on pages 180 and 181 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 2018-19 are prepared on an IFRS basis.

There are no significant changes to accounting practice to report for 2018-19.

**Organisational Overview**

Kent County Council (KCC) operates under the legislation set out in the Local Government Act and provides statutory and discretionary services. KCC is organised on a directorate and divisional basis as set out below:



**Strategic and Corporate Plans**

Our strategic and corporate plans are set out in 'Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement', which can be found on our website [kent.gov.uk](http://kent.gov.uk)

Our focus is on improving lives by ensuring every pound spent in Kent is delivering better outcomes for Kent's residents, communities, and businesses.

## **Narrative**

KCC is committed to achieving its vision through three strategic outcomes which provide a simple and effective focus for everything we do that is recognised by members, staff, our partners, and the wider public. The three strategic outcomes are:

- Children and young people in Kent get the best start in life
- Kent communities feel the benefits of economic growth by being in-work, healthy, and enjoying a good quality of life
- Older and vulnerable residents are safe and supported, with choices to live independently.

Our strategic outcomes are underpinned by a series of 'supporting outcomes', which drive a number of cross-cutting strategic business plan priorities for delivery.

## **Financial Report**

### **Setting the Revenue Budget for 2018-19 - the budget strategy**

The Council has a tremendous financial track record and has delivered a small net surplus on its revenue budget in each of the last 18 years up to 2017-18. This is built on a robust approach to budget setting and medium-term financial planning, combined with a rigorous budget management and monitoring regime. Together these are designed to ensure the budget reflects the Council's core strategic objectives but at the same time builds in financial prudence and resilience.

In recent years, and for the foreseeable future, KCC has faced an enormous and unprecedented financial challenge. This challenge arises from a combination of rising spending demands, reductions in central government funding and freezes/limits on raising council tax. Combined, this has led the Council to make annual savings in the region of £75m to £90m each year since 2010. 2018-19 is the first year where we have started to see the savings requirement reduce a little as the council's net budget increases in cash terms. However, these cash increases should not be confused with real-term increases and are nowhere near enough to fund rising demands and costs.

KCC, along with the vast majority of other councils, signed up to a 4-year funding settlement covering 2016-17 to 2019-20. This agreement was based on the 2015 Spending Review, which initially represented a flat cash settlement over the four years with reductions in 2016-17 and 2017-18 compared to 2015-16, followed by recovery in 2018-19 and 2019-20. This flat cash equation included the government settlement (comprising redistribution of retained business rates, Revenue Support Grant (RSG), Improved Better Care Fund (iBCF), New Homes Bonus (NHB), Rural Services Delivery Grant and Transitional Grant) and council tax. Within this the government share reduced and council tax increased from a combination of an increasing tax base (the effect of additional homes and changes in discounts), tax increases up to the referendum level, and the social care council tax levy introduced for the first time in 2016-17. The 4-year agreement did not include any assumptions of retained business rate growth.

Since the original agreement there have been some additional grants announced. The redistribution of business rates and RSG have remained unchanged (including substantial reductions in RSG), but new grants have been announced to support social care (initially as a one-off for 2017-18 but later repeated again, albeit as a lesser amount, for 2018-19) funded by bringing forward reforms to NHB. More significantly additional enhancements to iBCF announced in the March 2017 Budget significantly increased the allocations for 2017-18 and 2018-19 to support reduced delayed transfers from health. Greater flexibility over the social care council tax levy was also introduced in 2017-18 allowing councils to levy the same additional 6% over the three years 2017-18 to 2019-20 as originally allowed following the Spending Review but with added flexibility to raise up to 3% in 2017-18 and 2018-19, rather than 2% per annum. The council tax referendum threshold for 2018-19 was raised from 2% to 3%. KCC did not exercise this flexibility on social care levy but did agree to increase tax rates up to but not exceeding the new referendum level.

The Kent and Medway (K&M) bid was approved as one of ten areas to pilot 100% business rate retention in 2018-19. For simplicity it was agreed with all the K&M pilot authorities that the upper tier authorities (KCC and Medway Council) would show all the additional retention. The additional retention meant that both authorities switched from receiving a business rate top-up to paying a tariff within the overall settlement. The actual retained growth within the pilot is shared out between the 15 participating authorities according to the pilot agreement to improve the financial sustainability of individual authorities and to promote growth across 3 consortia areas. The pilot means the business rate redistribution and retained growth for KCC in 2018-19 is significantly different to other years.

## Narrative

The final equation for 2018-19 was as follows:

	£m		£m
Additional spending demands	75.7	Council tax and business rates	51.4
Savings, income and reserves	-50.2	Net govt. grant reductions	-25.9
<b>TOTAL</b>	<b>25.5</b>	<b>TOTAL</b>	<b>25.5</b>

This presentation shows the change in the council's net budget requirement between 2017-18 and 2018-19, and change in net funding from central government and local taxation.

## Risk Strategy

Please refer to the Annual Governance Statement on pages 169 to 179 for details of the Council's governance arrangements.

As an organisation concerned with service provision and the social and economic development of the county it has been essential that the risks to achieve our objectives have been managed efficiently and effectively.

Risk management has been at the heart of our good management practice and corporate governance arrangements. Our risk management arrangements have been proactive and enabled decisions to be based on properly assessed risks that have balanced risk and reward, ensuring that the right actions have been taken at the right time.

Additional spending demands and ongoing public sector austerity measures means that the Council has continued to face serious financial and operational challenges. It has meant that KCC has been exposed to significant and increased levels of risk in its operating environment, with less resources to manage those risks. It has been required to accept or tolerate greater levels of risk to conduct our business and we have sought to be innovative and transform to protect the quality of our services for service users and residents of Kent. This has included venturing into more commercial approaches and income generating activities.

As the Council has continued to move towards a Strategic Commissioning Authority we have had to review our governance arrangements, including the risk management framework, which has evolved as the Authority has continued to evolve. This has required a greater focus on all elements of the risk framework - our culture, behaviours and values as well as processes and procedures.

Our revenue and capital Medium Term Financial Plan (MTFP) covered a three year period and is updated annually. The budget is presented in a summary format by Directorate, Division and Key Services level including delegations to directors. Work developing the revenue and capital MTFP for 2018-19 began during Summer 2017. The budget setting process involved the Corporate Management Team (CMT) and Cabinet. The final budget was approved at County Council in February 2018.

## 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.

## Narrative

### Funding Estimate

The funding estimate for 2018-19 was £958.5m, an increase of £25.5m from the 2017-18 budget. This funding comes from various sources including unring-fenced grants from central government, some section 31 grants with no conditions, and local tax receipts. The funding estimate in the approved budget was based on the net additional retention from the business rate pilot and the alternative settlement for business rate top-up, business rate compensation grants and RSG assuming the pilot did not exist. This ensured a consistent multi-year comparison. The accounts will need to be prepared showing the actual retention under the pilot. The revenue budget strategy included the alternative presentation with KCC showing all the additional retention for the 12 Kent districts, RSG funded out of the additional retention rather than as a separate grant, business rate tariff and extra compensation grant for the additional retention. In the table below we have reproduced both versions for comparison with 2017-18.

	2017-18 Budget	2018-19 Estimate excl. Pilot	2018-19 Estimate incl. Pilot	Movement excl. Pilot	Movement incl. Pilot
	£'000	£'000	£'000	£'000	£'000
<b>Council Tax</b>					
Tax Base (incl previous year tax increase)	585,232	610,161	610,161	24,929	24,929
Assumed annual increase	11,891	18,977	18,977	7,086	7,086
Social Care Levy	23,403	36,598	36,598	13,195	13,195
Collection Fund Balance	12,494	10,338	10,338	-2,156	-2,156
<b>Local Share of Business Rates</b>					
Business Rates	50,600	59,049	299,177	8,449	248,577
Business Rates Collection Fund (deficit)	-140	-247	-247	-107	-107
<b>Un-ring fenced grants</b>					
Revenue Support Grant	66,476	37,640	0	-28,836	-66,476
Transitional Grant	5,685	0	0	-5,685	-5,685
Business Rate Top-Up (Tariff)	128,864	133,569	-93,154	4,705	-222,018
Business Rate Compensation Grant	3,342	6,163	30,398	2,821	27,056
New Homes Bonus	7,805	5,782	5,782	-2,023	-2,023
Improved Better Care Fund	301	35,019	35,019	34,718	34,718
Additional Adult Social Care Allocation (March 2017)	26,091	0		-26,091	-26,091
Social Care Support Grant	6,192	3,853	3,853	-2,339	-2,339
Education Services Grant (transition)	3,372	0	0	-3,372	-3,372
Other Grants	1,369	1,586	1,586	217	217
<b>Total</b>	<b>932,977</b>	<b>958,488</b>	<b>958,488</b>	<b>25,511</b>	<b>25,511</b>

The council tax base notification from District Councils shows a 2.18% increase over 2017-18. Initial analysis indicated that this larger than expected increase was due to a combination of more households being included on the valuation list and fewer discounts being applied (particularly council tax support), as well as higher estimates for new builds.

Households will have seen an increase in the County Council's element of council tax of 2.99% plus the additional 2% for the Social Care precept levy.

Government grants are those notified in the final local government finance settlement announced on 6th February 2018 plus any other grants which KCC has included as part of the funding towards the net budget requirement. These grants do not include specific ring-fenced grants where the income offsets spending. The business compensation grant reflects the lower indexation increase on business rates (based on CPI rather than RPI) and additional discounts e.g. public houses, announced in the Chancellor's budget. This is allocated as a separate section 31 grant outside the main settlement.

### Spending Demands

Forecasts for spending demands are 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 2017-18 budget is also shown as additional spending demand.

The final budget showed £75.7m of additional spending demands in 2018-19, the breakdown of spending demands is as follows:

- £24.6m for staff pay awards, contractual price increases and negotiated contracts
- £17.3m for forecast increases in demand and demographic changes
- £11.3m to replace one-offs used to fund base budget spending in 2017-18
- £14.7m for local service strategies and improvements
- £12.9m for Net budget realignments to reflect previous year activity/costs (realignments can reduce as well as increase spend reflecting past performance)
- £1.8m reduction in specific grant for public health (with matched spending reduction shown as savings)
- -£6.9m impact of government legislative changes (including managing the phasing of the additional iBCF for 2017-18 and 2018-19)

### Savings and Income

Over the last few years the County 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 through the current four-year settlement even though the net budget has been increasing since 2016-17 in cash terms. The 2018-19 budget identified the need for £50.2m of savings and income including the following:

- £6.0m income generation
- £7.8m from service transformation (improved outcomes at lower cost)
- £14.3m financing savings (including £9.157m planned draw-down from corporate and directorate reserves)
- £2.8m policy savings (service reductions)
- £19.3m from efficiency savings from staffing, contracts and managing premises (doing the same job for less money)

The revenue budget strategy has sought to minimise service reductions despite the unprecedented financial challenge.

**Revenue Budget and Outturn**

In February 2018 the Council approved a net revenue budget for 2018-19 of £958,488m. In addition £5.446m of 2017-18 underspending was rolled forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below, together with the sources of income from which the Council's net revenue expenditure was financed.

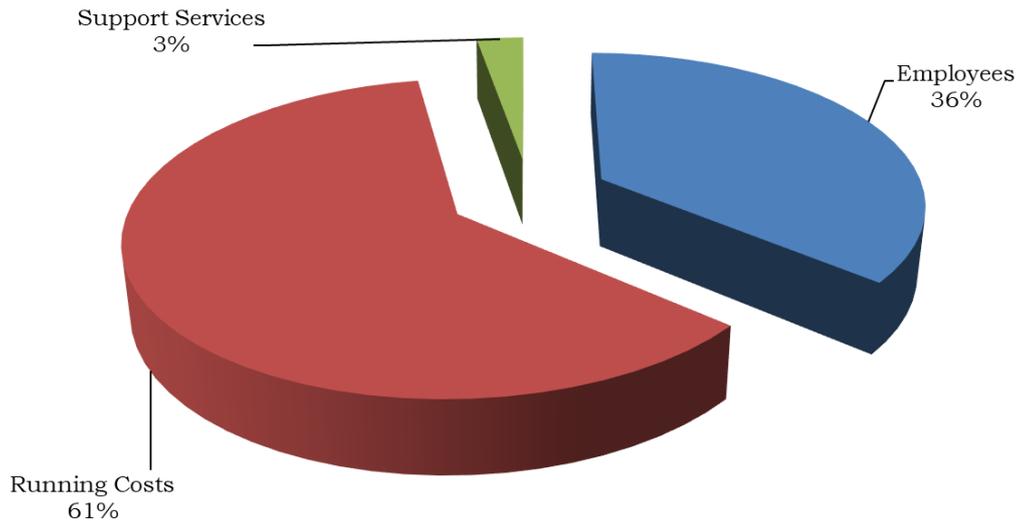
DIRECTORATE		Budget £000's	Outturn £000's	Variance £000's
Adult Social Care & Health including Disabled Children's Services	<b>ASCH</b>	409,752	408,939	-813
Children, Young People & Education	<b>CYPE</b>	170,706	171,516	810
Growth, Environment & Transport	<b>GET</b>	168,465	167,265	-1,200
Strategic & Corporate Services including Public Health	<b>S&amp;CS</b>	76,407	74,945	-1,462
Financing Items & Unallocated	<b>FI&amp;U</b>	138,604	143,196	4,592
		<b>963,934</b>	<b>965,861</b>	<b>1,927</b>
Schools' Delegated Budgets	<b>CYPE</b>		3,131	3,131
		<b>963,934</b>	<b>968,992</b>	<b>5,058</b>
FUNDED BY:				
Reserves (2017-18 revenue budget underspend)		-5,446	-5,446	0
Council Tax Yield including Collection Fund		-676,074	-676,074	0
Local Share of Business Rates & Business Rate Collection Fund		-301,934	-306,444	-4,510
Business Rate Tariff		93,154	93,154	0
Business Rate Compensation Grant		-27,394	-28,971	-1,577
Business Rate Levy Account Surplus			-2,836	-2,836
New Homes Bonus (NHB) & NHB Adjustment Grants		-5,782	-5,782	0
Improved Better Care Fund (iBCF) including Additional Adult Social Care Allocation in Spring 2017 Budget		-35,019	-35,019	0
Social Care Support Grant		-3,853	-3,853	0
Other Unringfenced Grants		-1,586	-1,916	-330
Total Funding		<b>-963,934</b>	<b>-973,187</b>	<b>-9,253</b>
NET OUTTURN POSITION		<b>0</b>	<b>-4,195</b>	<b>-4,195</b>

The net underspending within the directorates is £7.326m, being +£1.927m and -£9.253m funding variance (excluding £3.131m delegated schools overspend) of which £6.187m has been carried forward and will be added to the 2019-20 budget to support the rescheduling of projects. After taking into consideration the roll forwards this leaves an underlying underspend of £1.139m and this will be used to fund County Council and Cabinet decisions affecting the 2019-20 and future years' budgets.

## Narrative

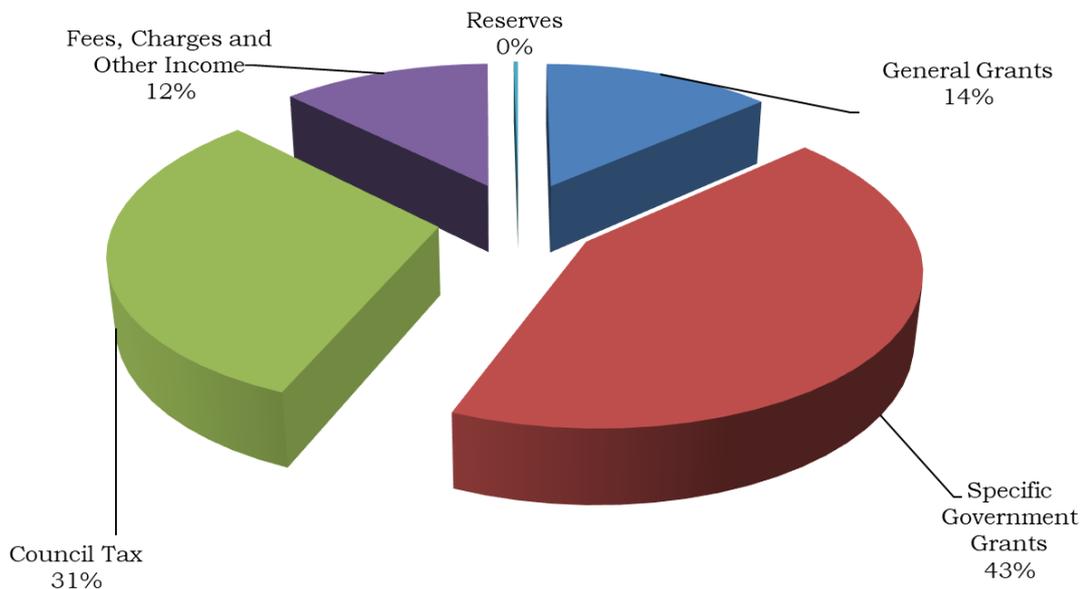
The charts below present a breakdown of the figures shown in the table above:

### What the money is spent on



Employees costs account for 36% (37% in 2017-18) of the Council's expenditure. Running costs including cost of premises, transport, supplies and services, and third party payments account for 61% (60% in 2017-18) of the expenditure.

### Where the money came from



43% of our income came from Specific Government Grants which includes the Dedicated Schools Grant (43% in 2017-18), 31% of our income came from residents through council tax (30% in 2017-18), 14% of our income came from general grants, including business rates (14% in 2017-18), and 12% of our income came from users of our services (13% in 2017-18).

### Schools

In total, schools' reserves have increased by £2.069m. This amount is made up of a reduction of £0.538m for local authority schools converting to academies, a reduction in the value of schools' deficit balances of £1.063m and an increase in schools' surplus balances of £1.545m.

In addition, there was a £4.345m net overspend on the Central DSG Reserve made up of £5.743m overspend on High Needs budgets, a £1m contribution to capital broadband, a £0.830m write off of closing school deficit balances, a £3.899m underspend relating to pupil growth and other net overspends of £0.670m.

The reserve set up for the Apprenticeship Levy prepayment last year has been reversed and will no longer be held as a separate reserve as part of the schools' reserves. Therefore, the schools reserve has reduced by £0.584m.

Schools reserves, including the Central DSG reserve, have therefore reduced by £3.131m in 2018-19 (£2.069m schools reserves less £4.325m Central DSG and £0.584m Apprenticeship Levy). Schools now have £33.384m of revenue reserves and there is a deficit balance of £6.499m in the Central DSG reserve as reflected in Note 23 on pages 84 and 85.

### 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 £185.538m and Note 25 on pages 93 to 97 provides an explanation of the purpose of each significant reserve along with the balance held at 31 March 2019. The general reserve position at 31 March 2019 is £37.213m, which is unchanged from the position as at 31 March 2018.

At 31 March 2019 the Council has usable capital reserves of £173.604m as shown on page 84.

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 2019 totalled £29.107m, see Note 26 on pages 98 to 99.

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 2018-19 budget setting process. Our Corporate Director of Finance, who is responsible for setting the level of reserves, has deemed the level to be 'adequate' given the level of risk that we face.

**Capital**

Capital expenditure is defined as expenditure on the 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 £200.625m. The expenditure analysed by portfolio was:

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Children, Young People & Education	96,122	57,862	-38,260
Adult Social Care & Health	10,679	4,321	-6,358
Growth, Environment & Transport	187,649	113,840	-73,809
Strategic & Corporate Services	25,641	13,739	-11,902
	<u>320,091</u>	<u>189,762</u>	<u>-130,329</u>
Devolved Capital to Schools	10,800	10,863	63
	<u>330,891</u>	<u>200,625</u>	<u>-130,266</u>
<b>TOTAL</b>	<b>330,891</b>	<b>200,625</b>	<b>-130,266</b>

Expenditure excluding that incurred by schools under devolved arrangements was £130.329m less than cash limits. Of this, £128.719m reflected re-phasing of capital expenditure plans across all services and £1.610m was due to real variations on a small number of projects. Unspent capital resources will be carried forward into 2019-20 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2018-19 was £10.863m.

Details of the financing of capital expenditure are on pages 73 and 74.

**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 2019 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 98.

### 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 2018-19 IAS 19 report shows that the Kent County Council Pension Fund now has a deficit of £1,334m. This is a decrease in the deficit of £94m in year.

### Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2018-19, earlier years and for future years. The balance currently stands at £918m (short- and long-term) as shown on the balance sheet on page 21. Future capital expenditure will be financed from revenue contributions, sale of surplus fixed assets, capital grants and contributions, borrowing, and relevant funds within earmarked reserves.

### East Kent Opportunities

East Kent Opportunities LLP (EKO) is a 'Jointly Controlled Operation' and in 2018-19 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.

### 2019-20 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 2019-20 budget was agreed by the County Council on 14th February, the council also noted the financial outlook for later years as presented in the 2019-22 medium term financial plan (MTFP). 2019-20 is the last year of the current four-year funding agreement with central government. Under this agreement the Council accepted the Revenue Support Grant (RSG) reductions within the settlement, which have remained unchanged from the original indicative settlements. Originally the four-year agreement represented "flat cash" between 2015-16 and 2019-20 with grant reductions offset by forecast increases in council tax base and estimated annual increases in the council tax charge as permitted.

This flat cash equation has subsequently changed with the government allowing a higher council tax referendum threshold in 2018-19 and 2019-20, and has provided additional funding for social care in three years 2017-18 to 2019-20. The additional money for social care includes more than originally identified in the Improved Better Care Fund (iBCF), a new social care support grant, and additional winter grant to reduce the impact of delayed transfers from health into care. Overall the County Council's core spending power now shows an £80m (8.9%) increase over the four years in cash terms. However, this still represents a significant reduction in real terms after taking account of rising spending demands and costs.

The four-year agreement only relates to funding identified for local government within the Ministry for Housing Communities and Local Government (MHCLG) and does not include funding from other departments via ring-fenced specific grants e.g. Department for Education, Department for Transport, etc. KCC's policy is to contain spending on functions supported by these grants within the funding provided.

## Narrative

The 2019-20 budget identified a financial challenge of £101m arising from a combination of £72.9m additional spending (including £12.9m to replace the use of one-off funding in the 2018-19 budget) and £28.1m reduction in RSG. This challenge was met via £41.4m additional council tax receipts (a combination of council tax base, council tax increase up to but not exceeding 3% referendum limit, final 2% permitted from the social care precept, and collection fund balances), £4.3m loss of business rate income (from a combination of the council's share of additional growth and the re-establishment of a pool with 10 districts offset by non-approval of the additional retention pilot), £18.9m increase in government grants (indexation of business rate tariff and social care grants), and £45m savings (including further £12.7m use of reserves).

The council tax decisions resulted in the KCC element for a band C property increasing from £1,100.16 in 2018-19 to £1,155.04 in 2019-20. The increase was agreed as necessary to help preserve Council front-line services in response to the financial challenge from rising spending demands at a time when government grants are reducing. The increases are also in line with the Government's published spending plans in the Core Spending power calculation.

The outlook beyond 2019-20 is very uncertain. We have no detailed spending plans from central government or indicative settlement. We will not have any additional certainty until the outcome of the spending review expected sometime in autumn 2019 and the outcomes from the Fair Funding review of relative needs and resources (which affects the redistribution of business rates and remaining RSG), the review of business rates retention and social care green paper. The MTFP identified forecast additional spending demands and the consequences if the settlement following the Spending Review and Fair Funding review result in 2.5% cash increase over the two years 2020-21 and 2021-22, including a 2% council tax referendum threshold and 1% council tax base growth.

The Council not only faces a challenging revenue budget but also has many challenges in relation to the capital programme. The biggest challenge being the pressing need to provide additional school places to meet the rapidly growing demand, particularly in the secondary sector. Loan funding has been made available within the programme to support the existing schools commissioning plan but the Council made it clear that it cannot top-up basic need allocations with loan funding in future due to the consequences on the revenue budget, and alternative funding will need to be available to meet the demand for school places. The Council also faces a pressing need to provide capital funding to maintain other buildings and assets, including roads, in order to ensure these remain safe and in usable condition.

The Council is facing a substantial risk due to the sharp rise in demand to support children and young people with Special Educational Needs and Disability (SEND). This demand is rising much faster than increases in High Needs funding within the Dedicated Schools Grant. The Council has developed and implemented an SEN Action Plan but this will also require a response from government to provide additional funding for SEND in the short and medium term, and introduce structural reforms to help curb demand.

### **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)
- Corporate Directors.

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

Telephone (03000) 416082 or E-Mail [emma.feakins@kent.gov.uk](mailto: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;
- 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 24 July 2019 on behalf of Kent County Council and have been re-signed as authorisation to issue.



**Councillor David Brazier**  
**Chairman of the Governance and Audit Committee**  
**24 July 2019**

### The Corporate Director of Finance's Responsibilities

The Corporate Director of Finance 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 2019.

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

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

The Corporate Director of Finance has also:

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

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 2019.

### Certificate of the Corporate Director of Finance



**Cath Head**  
**Head of Finance Operations (Acting Deputy S151)**  
**24 July 2019**

## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Service	Notes	Year ended 31 March 2019		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Adult Social Care & Health including Disabled Children's Services	ASCH	565,678	148,404	417,274
Children, Young People & Education	CYPE	1,176,559	908,388	268,171
Growth, Environment & Transport	GET	312,114	52,204	259,910
Strategic & Corporate Services including Public Health	S&CS	209,078	101,628	107,450
Financing Items & Unallocated	FI&U	8,185	1,205	6,980
<b>Cost of Services</b>		<b>2,271,614</b>	<b>1,211,829</b>	<b>1,059,785</b>
Other operating Expenditure	13			45,234
Net Surplus on trading accounts	34			-5,097
Financing and Investment Income and Expenditure	14			86,674
Taxation and Non Specific Grant Income	15			-1,166,468
<b>(Surplus) or deficit on Provision of Services</b>				<b>20,128</b>
(Surplus)/deficit arising on revaluation of non current assets				-49,289
Remeasurement of the net defined benefit liability				-180,251
(Surplus)/deficit from investments in equity instruments designated at fair value through other comprehensive income				-950
<b>Other Comprehensive Income and Expenditure</b>				<b>-230,490</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>-210,362</b>

## Comprehensive Income and Expenditure Statement

	Notes	Restated		
		Year ended 31 March 2018		
Service		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Adult Social Care & Health including Disabled Children's Services	ASCH	540,424	136,995	403,429
Children, Young People & Education	CYPE	1,153,106	907,294	245,812
Growth, Environment & Transport	GET	305,343	42,984	262,359
Strategic & Corporate Services including Public Health	S&CS	217,753	107,038	110,715
Financing Items & Unallocated	FI&U	5,637	2,500	3,137
<b>Cost of Services</b>		<b>2,222,263</b>	<b>1,196,811</b>	<b>1,025,452</b>
Other operating Expenditure	13			42,912
Net Surplus on trading accounts	34			-4,754
Financing and Investment Income and Expenditure	14			95,852
Taxation and Non Specific Grant Income	15			-1,015,220
<b>(Surplus) or deficit on Provision of Services</b>				<b>144,242</b>
(Surplus)/deficit arising on revaluation of non current assets				-148,008
Remeasurement of the net defined benefit liability				-208,528
(Surplus)/deficit from investments in equity instruments designated at fair value through other comprehensive income				249
<b>Other Comprehensive Income and Expenditure</b>				<b>-356,287</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>-212,045</b>

## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end 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 'unusable reserves'. The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. 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 2018				
	General Fund Balance	Earmarked GF Reserves	Total GF incl. Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2017</b>	<b>-36,671</b>	<b>-189,510</b>	<b>-226,181</b>	<b>-20,875</b>	<b>-65,196</b>
<b>Movement in reserves during 2017-18</b>					
<b>Total Comprehensive Expenditure &amp; Income</b>	<b>144,242</b>		<b>144,242</b>		
Adjustments between accounting basis & funding basis under regulations - Note 12	-143,932		<b>-143,932</b>	-7,645	7,758
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>310</b>	<b>0</b>	<b>310</b>	<b>-7,645</b>	<b>7,758</b>
Transfers to/from Earmarked Reserves (total of *s on Note 23)	-542	542	<b>0</b>		
<b>Increase/Decrease (movement) in Year</b>	<b>-232</b>	<b>542</b>	<b>310</b>	<b>-7,645</b>	<b>7,758</b>
	Year ended 31 March 2019				
<b>Balance at 31 March 2018 carried forward</b>	<b>-36,903</b>	<b>-188,968</b>	<b>-225,871</b>	<b>-28,520</b>	<b>-57,438</b>
<b>Movement in reserves during 2018-19</b>					
<b>Total Comprehensive Expenditure &amp; Income</b>	<b>20,128</b>		<b>20,128</b>		
Adjustments between accounting basis & funding basis under regulations - Note 12	-44,380		<b>-44,380</b>	-10,759	-76,887
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-24,252</b>	<b>0</b>	<b>-24,252</b>	<b>-10,759</b>	<b>-76,887</b>
Transfer between Usable and Unusable Reserves		-276	<b>-276</b>		
Transfers to/from Earmarked Reserves (total of *s on Note 23)	24,101	-24,101	<b>0</b>		
<b>Increase/Decrease (movement) in Year</b>	<b>-151</b>	<b>-24,377</b>	<b>-24,528</b>	<b>-10,759</b>	<b>-76,887</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>-37,054</b>	<b>-213,345</b>	<b>-250,399</b>	<b>-39,279</b>	<b>-134,325</b>

## Movement in Reserves Statement

	Restated Year ended 31 March 2018		
	Total Usable Reserves	Unusable reserves	Total Council Reserves
	£'000	£'000	£'000
<b>Balance at 31 March 2017</b>	<b>-312,252</b>	<b>349,147</b>	<b>36,895</b>
<b>Movement in Reserves during 2017-18</b>			
<b>Total Comprehensive Expenditure and Income</b>	<b>144,242</b>	<b>-356,287</b>	<b>-212,045</b>
Adjustments between accounting basis & funding basis under regulations	-143,819	143,819	0
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>423</b>	<b>-212,468</b>	<b>-212,045</b>
Transfers to/from Earmarked Reserves (total of *s on Note 23)	0		0
<b>Increase/Decrease (movement) in Year</b>	<b>423</b>	<b>-212,468</b>	<b>-212,045</b>
<b>Year ended 31 March 2019</b>			
<b>Balance at 31 March 2018 carried forward</b>	<b>-311,829</b>	<b>136,679</b>	<b>-175,150</b>
<b>Movement in reserves during 2018-19</b>			
<b>Total Comprehensive Expenditure &amp; Income</b>	<b>20,128</b>	<b>-230,490</b>	<b>-210,362</b>
Adjustments between accounting basis & funding basis under regulations	-132,026	132,026	0
<b>Net increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-111,898</b>	<b>-98,464</b>	<b>-210,362</b>
Transfer between Usable and Unusable Reserves	-276	276	0
Transfers to/from Earmarked Reserves (total of *s on Note 23)	0		0
<b>Increase/Decrease (movement) in Year</b>	<b>-112,174</b>	<b>-98,188</b>	<b>-210,362</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>-424,003</b>	<b>38,491</b>	<b>-385,512</b>

## Balance Sheet

The County Fund Balance Sheet shows the financial position of Kent County Council as a whole at the end of the year. Balances on all accounts are brought together and items that reflect internal transactions are eliminated.

		31 March 2019		Restated 31 March 18	Restated 01 April 17
	Notes	£'000	£'000	£'000	£'000
Property Plant & Equipment	17	2,492,095		2,524,215	2,444,492
Heritage Assets	21	6,474		7,942	7,779
Investment Property	18	43,907		40,445	47,212
Intangible assets		2,709		3,619	4,294
Long-term investments	39	260,741		217,093	176,763
Long-term debtors	27	54,270		62,942	83,883
<b>Total long-term assets</b>			2,860,196	2,856,256	2,764,423
Inventories		4,920		4,657	3,957
Assets held for sale (<1yr)		4,273		2,997	1,713
Short-term debtors	27	227,575		200,210	183,607
Short-term investments	39	123,908		17,452	72,483
Cash and Cash equivalents	29	80,375		71,689	47,787
<b>Total current assets</b>			441,051	297,005	309,547
Temporary borrowing	39	-63,552		-64,716	-104,952
Short-term Lease Liability	39	-6,680		-6,141	-5,982
Short-term provisions	26	-18,547		-17,289	-18,955
Creditors	28	-298,141		-243,317	-245,817
<b>Total Current liabilities</b>			-386,920	-331,463	-375,706
Creditors due after one year	28	-5,327		-43	-35
Provisions	26	-10,560		-10,835	-11,520
Long-term borrowing	39	-854,311		-889,995	-873,440
Other Long-Term Liabilities	38/39	-1,588,677		-1,691,102	-1,806,526
Capital Grants Receipts in Advance	16	-69,941		-54,673	-43,638
<b>Long-Term Liabilities</b>			-2,528,816	-2,646,648	-2,735,159
<b>Net Assets/(Liabilities)</b>			385,511	175,150	-36,895
<b>Usable Reserves</b>	23	-424,002		-311,829	-312,252
<b>Unusable Reserves</b>	24	38,491		136,679	349,147
<b>Total Reserves</b>			-385,511	-175,150	36,895

## 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.

	<b>Notes</b>	<b>2018-2019</b> <b>£'000</b>	<b>Restated</b> <b>2017-2018</b> <b>£'000</b>
Net (Surplus) or deficit on the provision of services		20,128	144,242
Adjustments to net surplus or deficit on the provision of services for non cash movements	<b>30</b>	-388,655	-358,645
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<b>30</b>	242,667	140,867
<b>Net cash flows from operating activities</b>		-125,860	-73,536
Investing Activities	<b>31</b>	76,923	23,346
Financing Activities	<b>32</b>	40,251	26,288
<b>Net increase (-) or decrease in cash and cash equivalents</b>		-8,686	-23,902
Cash and cash equivalents at the beginning of the reporting period		71,689	47,787
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>29</b>	<b>80,375</b>	<b>71,689</b>

## Note 1a - Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax, and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Year ended 31 March 2019				
	As reported to Management	Adjustments to arrive at the net amount chargeable to the General Fund Balance	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Adult Social Care & Health including Disabled Children's Services	408,939	-4,401	404,538	12,736	<b>417,274</b>
Children, Young People & Education	171,516	5,100	176,616	91,555	<b>268,171</b>
Growth, Environment & Transport	167,265	-1,198	166,067	93,843	<b>259,910</b>
Strategic & Corporate Services including Public Health	74,945	6,285	81,230	26,220	<b>107,450</b>
Financing Items & Unallocated	143,196	-148,952	-5,756	12,736	<b>6,980</b>
Schools' Delegated Budgets	3,131	-3,131	0	0	<b>0</b>
<b>Cost of Services</b>	<b>968,992</b>	<b>-146,297</b>	<b>822,695</b>	<b>237,090</b>	<b>1,059,785</b>
Other Income and Expenditure	-973,185	126,238	-846,947	-192,710	<b>-1,039,657</b>
<b>Surplus or Deficit</b>	<b>-4,193</b>	<b>-20,059</b>	<b>-24,252</b>	<b>44,380</b>	<b>20,128</b>
<b>Opening General Fund Balance</b>			-225,871		
Less/Plus Surplus or (Deficit) on General Fund in Year			-24,252		
Transfers between Usable & Unusable Reserves			-276		
<b>Closing General Fund Balance at 31 March 2019</b>			<b>-250,399</b>		

Note 10a on pages 42 to 45 provides a explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

## Note 1a - Expenditure and Funding Analysis

	Restated Year ended 31 March 2018				
	As reported to Management	Adjustments to arrive at the net amount chargeable to the General Fund Balance	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehen- sive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Adult Social Care & Health including Disabled Children's Services	407,284	-16,814	390,470	12,959	<b>403,429</b>
Children, Young People & Education	160,394	12,135	172,529	73,283	<b>245,812</b>
Growth, Environment & Transport	164,846	3,163	168,009	94,350	<b>262,359</b>
Strategic & Corporate Services including Public Health	74,752	12,075	86,827	23,888	<b>110,715</b>
Financing Items & Unallocated	128,177	-125,043	3,134	3	<b>3,137</b>
Schools' Delegated Budgets	8,325	-8,325	0	0	<b>0</b>
<b>Net Cost of Services</b>	<b>943,778</b>	<b>-122,809</b>	<b>820,969</b>	<b>204,483</b>	<b>1,025,452</b>
Other Income and Expenditure	-939,466	118,806	-820,660	-60,550	<b>-881,210</b>
<b>Surplus or Deficit</b>	<b>4,312</b>	<b>-4,003</b>	<b>309</b>	<b>143,933</b>	<b>144,242</b>
<b>Opening General Fund Balance</b>			-226,181		
Less/Plus Surplus or (Deficit) on General Fund in Year			309		
<b>Closing General Fund Balance at 31 March 2018</b>			<b>-225,872</b>		

### **Note 1b. 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 2018-19 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 Council'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.

## **Note 2 - Accounting Policies & Note 3 - Accounting Standards that have been issued but have not yet been adopted**

### **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 assets, including its share of any assets held jointly
- its expenses, including its share of any expenses incurred jointly.

### **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.

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

For 2018-19 there are the following amendments to accounting standards:

**IAS 40 Investment Property:** Transfer of Investment Property - this is not expected to have a significant impact on the Council.

**IFRS 9 Financial Instruments:** Prepayment features with negative compensation. This is not expected to have a significant impact on the Council.

## Note 4 - Critical Judgements in applying Accounting Policies

### 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 where 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 current value at the balance sheet date. Due to continued significant increases in construction costs during 2018-19, 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. £335m worth of assets in the balance sheet have not been revalued in 2018-19. 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 current value at the balance sheet date.
  
- Two schools and four playing fields on the balance sheet as at 31 March 2019 have converted to academy status during April 2019 - the net book value of these assets is £4.9m. Five schools are due to convert to academy status between 1 July 2019 and 1 October 2019. The net book value of these assets as at 31 March 2019 is £23.2m.
  
- 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 in implementing IFRS 15 – Revenue from Contracts with Service Recipients reviewed revenue balances held as debtors and receipts in advance as at 31 March 2018 to identify the revenue which met the definition of revenue from contracts and considered the performance obligations and timings. The review found that the Council's revenue from service recipients was predominately performed overtime, an example being social care income or licences; and transaction pricing is not a significant impact as discounts and rebates are not generally offered. The implementation of IFRS 15 has not significantly affected when revenue is recognised in the accounts as the review found that where income needs to be recognised overtime time or at a point in time it was already being recognised in this way. Analysis of cash received/paid, transfer from contract assets/(liabilities) at the beginning of the period to receivable/(payables) and changes as a result of changes in the measure of progress would require a significant degree of judgement and assumptions and our conclusion is this would add very little value and is not seen as having a material impact. We will continue to assess our judgements made.
  
- The introduction of IFRS 9 Financial Instruments requires certain classes of financial assets to be impaired based on expected credit losses. Due to the type of financial assets held by the Council, the risk of impairment is low and would attract minimal losses. Based on this, we are not accounting for impairment losses except for Trade Receivables.
  
- Trade Receivables are impaired on a simplified approach. The value of our Trade Receivables for 2018-19 is £90.8m and these are impaired by £5.0m.
  
- In December 2018 the Court of Appeal passed the McCloud judgement which relates to age discrimination in relation to judges and firefighters' pensions. The impact of the results of these cases have yet to be determined within the confines of the LGPS. At the suggestion of both Government Actuaries Department (GAD), the Ministry of Housing, Communities and Local Government (MHCLG) and our External Auditors, Grant Thornton, we asked the Fund's actuary (Barnett Waddingham) to undertake a review on whether the ruling would have a material impact on the pension liability figure in the Balance Sheet. Our actuaries have used GAD's analysis to calculate the likely additional costs and have based it on all members who were active at 31 March 2012 until their retirement; the estimated impact on the liability is calculated to be £25m. Our conclusion is the impact is not of a material nature and therefore we have chosen not to restate the pension liability.

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

### 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 2019 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	<p>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.</p> <p>Under component accounting the Authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2018-19 the following de minimus thresholds were applied:</p> <p>Primary Schools: £2m            Secondary Schools: £8m            Special Schools: £2m            Families &amp; Social Care establishments: £2m            Highways &amp; Waste Depots: £2m            County Offices: £2m            Libraries: £2m            Youth &amp; Community Centres: £2m</p>	<p>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 £4.75m 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 £14.3m - this is not material.</p> <p>If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £7.51m. Over 3 years this would give a difference of £22.5m - this is not material.</p>
Pensions Liability	<p>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.</p>	<p>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. Asset performance being more than expected over the year has led to an decrease in pension deficit. During 2018-19, the Council's actuaries advised that the net pensions liability had decreased by £181m attributable to the updating of financial assumptions.</p>

## Note 5 and Note 6

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 £556k the effect of the estimation is not material.
Fair Value measurements	<p>Surplus and Investment Properties cannot be measured based on quoted prices in active markets (i.e. 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.</p> <p>Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 17, 18 and 38.</p>	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.

## Note 6. Officers Remuneration

### Accounting Policy

#### 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 former 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 former 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
- 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, as Other Comprehensive Income and Expenditure

## Note 6 - Officers Remuneration

– 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 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 2018 to 31 March 2019

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 Service and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2018-19, 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	Schools	Non-Schools	Schools
(£)	31 March	31 March	31 March	31 March
	2019	2019	2018	2018
50,000 - 54,999	160	160	186	153
55,000 - 59,999	100	105	120	97
60,000 - 64,999	46	85	51	74
65,000 - 69,999	44	54	53	31
70,000 - 74,999	16	37	22	28
75,000 - 79,999	14	19	19	11
80,000 - 84,999	6	5	12	9
85,000 - 89,999	9	12	11	6
90,000 - 94,999	7	9	5	4

## Note 6 - Officers Remuneration

Remuneration	Total number of employees			
	Non-Schools 31 March 2019	Schools 31 March 2019	Non-Schools 31 March 2018	Schools 31 March 2018
(£)				
95,000 - 99,999	7	6	9	2
100,000 - 104,999	6	5	3	2
105,000 - 109,999	3	1	0	1
110,000 - 114,999	5	2	7	0
115,000 - 119,999	3	0	1	2
120,000 - 124,999	2	2	2	
125,000 - 129,999	2		0	
130,000 - 134,999	0		1	
135,000 - 139,999	3		1	
140,000 - 144,999	0		2	
145,000 - 149,999	2			
150,000 - 154,999	2		2	
155,000 - 159,999	1		1	
160,000 - 164,999	0		1	
165,000 - 169,999	1			
170,000 - 174,999	0			
175,000 - 179,999	0			
180,000 - 184,999	0			
185,000 - 189,999	1		1	
190,000 - 194,999	0			
195,000 - 199,999	0			
200,000 - 204,999	0		1	
205,000 - 209,999	1			
260,000 - 264,999	0		1	
<b>Total</b>	<b>441</b>	<b>502</b>	<b>512</b>	<b>420</b>

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 £150,000 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.

## Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2018-19 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Corporate Director Strategic &amp; Corporate Services - David Cockburn</b>		201,587				7,363	208,950	43,880	252,830
<b>Corporate Director Adult Social Care &amp; Health - Anu Singh*</b>	1				73,722		73,722		73,722
<b>Corporate Director Adult Social Care &amp; Health - Penny Southern*</b>	2	150,318					150,318	31,567	181,885
<b>Corporate Director Children, Young People &amp; Education - Matt Dunkley CBE</b>		190,000					190,000	39,900	229,900
<b>Corporate Director Growth, Environment &amp; Transport - Barbara Cooper</b>		153,085				1,500	154,585	33,711	188,296
<b>Corporate Director Finance - Andy Wood</b>	3	35,674		2,500		5,212	43,386	9,111	52,497

The remuneration paid to the Authority's senior employees for 2018-19 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Section 151 Officer -</b> Dave Shipton	4	N/A		10,500			10,500	2,205	12,705
<b>Corporate Director</b> <b>Finance - Zena</b> Cooke	5	50,406		1,864			52,270	12,163	64,432
<b>Corporate Director</b> <b>Engagement,</b> <b>Organisation Design</b> <b>&amp; Development -</b> Amanda Beer		142,695				3,240	145,935	30,646	176,581
<b>General Counsel -</b> Ben Watts		118,351				2,586	120,937	25,397	146,334
<b>Director Public</b> <b>Health - Andrew</b> Scott-Clark		112,876					112,876	16,232	129,107

\* This includes all contractual entitlements.

**Notes****The remuneration paid to the Authority's senior employees for 2018-19 is as follows:**

- 1 Mrs Singh left the post of Corporate Director Adult Social Care & Health on 31 March 2018. The annualised salary for this post is £157,857.
- 2 Mrs Southern has been Corporate Director Adult Social Care & Health since 1 April 2018. The annualised salary for this post is £150,000.
- 3 Mr Wood left the post of Corporate Director Finance on 30 June 2019. The annualised salary for this post is £142,695.
- 4 Mr Shipton covered the Section 151 Statutory Officer role in addition to his substantive post between 1 July 2018 and 11 November 2018 and for this was remunerated an additional £10,500.
- 5 Mrs Cooke has been Corporate Director Finance since 12 November 2018. The annualised salary for this post is £142,695.

## Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2017-18 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Corporate Director Strategic &amp; Corporate Services - David Cockburn</b>		199,000			4,054		203,054	42,641	245,696
<b>Corporate Director Adult Social Care &amp; Health - Anu Singh</b>	1	92,083					92,083	19,338	111,421
<b>Corporate Director Children, Young People &amp; Education - Matt Dunkley CBE</b>	2	65,444					65,444	13,743	79,188
<b>Corporate Director Growth, Environment &amp; Transport - Barbara Cooper</b>		151,889					151,889	31,897	183,785
<b>Corporate Director Finance - Andy Wood</b>		140,864		7,500		5,578	153,942	32,328	186,270

The remuneration paid to the Authority's senior employees for 2017-18 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remun- eration excl pension Contributions £	Employer Pension Contributions £	Total Remun- eration incl pension Contributions £
<b>Corporate Director Engagement, Organisation Design &amp; Development - Amanda Beer</b>		140,864				1,957	142,821	29,992	172,814
<b>General Counsel - Ben Watts</b>		113,670				738	114,408	24,026	138,434
<b>Director Public Health - Andrew Scott-Clark</b>		110,015					110,015	15,820	125,835
<b>Corporate Director Adult Social Care &amp; Health - Andrew Ireland</b>	3	144,750			111,041	5,850	261,641	31,626	293,267
<b>Corporate Director Children, Young People &amp; Education - Patrick Leeson</b>	4	126,633		5,409	30,388		162,430	27,729	190,159

**Notes****The remuneration paid to the Authority's senior employees for 2017-18 is as follows:**

- 1 Mrs Singh has been Corporate Director Adult Social Care & Health since 28 August 2017. The annualised salary for this post is £157,857.
- 2 Mr Dunkley has been Corporate Director Children, Young People & Education since 27 November 2017. The annualised salary for this post is £196,333.
- 3 Mr Ireland left the post of Corporate Director Adult Social Care & Health on 31 December 2017. The annualised salary for this post was £193,000.
- 4 Mr Leeson left the post of Corporate Director Children, Young People & Education on 31 December 2017. The annualised salary for this post was £168,844.

## 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, 41% of those are compulsory redundancies. We do not have the detail across bands £0 - £20,000, £20,001 - £40,000, and £40,001 - £80,000 and have applied this percentage equally to each of these bands. The total cost in 2018-19 of £1.2m includes schools and commitments in 2019-20.

(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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £	2018/19 £
80,001 - 120,000	1	1	1	1	2	2	195,941	167,308
40,001 - 80,000	2	2	3	2	5	4	308,967	239,001
20,001 - 40,000	17	7	25	9	42	16	1,082,476	438,659
0 - 20,000	47	16	67	24	114	40	1,026,115	336,767
<b>Total</b>	<b>67</b>	<b>26</b>	<b>96</b>	<b>36</b>	<b>163</b>	<b>62</b>	<b>2,613,499</b>	<b>1,181,735</b>

## **Note 7 - Members Allowances, Note 8 - Deposits in Icelandic Banks and Note 9 - Material Items of Income and Expenditure**

### **Note 7. Members Allowances**

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

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
Allowances	1,878	1,828
Expenses	112	113
<b>Total</b>	<b>1,990</b>	<b>1,941</b>

In 2018-19 the cost of the County Cars was £11k (£27k in 2017-18).

### **Note 8. Deposits in Icelandic banks**

All the Icelandic banks deposits have been repaid with the exception of £300,000 relating to Heritable Bank where the final dividend is delayed due to litigation involving a property development.

### **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 £42.1m includes a loss of £39.7m which relates to schools transferring to academy status, at nil value, as instructed by the Secretary of State for Education.

## Note 10a - Note to the Expenditure and Funding Analysis

### Note 10a. Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2018-19	Drawdown to/from Reserves (Note 1) £'000	Investment Income reported at Directorate Level (Note 1) £'000	Strategic & Corporate Services Recharges (Note 1) £'000	Realignment of Financing Items for Accounting Purposes (Note 1) £'000	Adjustments for Trading Activities (Note 1) £'000
Adult Social Care & Health including Disabled Children's Services	-4,482		81		
Children, Young People & Education	2,349	2,420	237	94	
Growth, Environment & Transport	-2,218	155	896		-31
Strategic & Corporate Services including Public Health	6,972	702	-1,214		-176
Financing Items & Unallocated	-23,969	8,430		-133,412	
Schools' Delegated Budgets	-3,131				
<b>Net Cost of Services</b>	<b>-24,479</b>	<b>11,707</b>	<b>0</b>	<b>-133,318</b>	<b>-207</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>5,446</b>	<b>-11,707</b>		<b>133,318</b>	<b>-544</b>
<b>Total</b>	<b>-19,033</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-751</b>

2018-19	Total to arrive at amount charged to the General Fund £'000	Adjustments for Capital Purposes (Note 2) £'000	Net change for the Pensions Adjustments (Note 3) £'000	Other Differences (Note 4) £'000	Total Adjustment between Funding and Accounting Basis £'000
Adult Social Care & Health including Disabled Children's Services	-4,401	3,007	9,716	13	12,736
Children, Young People & Education	5,100	60,824	30,199	531	91,554
Growth, Environment & Transport	-1,198	88,369	5,701	-226	93,844
Strategic & Corporate Services including Public Health	6,284	21,289	6,229	-1,298	26,220
Financing Items & Unallocated	-148,951		2	12,733	12,735
Schools' Delegated Budgets	-3,131				0
<b>Net Cost of Services</b>	<b>-146,297</b>	<b>173,489</b>	<b>51,847</b>	<b>11,753</b>	<b>237,089</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>126,513</b>	<b>-219,898</b>	<b>34,094</b>	<b>-6,906</b>	<b>-192,710</b>
<b>Total</b>	<b>-19,784</b>	<b>-46,409</b>	<b>85,941</b>	<b>4,847</b>	<b>44,379</b>

## Note 10a - Note to the Expenditure and Funding Analysis

2017-18 - Restated	Drawdown to/from Reserves (Note 1) £'000	Investment Income reported at Directorate Level (Note 1) £'000	Strategic & Corporate Services Recharges (Note 1) £'000	Realignment of Financing Items for Accounting Purposes (Note 1) £'000	Adjustments for Trading Activities (Note 1) £'000
Adult Social Care & Health including Disabled Children's Services	-16,922	0	108	0	0
Children, Young People & Education	9,301	2,425	203	206	0
Growth, Environment & Transport	2,369	114	560	0	120
Strategic & Corporate Services including Public Health	11,878	1,091	-871	0	-23
Financing Items & Unallocated	-5,597	7,184	0	-125,197	0
Schools' Delegated Budgets	-8,325	0	0	0	0
<b>Net Cost of Services</b>	<b>-7,296</b>	<b>10,814</b>	<b>0</b>	<b>-124,991</b>	<b>97</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	3,771	-10,814		124,991	-576
<b>Total</b>	<b>-3,525</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-479</b>

2017-18 - Restated	Total to arrive at amount charged to the General Fund £'000	Adjustments for Capital Purposes (Note 2) £'000	Net change for the Pensions Adjustments (Note 3) £'000	Other Differences (Note 4) £'000	Total Adjustment between Funding and Accounting Basis £'000
Adult Social Care & Health including Disabled Children's Services	-16,814	2,678	11,387	-1,106	12,959
Children, Young People & Education	12,135	38,711	35,876	-1,304	73,283
Growth, Environment & Transport	3,163	87,022	6,505	823	94,350
Strategic & Corporate Services including Public Health	12,075	10,640	11,695	1,553	23,888
Financing Items & Unallocated	-123,610	0	3	0	3
Schools' Delegated Budgets	-8,325	0	0	0	0
<b>Net Cost of Services</b>	<b>-121,376</b>	<b>139,051</b>	<b>65,466</b>	<b>-34</b>	<b>204,483</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>117,372</b>	<b>-98,764</b>	<b>35,258</b>	<b>2,956</b>	<b>-60,550</b>
<b>Total</b>	<b>-4,004</b>	<b>40,287</b>	<b>100,724</b>	<b>2,922</b>	<b>143,933</b>

## Note 10a - Note to the Expenditure and Funding Analysis

### 1. Adjustments to arrive at amount charged to the General Fund

**Drawdown to and from Reserves** – for management reporting purposes the Council includes drawdowns to and from reserves, this needs reversing to arrive at the amount chargeable to the General Fund.

**Investment Income and realignment of Financing Items for Accounting Purposes** – the Council also includes investment income in its directorate reporting and within Financing Items are such items as interest payable, Minimum Revenue Provision (MRP) and bank fees, however this is reported in the financial statements below the cost of services line and the table above shows these items being reallocated.

**Strategic & Corporate Recharges** – for management reporting purposes the Council records Members Grants to Strategic and Corporate Services, however for accounting purposes this is reallocated across the other directorates.

**Trading Activities** – for management reporting purposes the Council includes the contribution received from its trading activities, however this needs adjusting to reflect the surplus or deficit of the trading activities. The Council also is required to consolidate a joint operation into its accounts.

### 2. Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### 3. Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

**For services** this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

### 4. Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

**For services** this represents the following:

i) The finance costs charged to the Comprehensive Income and Expenditure Statement that are different from the finance chargeable in the year in accordance with statutory requirements.

## Note 10a - Note to the Expenditure and Funding Analysis, Note 10b - Segmental Income and Note 11 - Expenditure and Income Analysed by Nature

ii) The officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis that is different from the remuneration charged in the year in accordance with statutory requirements.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

### Note 10b. Segmental Income

Income from Sales, Fees and Charges, including Internal Recharges, are analysed on a segmental basis below:

	2018-19 £000's	2017-18 £000's
Adult Social Care & Health	-77,216	-73,879
Children, Young People & Education	-89,663	-91,567
Growth, Environment & Transport	-38,239	-33,307
Strategic & Corporate Services (excluding Public Health)	-29,956	-48,196
Financing Items & Unallocated	-4,826	-180
<b>Total Income analysed on a segmental basis</b>	<b>-239,900</b>	<b>-247,129</b>

### Note 11. Expenditure and Income Analysed by Nature

The Authority's expenditure and income is analysed as follows:

	2018-19 £000's	Restated 2017-18 £000's
<b>Expenditure/Income</b>		
<b>Expenditure</b>		
Employee benefits expenses	822,061	850,156
Other services expenses	1,583,764	1,517,142
Support service recharges	58,131	62,797
Depreciation, amortisation, impairment	171,320	139,196
Interest payments including interest on Defined Liability of the Pension Fund	112,812	109,353
Precepts and levies	2,915	762
Gain on the disposal of assets	42,093	41,716
<b>Total expenditure</b>	<b>2,793,096</b>	<b>2,721,122</b>
<b>Income</b>		
Fees, charges and other service income	-538,580	-533,114
Interest and investment income	-26,381	-9,084
Income from council tax and non-domestic rates	-1,011,493	-680,214
Government grants and contributions	-1,196,514	-1,354,468
<b>Total income</b>	<b>-2,772,968</b>	<b>-2,576,880</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>20,128</b>	<b>144,242</b>

Included in the 'Fees, charges and other services income' is £65.7m of Revenue from Contracts with Service Recipients specifically relating to Social Care.

## Note 12 - Adjustments between accounting basis & funding basis under regulations

### Note 12. Adjustments between accounting basis and funding basis under regulations

31 March 2019	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	-157,425			157,425
Revaluation gains/(losses) on Property Plant and Equipment and Assets held for Sale	-11,685			11,685
Movements in the fair value of Investment Properties	2,375			-2,375
Amortisation of intangible assets	-1,915			1,915
Capital Grants and contributions applied	120,034			-120,034
In year revenue expenditure funded from capital under statute	-48,489			48,489
Revenue expenditure funded from capital under statute - long term debtor adjustments	-310			310
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	-52,430			52,430
Unrealised gains/(losses) on financial assets held at FVPL	-294			294
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	60,013			-60,013
Capital expenditure charged against the General Fund	14,854			-14,854
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	106,886		-106,886	0
Application of grants to capital financing transferred to the Capital Adjustment Account			29,999	-29,999
Cessation of recyclable grant repaid to accountable body	-952	952		0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,218	-10,218		0

## Note 12 - 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
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	5,410	-5,410		0
Use of the Capital Receipts Reserve to finance new capital expenditure		13,788		-13,788
Loan repayments	119	-9,871		9,752
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
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	-11,759			11,759
<b>Adjustment primarily involving the Pooled Investment Adjustment Account:</b>				
Unrealised gains/losses on financial assets held at FVPL	1792			-1,792
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-157,059			157,059
Employer's pensions contributions and direct payments to pensioners payable in the year	71,117			-71,117
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
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	3,775			-3,775
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
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	1,345			-1,345
<b>Total Adjustments</b>	<b>-44,380</b>	<b>-10,759</b>	<b>-76,887</b>	<b>132,026</b>

## Note 12 - Adjustments between accounting basis & funding basis under regulations

### Note 12. Adjustments between accounting basis and funding basis under regulations

31 March 2018	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non current assets	-152,929			152,929
Revaluation losses on Property Plant and Equipment and Assets held for Sale	15,998			-15,998
Movements in the fair value of Investment Properties	-6,250			6,250
Amortisation of intangible assets	-2,264			2,264
Capital Grants and contributions applied	89,981			-89,981
In year revenue expenditure funded from capital under statute	-56,629			56,629
Prior year revenue expenditure funded from capital under statute	151			-151
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	-53,325			53,325
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	63,219			-63,219
Capital expenditure charged against the General Fund	16,322			-16,322
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	33,801		-33,801	0
Application of grants to capital financing transferred to the Capital Adjustment Account			41,558	-41,558
Cessation of recyclable grant repaid to accountable body	-146	146		
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	11,565	-11,565		0

## Note 12 - 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
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	175	-175		0
Use of the Capital Receipts Reserve to finance new capital expenditure		22,151		-22,151
Loan repayments	45	-18,202		18,157
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
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	967			-967
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-171,887			171,887
Employer's pensions contributions and direct payments to pensioners payable in the year	71,164			-71,164
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
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	-4,528			4,528
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
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	638			-638
<b>Total Adjustments</b>	<b>-143,932</b>	<b>-7,645</b>	<b>7,757</b>	<b>143,820</b>

## Notes 13, 14 and 15

### Note 13. Other Operating Expenditure

	2018-19 £000's	2017-18 £000's
Levies	2,915	762
Gains/Losses on the disposal of non-current assets	42,093	41,716
Assets held for Sale - revaluation movements	226	434
	45,234	42,912

### Note 14. Financing and investment income and expenditure

	2018-19 £000's	Restated 2017-18 £000's
Interest payable and similar charges	77,935	69,336
Net interest on the net defined benefit liability	35,395	40,371
(Gain)/loss from settlements	-2,585	-6,318
Pensions - Administration expenses and curtailments	1,284	1,205
Interest receivable and similar income	-12,296	-10,466
Income & expenditure in relation to investment properties and changes in fair value	-8,503	4,969
Changes in fair value of Financial Assets held at fair value through profit and loss	-1,498	
Other investment income	-3,058	-3,245
	86,674	95,852

### Note 15. 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 2019 the Council's estimated share of these liabilities is £50.6m.

**Note 15 - Taxation and non specific grant income and Note 16 - Grant Income**

	<b>2018-19</b>	<b>Restated</b>
	<b>£000's</b>	<b>2017-18</b>
		<b>£000's</b>
Income from Council Tax	-672,171	-629,040
Non-domestic rates income and expenditure	-220,967	-51,174
Non-ringfenced government grants	-78,465	-250,953
Capital Grants and Contributions	-194,865	-84,053
	<b>-1,166,468</b>	<b>-1,015,220</b>

KCC's share of surplus on the Council Tax has decreased by £3.9m (2017-18 surplus decreased by £4m). For 2018-19 the Business Rate Collection Fund has a surplus of £6.7m (2017-18 a deficit of £1m). See the Collection Fund Adjustment Account detailed in Note 24.

**Note 16. 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 2018-19:

	<b>2018-19</b>	<b>Restated</b>
	<b>£'000</b>	<b>2017-18</b>
		<b>£'000</b>
<b>Credited to Taxation and Non-Specific Grant Income</b>		
Council Tax Yield including Collection Fund	-672,171	-629,040
Local Share of Business Rates & Business Rate Collection Fund	-314,121	-51,174
Revenue Support Grant (RSG)	0	-66,476
Social Care Support Grant	-3,853	-6,192
Business Rate Tariff	93,154	0
Business Rate Top-Up	0	-128,864
Business Rate Compensation Grant	-31,807	-4,759
Improved Better Care Fund (iBCF) including Additional Adult Social Care Allocation	-35,019	-26,392
New Homes Bonus (NHB) & NHB Adjustment Grants	-5,782	-7,805
Other Unringfenced Grants	-2,004	-10,466
Capital Government Grants & Contributions	-194,865	-84,053
<b>Total</b>	<b>-1,166,468</b>	<b>-1,015,220</b>

## Note 16 - Grant Income and Note 17 - Property, Plant and Equipment

	2018-19 £'000	2017-18 £'000
<b>Credited to Services</b>		
Dedicated Schools Grant	-675,800	-663,774
Education Funding Agency	-72,487	-71,720
Other DFES Grants	-35,752	-43,326
Department of Health Grants	-69,276	-71,099
Asylum	-17,899	-20,839
Other	-80,733	-71,769
<b>Total</b>	<b>-951,947</b>	<b>-942,527</b>

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 donor. The balances at the year-end are as follows:

	2018-19 £'000	2017-18 £'000
<b>Capital Grants Receipts in Advance</b>		
Department for Education	-214	-1,593
Other Grants	-15,437	-13,062
Other Contributions	-54,290	-40,018
<b>Total</b>	<b>-69,941</b>	<b>-54,673</b>

## Note 17. 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.

## Note 17 - Property, Plant and Equipment

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.

### 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 29.

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.

## **Note 17 - Property, Plant and Equipment**

### **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.

### **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 £42.1m includes a loss of £39.7m 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 normally only be used for new capital investment. There are certain circumstances that allow revenue expenditure to be funded from capital receipts, for example the revenue costs associated with transformation. 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 17 - Property, Plant and Equipment

### Note 17. Property, Plant & Equipment

Movement on balances - Movements in 2018-19

	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
<b>Cost or Valuation</b> at 1 April 2018	1,775,297	95,990	1,709,708	10,070	54,057	55,147	3,700,269	352,729
Additions	30,441	5,874	94,089		36,009	22	166,435	6,318
Donations							0	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-5,247					2,934	-2,313	-1,421
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-14,056					-8,690	-22,746	169
Derecognition - Disposals	-44,703	-1,610				-5,248	-51,561	

Property, Plant & Equipment - Movements in 2018-19

	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
<b>Cost or Valuation</b>								
Derecognition - Other							0	
Assets reclassified (to) / from Held for Sale						-3,336	-3,336	
Other Movements in cost or valuation*	-22,110				-27,277	22,991	-26,396	
<b>At 31 March 2019</b>	<b>1,719,622</b>	<b>100,254</b>	<b>1,803,797</b>	<b>10,070</b>	<b>62,789</b>	<b>63,820</b>	<b>3,760,352</b>	<b>357,795</b>

\* This line shows a movement of -£26,396k which includes -£27,277k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

**Property, Plant & Equipment - Movements in 2018-19**

	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
<b>Accumulated Depreciation and Impairment</b>								
at 1 April 2018	-24,672	-75,167	-1,075,720	0	0	-495	-1,176,054	-467
Depreciation Charge	-64,869	-5,886	-85,485			-1,157	-157,397	-10,024
Depreciation written out to the Revaluation Reserve	49,436					2,063	51,499	6,444
Depreciation written out to the Surplus / Deficit on the Provision of Services	10,989					298	11,287	21
Impairment (losses) / reversals recognised in the Revaluation Reserve								0
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	336	-12			-353		-29	

Property, Plant & Equipment - Movements in 2018-19

	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
<b>Accumulated Depreciation and Impairment</b>								
Derecognition - Disposals	916	1,273				219	2,408	
Derecognition - Other							0	
Other movements in Depreciation and Impairment	615	12			353	-951	29	
<b>At 31 March 2019</b>	<b>-27,249</b>	<b>-79,780</b>	<b>-1,161,205</b>	<b>0</b>	<b>0</b>	<b>-23</b>	<b>-1,268,257</b>	<b>-4,026</b>
<b>Net Book Value</b>								
<b>At 31 March 2019</b>	<b>1,692,373</b>	<b>20,474</b>	<b>642,592</b>	<b>10,070</b>	<b>62,789</b>	<b>63,797</b>	<b>2,492,095</b>	<b>353,769</b>
<b>At 31 March 2018</b>	<b>1,750,625</b>	<b>20,823</b>	<b>633,988</b>	<b>10,070</b>	<b>54,057</b>	<b>54,652</b>	<b>2,524,215</b>	<b>352,262</b>

## Note 17 - Property, Plant and Equipment

### Note 17. Property, Plant & Equipment

Movement on balances - Movements in 2017-18

	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
<b>Cost or Valuation</b> at 1 April 2017	1,648,841	91,491	1,632,308	10,041	107,251	55,852	3,545,784	318,633
Additions	89,713	6,612	77,400	29	27,408		201,162	2,963
Donations							0	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	84,372					4,744	89,116	29,910
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	2,845					-1,728	1,117	1,223
Derecognition - Disposals	-41,810	-2,407			-33	-11,121	-55,371	

Property, Plant & Equipment - Comparative Movements in 2017-2018

	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
<b>Cost or Valuation</b>								
Derecognition - Other	-391						-391	
Assets reclassified (to) / from Held for Sale	-1,551					-725	-2,276	
Other Movements in cost or valuation*	-6,722	294			-80,569	8,125	-78,872	
<b>At 31 March 2018</b>	<b>1,775,297</b>	<b>95,990</b>	<b>1,709,708</b>	<b>10,070</b>	<b>54,057</b>	<b>55,147</b>	<b>3,700,269</b>	<b>352,729</b>

\* This line shows a movement of -£78,873k which includes -£80,569k 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 2017-18

	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
<b>Accumulated Depreciation and Impairment</b>								
at 1 April 2017	-34,706	-71,749	-994,104	0	0	-733	-1,101,292	-8,278
Depreciation Charge	-63,560	-5,788	-81,615			-1,111	-152,074	-9,851
Depreciation written out to the Revaluation Reserve	58,099					630	58,729	15,663
Depreciation written out to the Surplus / Deficit on the Provision of Services	14,504					811	15,315	1,999
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-548	-11			-296		-855	

Property, Plant & Equipment - Comparative Movements in 2017-18

	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
<b>Accumulated Depreciation and Impairment</b>								
Derecognition - Disposals	646	2,370				142	3,158	
Derecognition - Other							0	
Other movements in Depreciation and Impairment	893	11	-1		296	-234	965	
<b>At 31 March 2018</b>	<b>-24,672</b>	<b>-75,167</b>	<b>-1,075,720</b>	<b>0</b>	<b>0</b>	<b>-495</b>	<b>-1,176,054</b>	<b>-467</b>
<b>Net Book Value</b>								
<b>At 31 March 2018</b>	<b>1,750,625</b>	<b>20,823</b>	<b>633,988</b>	<b>10,070</b>	<b>54,057</b>	<b>54,652</b>	<b>2,524,215</b>	<b>352,262</b>
<b>At 31 March 2017</b>	<b>1,614,135</b>	<b>19,742</b>	<b>638,204</b>	<b>10,041</b>	<b>107,251</b>	<b>55,119</b>	<b>2,444,492</b>	<b>310,354</b>

## Note 17 - 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 Property, Plant and Equipment. The valuations as at 31 March 2019 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.

	<u>£'000</u>
Valued at current value as at:	
1 April 2012	350,976
Restated 1 April 2013	905,326
31 March 2015	1,304,025
31 March 2016	1,288,023
31 March 2017	1,269,486
31 March 2018	1,592,249
31 March 2019	1,401,216

### 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 (RICS). In 2018-19 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.

During 2018-19 as a result of updated RICS guidance, the methodology used to derive DRC values was changed to exclude contingency costs. The impact of this change was £52.8m on assets revalued in year.

We have considered and analysed the assets which have not been revalued in 2018-19 and are confident that the carrying amount of these assets as at 31 March 2019 is not materially different to their current value as at 31 March 2019.

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

## Note 17 - Property, Plant and Equipment

### Surplus Assets Fair Value Hierarchy

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2019 are as follows:

<i>Recurring fair value measurements using:</i>	<b>Level 2 inputs £000's</b>	<b>Level 3 inputs £000's</b>	<b>Fair value as at 31 March 2019 £000's</b>	<b>Level 2 Valuation Technique</b>	<b>Level 3 Valuation Technique</b>
Residential developments/conversions	20,114	26,494	46,608	Market approach	Market approach
Residential institutions	3,225		3,225	Market approach	
Residential dwellings	701	1,219	1,920		Market approach
Extra Care Accommodation		990	990		Market approach
Non-residential institutions		930	930		Income approach
Assembly & Leisure		538	538		Income approach
Industrial development/commercial development/amenity land/educational land/woodland/agricultural land		6,421	6,421		Market approach
Industrial warehousing/units	3,021	144	3,165	Income approach	Income approach
	<b>27,061</b>	<b>36,736</b>	<b>63,797</b>		

NB The Council does not have any Level 1 valuations

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2018 (excluding in year additions) are as follows:

<i>Recurring fair value measurements using:</i>	<b>Level 2 inputs £000's</b>	<b>Level 3 inputs £000's</b>	<b>Fair value as at 31 March 2018 £000's</b>	<b>Level 2 Valuation Technique</b>	<b>Level 3 Valuation Technique</b>
Residential developments	5,600	29,302	34,902	Market approach	Market approach
Residential institutions	3,275		3,275	Market approach	
Residential dwellings		1,567	1,567		Market approach
Non-residential institutions		5,621	5,621		Income approach
Assembly & Leisure		474	474		Income approach
Industrial development/commercial development/amenity land/educational land/woodland		8,813	8,813		Market approach
	<b>8,875</b>	<b>45,777</b>	<b>54,652</b>		

NB The Council does not have any Level 1 valuations

## Note 17 - Property, Plant and Equipment

### 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:

	2018-19 £000's	2017-18 £000's
Opening balance	45,777	40,517
Transfers into Level 3	20,624	14,257
Transfers out of Level 3	-12,884	-2,132
Additions	22	929
Donations		
Derecognition	-4,305	-4,894
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	-8,649	-918
Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure resulting from changes in the fair value	-3,270	-993
Depreciation charge	-767	-989
Other changes	189	
Closing balance	36,737	45,777

£8.6m 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 'Strategic & Corporate Services' line and £3.3m of losses 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 31/03/19	£000's Unobservable input	Quantitative Information	Sensitivity
26,494	1) Estimated revenue streams	1) £90,000 - £725,000 per unit	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
	2) Estimated construction costs	2) £65.00 - £145.00 per square foot	
	3) Estimated profit margins	3) 20%	
	4) Discount rate (planning)	4) 25% - 35%	
1,219	1) Estimated sales value	1) £165,000 - £500,000 per unit 2) 40% 3) 10% & 40%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
	2) Discount rate (lifelong tenancy)		
	3) Discount rate (location risk/conversion costs)		
990	Estimated land value	£1,320,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
930	1) Estimated rent	1) £3.50 - £12.50 per square foot 2) 8.5% - 12.5%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
	2) Estimated yield		
538	1) Estimated rent 2) Estimated yield	1) £4.50 per square foot 2) 8.5%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value

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

	Fair Value as at 31/03/19 £000's Unobservable input	Quantitative Information	Sensitivity
Industrial development/commercial development/amenity land/educational land/woodland	6,421	Estimated land value  £11,000 - £1,700,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial warehousing/units	144	1) Estimated rent 2) Estimated yield  1) £5.00 per square foot 2) 9%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Total	36,736		

## **Note 17 - Property, Plant and Equipment and Note 18 - 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 our revaluation policy for Property, Plant and Equipment. 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 84 assets is their current use. Of the remaining 65 assets, 57 are vacant, and 8 have alternative uses as a result of existing lease arrangements.

### **Contractual Liabilities**

We have no contractual commitments to make payments over £10m in future years.

## **Note 18 - Investment Property**

### **Accounting Policy**

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:

	<b>2018-19</b>	<b>2017-18</b>
	<b>£000's</b>	<b>£000's</b>
Rental income from Investment Property	717	1106
Direct operating expenses arising from Investment Property	-448	-534
Net gain/(loss)	269	572

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 18 - Investment Property

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

	2018-19 £000's	2017-18 £000's
Balance at start of the year	40,445	47,212
Additions:		
• Purchases		
• Construction		
• Subsequent expenditure		
Disposals	-4,943	-19
Net gains/losses from fair value adjustments	7,319	-6,230
Transfers:		
• to/from Inventories		
• to/from Property, Plant & Equipment	1,011	-520
Other Changes	75	2
Balance at end of the year	<b>43,907</b>	<b>40,445</b>

### Fair Value Hierarchy

Details of the Authority's investment properties and information about the fair value hierarchy as at 31 March 2019 are as follows:

<i>Recurring fair value measurements using:</i>	Level 2 inputs £000's	Level 3 inputs £000's	Fair value as at 31 March 2019 £000's	Level 2 Valuation Technique	Level 3 Valuation Technique
Residential developments	15,900	8,149	24,049	<i>Market approach</i>	<i>Market approach</i>
Offices	8,441		8,441	<i>Income approach</i>	
Industrial development/commercial development/amenity land/educational land	-7	434	427	<i>Market approach</i>	<i>Market approach</i>
Residential dwellings		2,097	2,097		<i>Market approach</i>
Non-residential institutions		3,507	3,507		<i>Income approach</i>
Key Worker Accommodation		1,140	1,140		<i>Market approach</i>
Ransom Strip	1,500		1,500	<i>Market approach</i>	
Golf Course	360		360	<i>Income approach</i>	
Industrial units	844	1,527	2,371	<i>Income approach</i>	<i>Income approach</i>
Agricultural Land		15	15		<i>Income approach</i>
	<b>27,038</b>	<b>16,869</b>	<b>43,907</b>		

## Note 18 - Investment Property

Details of the Authority's investment properties and information about the fair value hierarchy as at 31 March 2018 are as follows:

<i>Recurring fair value measurements using:</i>	<b>Level 2 inputs £000's</b>	<b>Level 3 inputs £000's</b>	<b>Fair value as at 31 March 2018 £000's</b>	<b>Level 2 Valuation Technique</b>	<b>Level 3 Valuation Technique</b>
Residential developments	11,178	4,570	15,748	<i>Market approach</i>	<i>Market approach</i>
Offices	7,874		7,874	<i>Income approach</i>	
Industrial development/commercial development/amenity land/educational land	1,329	458	1,787	<i>Market approach</i>	<i>Market approach</i>
Residential dwellings		2,370	2,370		<i>Market approach</i>
Non-residential institutions	3,953	3,839	7,792	<i>Income approach</i>	<i>Income approach</i>
Key Worker Accommodation		1,140	1,140		<i>Market approach</i>
Ransom Strip	1,000		1,000	<i>Market approach</i>	
Golf Course	365		365	<i>Income approach</i>	
Agricultural Land		15	15		<i>Income approach</i>
Industrial units	2,354		2,354	<i>Income approach</i>	
	<b>28,053</b>	<b>12,392</b>	<b>40,445</b>		

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 investment property held at fair value, are analysed below:

	<b>2018-19 £000's</b>	<b>2017-18 £000's</b>
Opening balance	12,392	18,883
Transfers into Level 3	2,600	703
Transfers out of Level 3		-6,636
Additions from prior year		494
Disposals	-941	-19
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	2,792	-1,035
Other changes	26	2
Closing balance	16,869	12,392

£2.8m of losses 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 31/03/19 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	8,149	1) Estimated revenue streams 2) Estimated construction costs 3) Estimated profit margins 4) Discount rate (planning)	1) £96,250 - £500,000 per unit 2) £117.50 - £162.50 per square foot 3) 20% 4) 25% - 35%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/commercial development/amenity land	434	Estimated land value	£20,000 - £2,250,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Residential Dwellings	2,097	1) Estimated sales value 2) Discount rate (lifelong tenancy)	1) £185,000 - £495,000 per unit 2) 40%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	3,507	1) Estimated rent (ground only) 2) Estimated rent 2) Estimated yield	1) £0.13 to £0.52 per square foot 2) £4.25 - £16.00 per square foot 3) 5% - 9%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Key Worker Accommodation	1,140	Estimated sales value	£38,000 per unit	Significant changes in unobservable inputs could result in a significantly lower or higher fair value

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

	Fair Value as at 31/03/19 £000's	Unobservable input	Quantitative Information	Sensitivity
Industrial Units	1,527	1) Estimated rent 2) Estimated yield	1) £5.08 to £12.50 per square foot 2) 9.5%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Agricultural Land	15	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
<b>Total</b>	<b>16,869</b>			

### **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 48 of the 57 properties is their current use. Of the remaining 9 properties, 6 are held for capital appreciation as investments and 3 have alternative uses as a result of existing lease arrangements.

## **Note 19. 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 19 - Capital Expenditure and Financing and Note 20 - PFI and Similar Contracts

	<b>2018-19</b>	<b>2017-18</b>
	<b>£000's</b>	<b>Restated £000's</b>
<b>Opening Capital financing requirement</b>	1,322,494	1,362,392
<b>Capital investment</b>		
Property, Plant and Equipment	141,141	124,406
Revenue expenditure funded from capital under statute	48,489	56,629
Long-Term Debtors	7,062	9,104
Other	4,014	2,902
	<u>1,523,200</u>	<u>1,555,433</u>
<b>Sources of finance</b>		
Capital receipts	-13,788	-22,151
Government grants and other contributions	-150,033	-131,246
Direct revenue contributions	-14,854	-16,323
(MRP/loans fund principal)	-60,013	-63,219
	<u>1,284,512</u>	<u>1,322,494</u>
<b>Closing Capital Financing Requirement</b>	<b>1,284,512</b>	<b>1,322,494</b>
<b>Movement</b>	<b>-37,982</b>	<b>-39,898</b>
	<b>2018-19</b>	<b>2017-18</b>
	<b>£000's</b>	<b>£000's</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by Government financial assistance)		0
Increase in underlying need to borrow (unsupported by Government financial assistance)	-37,982	-39,898
Assets acquired under PFI contracts		0
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>-37,982</b>	<b>-39,898</b>

## Note 20. 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.

## Note 20. PFI and Similar Contracts

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.

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
<b>As at 31 March 2018</b>	136,546	4,047	9,547	81,451	47,211	73,260	352,062
Additions	1,458	2,962	818	663	354	64	6,319
Transfers in							0
Revaluations	3,409	378			1,236		5,023
Depreciation	-4,807	-151	-246	-1,838	-1,487	-1,473	-10,002
<b>As at 31 March 2019</b>	136,606	7,236	10,119	80,276	47,314	71,851	353,402

### 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
<b>As at 31 March 2018</b>	66,674	8,111	12,095	51,846	56,036	35,664	230,426
Additions							0
Liability repaid	-1,774	-370	-156	-1,026	-1,525	-1,147	-5,998
<b>As at 31 March 2019</b>	64,900	7,741	11,939	50,820	54,511	34,517	224,428

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 20 - 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	1,987	5,698	3,477	1,305	12,466
Within 2-5 years	9,212	20,948	14,799	6,510	51,470
Within 6-10 years	15,064	21,370	20,677	11,288	68,399
Within 11-15 years	24,383	13,389	23,395	10,030	71,196
Within 16-20 years	14,254	1,982	10,197	1,911	28,344

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	457	1,136	776	317	2,686
Within 2-5 years	2,736	3,768	3,327	1,225	11,056
Within 6-10 years	4,548	1,688	3,193	1,149	10,578

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	157	922	1,673	861	3,612
Within 2-5 years	1,867	3,436	7,181	1,923	14,407
Within 6-10 years	3,131	3,439	10,197	2,804	19,571
Within 11-15 years	6,783	1,805	9,272	862	18,722
Within 16-20 years	0	0	0	0	0

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	1,268	3,609	0	493	5,371
Within 2-5 years	5,440	13,464	0	2,580	21,484
Within 6-10 years	10,337	14,269	0	2,249	26,855
Within 11-15 years	13,855	10,083	0	2,917	26,855
Within 16-20 years	19,920	4,245	0	899	25,065
Within 21-25 years	0	0	0	0	0

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

## Note 20 - PFI and Similar Contracts

### 3 BSF Schools

	<b>Repayment of liability</b>	<b>Interest</b>	<b>Service Charges</b>	<b>Lifecycle costs</b>	<b>TOTAL</b>
					£'000
Within 1 year	1,620	5,065	2,207	635	9,528
Within 2-5 years	8,061	18,560	9,395	2,904	38,921
Within 6-10 years	12,007	18,753	13,127	8,192	52,080
Within 11-15 years	19,731	12,108	14,852	7,135	53,826
Within 16-20 years	13,091	1,912	4,234	749	19,987

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

	<b>Repayment of liability</b>	<b>Interest</b>	<b>Service Charges</b>	<b>Lifecycle costs</b>	<b>TOTAL</b>
					£'000
Within 1 year	1,191	1,572	1,097	71	3,931
Within 2-5 years	5,161	5,733	4,387	443	15,724
Within 6-10 years	6,427	5,853	5,484	1,891	19,655
Within 11-15 years	7,580	4,327	5,484	2,264	19,655
Within 16-20 years	9,053	2,460	6,587	2,659	20,759
Within 21-25 years	5,105	374	3,815	738	10,032

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

### TOTAL for all PFI Contracts

	<b>Repayment of liability</b>	<b>Interest</b>	<b>Service Charges</b>	<b>Lifecycle costs</b>	<b>TOTAL</b>
					£'000
Within 1 year - short term	6,680	18,003	9,230	3,682	37,595
Within 2-5 years	32,478	65,910	39,088	15,586	153,062
Within 6-10 years	51,514	65,373	52,677	27,573	197,138
Within 11-15 years	72,332	41,712	53,002	23,208	190,254
Within 16-20 years	56,319	10,598	21,018	6,218	94,154
Within 21-25 years	5,105	374	3,815	738	10,032
<b>Total</b>	<b>224,428</b>	<b>201,970</b>	<b>178,831</b>	<b>77,006</b>	<b>682,234</b>

### 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.

## **Note 20 - PFI and Similar Contracts**

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College (now Holmesdale School), 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.

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 Company 1 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 Westview**

In 2018-19 the Council made payments of £4.2m 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 £4.4m for 2019-20 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**

The NHS are the accountable body for this PFI arrangement and in accordance with accounting procedures this is not included on KCC's balance sheet. However in 2019-20 the Council is committed to making payments estimated at £2.93m per year under a contract with Land Securities Group Plc 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 (£2.9m was paid in 2018-19). 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 Ltd (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 2018-19 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. In 2018-19 the Council made unitary charge payments of £3.9m to the contractor and is committed to paying the same amount each year, although this will depend on the performance of the Kent EHFA Projectco Limited delivering the services under the contract. The contract runs until 2040-41.

## Note 21 - Heritage Assets

### Note 21. 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 & Archaeological Artefacts £000s	Civic Regalia £000s	Total Heritage Assets £000s
<u>Cost or Valuation</u>						
<b>At 1 April 2017</b>	<b>1,213</b>	<b>3,782</b>	<b>2,629</b>	<b>138</b>	<b>17</b>	<b>7,779</b>
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		57	55	50	1	<b>163</b>
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
<b>At 31 March 2018</b>	<b>1,213</b>	<b>3,839</b>	<b>2,684</b>	<b>188</b>	<b>18</b>	<b>7,942</b>
<u>Cost or Valuation</u>						
<b>At 1 April 2018</b>	<b>1,213</b>	<b>3,839</b>	<b>2,684</b>	<b>188</b>	<b>18</b>	<b>7,942</b>
Additions						
Donations						
Disposals		(1,570)				<b>(1,570)</b>
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		52	50			<b>102</b>
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
<b>At 31 March 2019</b>	<b>1,213</b>	<b>2,321</b>	<b>2,734</b>	<b>188</b>	<b>18</b>	<b>6,474</b>

During 2018/19 The Master collection of 16th-19th century prints and drawings, valued at £1,570k was gifted to Folkestone Town Council.

## Note 21 - 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 II 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:

**Kent Visual Arts Loan Service**, a collection of c.1500 pieces of original artwork currently held in storage at Sessions House, valued at £635k.

**The Antony Gormley Boulders Sculpture**, the sculptors' first professional commission, valued at £746k. 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 of 7 collections) in storage in Sessions House, valued at £291k.

**KCC Sessions House collection**, valued at £72k.

**Glass Screen by Chris Ofili** valued at £427k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

**Kent History Tree & Leaves** valued at £150k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condrón. 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 21 - 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** - £753k

**Knatchbull/Brabourne Manuscripts.** £1,458k. Family and estate papers relating to the Knatchbull/Brabourne family comprising of accounts, correspondence, legal papers, and manorial records.

**Rare Books collection,** valued at £209k based on an informal estimate given by an antiquarian book dealer.

**Amherst Family Papers** £314k 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 within the Art Store at Kent County Council.

KCC owns approximately 4,000 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. The museum holds a **painting by John Downton** and a **18th/19th soldier's quilt** recently valued at £50k by an industry expert.

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 and 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. This has been moved permanently to Folkestone Town Council (FTC) and will be insured by FTC but will remain in KCC ownership until the gifting requirements are met.

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

### Civic Regalia

KCC's silver collection is valued at £18k. This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup, and The 500 Squadron Silver collection.

### Note 22. 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 22 - 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:

	<b>31 Mar 2019</b>	<b>31 Mar 2018</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	4,580	4,659
Later than one year and not later than five years	12,495	11,207
Later than five years	14,057	15,272
	<b>31,132</b>	<b>31,138</b>

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 £14.7m 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:

	<b>31 Mar 2019</b>	<b>31 Mar 2018</b>
	<b>£'000</b>	<b>£'000</b>
Minimum lease payments	4,635	5,039
Contingent rents	310	245
Sublease payments receivable	-757	-757
	<b>4,188</b>	<b>4,527</b>

## Note 23 - Usable Reserves

### Note 23. 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	Net	Balance	Purpose of Reserve
	1 April	Movement	31 March	
	2018	in year	2019	
	£'000	£'000	£'000	
Usable Capital Receipts	-28,520	-10,759	-39,279	Proceeds of fixed assets and loan repayments available to meet future Capital Expenditure
General Fund - KCC	-37,213		-37,213	Resources available to meet future unforeseen events
General Fund - Commercial Services	310	-151	159	
Capital Grants unapplied	-57,438	-76,887	-134,325	See note below
Earmarked Reserves*	-158,730	-26,808	-185,538	See Note 25
Schools Reserve*	-30,015	3,131	-26,884	See over page
Surplus on Trading Accounts*	-223	-699	-922	Commercial Services and
<b>Total</b>	<b>-311,829</b>	<b>-112,173</b>	<b>-424,002</b>	

Capital grants unapplied of £134.3m as at 31 March 2019 includes the schools capital reserves of £4m. This has increased from the deficit of £7k held by schools as at 31 March 2018. The remainder reflects Government grants and contributions received in year for projects in progress.

## Note 23 - Usable Reserves and Note 24 - Unusable Reserves

### School Reserves

At 31 March 2019 funds held in school revenue reserves stood at £26,884k. These reserves are detailed in the table below.

	<b>Balance at 1 April 2018 £'000</b>	<b>Movement £'000</b>	<b>Balance at 31 Mar 2019 £'000</b>
School delegated revenue budget reserves - committed	-8,362	1,898	-6,464
School delegated revenue budget reserves - uncommitted	-22,839	-3,920	-26,759
Unallocated Schools budget	2,155	4,345	6,500
Community Focused Extended School Reserves	-114	-47	-161
Apprenticeship Levy	-855	855	0
	<u>-30,015</u>	<u>3,131</u>	<u>-26,884</u>

### Note 24. 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.

<b>Reserve</b>	<b>Balance 1 April 2018 £'000</b>	<b>Net Movement in year £'000</b>	<b>Balance 31 March 2019 £'000</b>	<b>Purpose of Reserve</b>
Revaluation Reserve	-680,056	-9,525	-689,581	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-629,795	1,473	-628,322	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	15,388	10,809	26,197	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-14,415	-3,775	-18,190	Movement between the I & E and amount required by regulation to be credited to the General Fund
Pensions Reserves				
- KCC	1,426,356	-94,309	1,332,047	Balancing account to allow inclusion of Pensions Liability in Balance Sheet
- DSO	1,739		1,739	
Pooled Investment Adjustment Account	1,299	-1,517	-218	
Accumulated Absences Account	9,519	182	9,701	This absorbs the differences on the General Fund from accruing for untaken annual leave

## Note 24 - Unusable Reserves

Reserve	Balance	Net	Balance	Purpose of Reserve
	1 April	Movement	31 March	
	2018	in year	2019	
	£'000	£'000	£'000	
Post Employment Account	6,645	-1,527	5,118	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
<b>Total</b>	<b>136,680</b>	<b>-98,189</b>	<b>38,491</b>	

### 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.

	2018-19	2017-18
	£'000	£'000
<b>Balance as at 1st April</b>	-680,056	-569,721
Upward revaluation of assets	-87,425	-178,534
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	38,136	30,526
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-49,289	-148,008
Difference between fair value depreciation and historical cost depreciation	24,956	20,413
Accumulated gains on assets sold or scrapped	14,808	17,260
Amount written off to the Capital Adjustment Account	39,764	37,673
<b>Balance at 31 March</b>	<b>-689,581</b>	<b>-680,056</b>

## Note 24 - 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 12 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>Restated £'000</b>
<b>Balance at 1 April</b>	-629,554	-632,055
Opening balance adjustment	-241	
<b>Revised opening balance as at 1 April</b>	-629,795	
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	157,425	152,929
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	11,685	-15,998
- Income in relation to donated assets		
- Amortisation of intangible assets	1,915	2,264
- Revenue expenditure funded from capital under statute	48,799	56,478
- 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	52,430	53,325
Unrealised gains/losses on financial assets held at FVPL	294	
	<hr/> 272,548	<hr/> 248,998
Adjusting amounts written out of the Revaluation Reserve	-39,764	-37,673
Net written out amount of the cost of non-current assets consumed in the year	<hr/> -397,011	<hr/> -420,730

## Note 24 - Unusable Reserves

	2018-19	2017-18
	£'000	£'000
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	-13,788	-22,151
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-120,034	-89,981
- Application of grants to capital financing from the Capital Grants Unapplied Account	-29,999	-41,558
- Statutory provision for the financing of capital investment charged against the General Fund	-60,013	-63,219
- Capital expenditure charged against the General Fund	-14,854	-16,322
	-238,688	-233,231
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-2,376	6,250
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		
Write down of long-term debtors	9,753	18,157
<b>Balance at 31 March</b>	<b>-628,322</b>	<b>-629,554</b>

## Note 24 - 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.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 April</b>	15,388	17,305
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement		
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-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	-950	-950
	11,759	-967
<b>Balance at 31 March</b>	<b>26,197</b>	<b>15,388</b>

## Note 24 - 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.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 April</b>	1,428,095	1,535,900
Remeasurement of the net defined liability/(asset)	-180,251	-208,528
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	157,059	171,887
Employer's pension contributions and direct payments to pensioners payable in the year	-71,117	-71,164
<b>Balance at 31 March</b>	<b>1,333,786</b>	<b>1,428,095</b>

### 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.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 April</b>	-14,415	-18,943
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	-3,775	4,528
<b>Balance at 31 March</b>	<b>-18,190</b>	<b>-14,415</b>

## Note 24 - 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.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 April</b>	9,519	10,388
Settlement or cancellation of accrual made at the end of the preceding year	-9,519	-10,388
Amounts accrued at the end of the current year	9,701	9,519
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	182	-869
<b>Balance at 31 March</b>	<b>9,701</b>	<b>9,519</b>

### 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.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 April</b>	6,645	6,414
Settlement or cancellation of accrual made at the end of the preceding year	-2,899	-2,992
Amounts accrued at the end of the current year	1,372	3,223
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	-1,527	231
<b>Balance at 31 March</b>	<b>5,118</b>	<b>6,645</b>

## Note 24 - Unusable Reserves

### Pooled Investment Adjustment Account

The Pooled Investment Adjustment Account absorbs the timing differences arising from the gains or loss made by the Council arising from increases or decreases in the value of its investments that are measured at fair value through profit or loss. On derecognition the cumulated gain or loss is posted back to the General Fund Balance in accordance with statutory regulation. 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

	<b>2018-19</b>
	<b>£'000</b>
<b>Balance at 1 April</b>	1,299
Upward revaluation of investments	-1,792
Downward revaluation of investments	
Change in impairment loss allowances	
	-1,792
Accumulated gains or losses on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	
Accumulated gains or losses on assets sold and maturing assets written out to the General Fund Balance for financial assets designated to fair value through other comprehensive income	275
<b>Balance at 31 March</b>	-218

## Note 25 - Earmarked Reserves

### Note 25. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2018-19 budget setting process. A similar process was undertaken as part of the 2019-20 budget setting process and as a result a further draw down of reserves is planned for 2019-20. Our Corporate Director of Finance, 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 2018 or 31 March 2019, the sum of which are shown in the tables on pages 96 and 97.

#### **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.

#### **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.

## Note 25 - Earmarked Reserves

### **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, transforming care, 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.

### **Local Taxation Equalisation Reserve**

This reserve is to (a) smooth the impact of changes in Council Tax discounts, (b) fund joint work with individual district councils with the aim of achieving higher future tax yields e.g. through Counter Fraud Initiatives and (c) smooth the impact of fluctuations in the Business Rates baseline.

### **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.

### **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.

### **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.

### **Earmarked Reserve to support future year's budget**

The approved medium term plan for 2018-20 includes support from central reserves from the residual underspending in 2017-18 and from a review of reserve balances. These funds have been transferred to the reserve to be drawdown 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.

## Note 25 - Earmarked Reserves

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

This reserve holds any 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.

### **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.

### **PIF Property Reserve**

PIF is a capital (only) fund available to fund property investments. A number of income generating properties were purchased through PIF to provide revenue funding to cover any necessary revenue costs associated with the purchase/sale and holding costs of the investment properties. This revenue income is held within a reserve to be drawn down, as required, to cover costs that cannot be capitalised.

### **Bus Services Operator Grant**

This reserve relates to grant funding received from the Department for Transport and to be used to fund bus companies.

### **Highways Adverse Weather Reserve**

This reserve is required to absorb the costs of adverse weather events.

### **Deprivation of Liberty Safeguards (DoLs) Reserve**

This reserve relates to a dedicated project to clear the DoLs backlog.

### **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.

### **Financial Instruments Smoothing Reserve**

A reserve to smooth the impact of gains or losses in respect of derecognition of financial assets treated as Investments in Equity Instruments designated at Fair Value through Other Comprehensive Income.

### **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 2019-20 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

## Note 25 - Earmarked Reserves

<b>Other Earmarked Reserves</b>	<b>Balance at 1 April 2018</b>	<b>Movement</b>	<b>Balance at 31 Mar 2019</b>
	£'000	£'000	£'000
VPE reserve	-16,253	-307	-16,560
Special funds	-558	-34	-592
Kings Hill development smoothing reserve	-2,507	-50	-2,557
Swanscombe School PFI equalisation reserve	-984	573	-411
Six schools PFI	-314	-734	-1,048
Three schools PFI	-1,936	-741	-2,677
Excellent Homes for All PFI	-2,448	86	-2,362
Westview/Westbrook PFI equalisation reserve	-3,680	-170	-3,850
Better Homes Active Lives PFI equalisation reserve	-3,316	-100	-3,416
Responding to Government Deficit Reduction reserve	-9,000	-1,371	-10,371
Corporate Reserve for Social Care Funding Issues	-7,552	0	-7,552
Payments reserve	-3,935	-508	-4,443
Local Taxation Equalisation reserve	-10,638	-6,155	-16,793
Public Health reserve	-3,634	-2,402	-6,036
Rolling budget reserve	-27,606	-9,567	-37,173
Emergency Conditions reserve	-839	-796	-1,635
Safety Camera Partnership reserve	-751	282	-469
Elections reserve	-156	-431	-587
Dilapidations reserve	-3,303	241	-3,062
Modernisation of the Council (formerly Workforce Reduction) reserve	-10,580	-419	-10,999
IT Asset Maintenance reserve	-2,595	812	-1,783
Earmarked reserve to support future year's budget	-6,682	1,000	-5,682
Prudential Equalisation reserve	-9,594	-788	-10,382
Turner Contemporary Investment reserve	-758	-207	-965
Kent Lane Rental Scheme reserve	-1,695	-984	-2,679
Public Inquiries reserve	-484	-36	-520
PIF Property Reserve	-668	-177	-845
Bus Services Operator Grant	-571	112	-459
Financial Instruments Revaluation Reserve	0	-647	-647
Highways Adverse Weather Reserve	0	-500	-500
Deprivation of Liberty Safeguards (DoLs) Reserve	0	-1047	-1047
Other	-4,008	-1,369	-5,377
<b>Total</b>	<b>-137,045</b>	<b>-26,434</b>	<b>-163,479</b>
<b>Insurance Reserve</b>			
KCC	-13,448	-199	-13,647
	<b>-150,493</b>	<b>-26,633</b>	<b>-177,126</b>
<b>Commercial Services Earmarked Reserves</b>	-3,233	0	-3,233
<b>EKO</b>	-4,981	0	-4,981
<b>Royal Mail Sorting Office</b>	-23	-175	-198
<b>Total Earmarked Reserves</b>	<b>-158,730</b>	<b>-26,808</b>	<b>-185,538</b>

## Note 25 - Earmarked Reserves

	Restated		
	Balance at 1 April 2017	Movement	Balance at 31 Mar 2018
	£'000	£'000	£'000
<b>Other Earmarked Reserves</b>			
VPE reserve	-14,527	-1,726	-16,253
Special funds	-688	130	-558
Kings Hill development smoothing reserve	-3,016	509	-2,507
Swanscombe School PFI equalisation reserve	-1,001	17	-984
Six schools PFI	-776	462	-314
Three schools PFI	-9,914	7,978	-1,936
Excellent Homes for All PFI	-2,542	94	-2,448
Westview/Westbrook PFI equalisation reserve	-3,455	-225	-3,680
Better Homes Active Lives PFI equalisation reserve	-3,216	-100	-3,316
Responding to Government Deficit Reduction reserve	-7,670	-1,330	-9,000
Corporate Reserve for Social Care Funding Issues	-7,552		-7,552
Payments reserve	-3,594	-341	-3,935
Local Taxation Equalisation reserve	-11,539	901	-10,638
Public Health reserve	-3,825	191	-3,634
External Funding Pump Priming reserve	-513	31	-482
Rolling budget reserve	-9,615	-17,991	-27,606
Emergency Conditions reserve	-1,983	1,144	-839
Safety Camera Partnership reserve	-1,199	448	-751
Elections reserve	-1,593	1,437	-156
Dilapidations reserve	-3,318	15	-3,303
Modernisation of the Council (formerly Workforce Reduction) reserve	-11,158	578	-10,580
IT Asset Maintenance reserve	-6,648	4,053	-2,595
Earmarked reserve to support future year's budget	-12,881	6,199	-6,682
Prudential Equalisation reserve	-9,744	150	-9,594
Turner Contemporary Investment reserve	-958	200	-758
Kent Lane Rental Scheme reserve	-2,054	359	-1,695
Public Inquiries reserve	-527	43	-484
PIF Property Reserve		-668	-668
Bus Services Operator Grant	-242	-329	-571
Other	-3,760	234	-3,526
<b>Total</b>	<b>-139,508</b>	<b>2,463</b>	<b>-137,045</b>
<b>Insurance Reserve</b>			
KCC	-13,448		-13,448
	<b>-152,956</b>	<b>2,463</b>	<b>-150,493</b>
<b>Commercial Services Earmarked Reserves</b>	-3,233		-3,233
<b>EKO</b>	-4,981		-4,981
<b>Royal Mail Sorting Office</b>		-23	-23
<b>Total Earmarked Reserves</b>	<b>-161,170</b>	<b>2,440</b>	<b>-158,730</b>

## Note 26 - Provisions

### Note 26. 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.

	<b>Insurance</b>	<b>Post Employment</b>	<b>Accumulat- ed Absences</b>	<b>Other Provisions</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Short Term</b>					
<b>Balance at 1 April 2018</b>	-3,582	-3,278	-9,518	-911	-17,289
Additional Provisions made in 2018-19	-3,539	-3,076	-6,435	-1,356	-14,406
Amounts used in 2018-19	3,063	3,234	6,252	199	12,748
Unused amounts reversed in 2018-19				400	400
<b>Balance at 31 March 2019</b>	<b>-4,058</b>	<b>-3,120</b>	<b>-9,701</b>	<b>-1,668</b>	<b>-18,547</b>
<b>Long Term</b>					
<b>Balance at 1 April 2018</b>	-6,938	-3,746	0	-151	-10,835
Additional/Reduction in Provisions made in 2018-19	-921				-921
Amounts used in 2018-19		1,168		28	1,196
Unused amounts reversed in 2018-19					0
<b>Balance at 31 March 2019</b>	<b>-7,859</b>	<b>-2,578</b>	<b>0</b>	<b>-123</b>	<b>-10,560</b>
<b>Total Provisions at 31 March 2019</b>	<b>-11,917</b>	<b>-5,698</b>	<b>-9,701</b>	<b>-1,791</b>	<b>-29,107</b>

## Note 26 - Provisions and Note 27 - Debtors

### Insurance

Included within the insurance provision is £600k for the Municipal Mutual Insurance (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 2019. 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 27 - Amounts owed to the Council by debtors

	<b>At 31 March</b>	<b>Restated</b>
	<b>2019</b>	<b>At 31 March</b>
	<b>£000's</b>	<b>2018</b>
		<b>£000's</b>
Long-Term Debtors:		
Medway Council (transferred debtor)	34,073	35,492
Public Bodies	92	92
Other	20,105	27,358
	<hr/> 54,270	<hr/> 62,942
Other debtors:		
Government Departments	27,582	23,054
Other Local Authorities	9,536	5,279
Trade Receivables	90,812	0
General Debtors	81,150	152,858
Payments in Advance	18,495	19,019
	<hr/> 227,575	<hr/> 200,210

Capital short term debtors amounting to £19.4m are included in the Accounts at 31 March 2019 (£11.1m in 2017-18). These relate to grants and external funding towards capital expenditure incurred in 2018-19 which had not been received by 31 March 2019 along with loan repayments funded from capital falling due in 2019-20.

## Note 28 - Creditors and Note 29 - Cash and Cash Equivalents

### Note 28. Amounts owed by the Council to creditors

	<b>At 31 March</b>	<b>Restated</b>
	<b>2019</b>	<b>At 31 March</b>
	<b>£000's</b>	<b>2018</b>
		<b>£000's</b>
Government Departments	19,242	13,070
Other Local Authorities	14,478	3,762
General Creditors	231,584	198,619
Receipts in Advance	29,745	27,082
Contract Liabilities	2,612	0
Deferred income	480	783
	<b>298,141</b>	<b>243,317</b>
Creditors due after 1 year	5,327	43

Capital creditors amounting to £18.6m are included in the Accounts at 31 March 2019 (£11.4m in 2017-18).

### Note 29. 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:

	<b>At 31 March</b>	<b>At 31 March</b>
	<b>2019</b>	<b>2018</b>
	<b>£000's</b>	<b>£000's</b>
Bank current accounts	-12,495	-8,131
Call accounts (same day access funds)	92,870	79,820
<b>Total Cash and Cash Equivalents</b>	<b>80,375</b>	<b>71,689</b>

## Notes 30 Operating Activities

### Note 30. Cash Flow - Operating Activities

The cash flows for operating activities include the following items:

	<b>2018-19</b>	<b>Restated 2017-18</b>
	<b>£'000</b>	<b>£'000</b>
Interest received	-11,492	-16,438
Interest paid	77,874	69,448
Employee Costs	763,001	785,650
Income from Council Tax	-1,011,493	-680,214
Government Grants	-1,106,923	-1,195,200

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
The Surplus or Deficit on the Provision of Services has been adjusted for the following non-cash movements		
Movement in pension liability	-85,942	-100,723
Carrying amount of non-current assets sold	-52,430	-53,325
Carrying amount of Financial Assets held at FVPL	1,498	
Amortisation of fixed assets	-1,915	-2,264
Depreciation of fixed assets	-157,425	-152,929
Impairment and downward valuations	-11,685	15,998
Increase/(decrease) debtors	15,342	12,723
(Increase)/decrease creditors	-53,871	-9,381
Increase/(decrease) stock	263	700
Movement on investment properties	2,375	-6,250
REFCUS	-48,799	-56,478
Other non-cash items charged to the net surplus/deficit on the Provision of Services	3,934	-6,716
	-388,655	-358,645

#### **The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities**

Proceeds from the sale of property plant and equipment, investment property, and intangible assets	15,747	11,785
Capital grants applied	226,920	129,082
	242,667	140,867

**Notes 31 and 32 - Cash Flow - Investing and Financing Activities and Note 33. Reconciliation of Liabilities arising from Financing Activities**

**Note 31. Cash Flow Statement - Investing Activities**

	2018-19	2017-18
	£'000	£'000
Purchase of property, plant and equipment, investment property, and intangible assets	193,427	210,679
Purchase of short-term and long-term investments	1,202,324	740,356
Proceeds from sale of property, plant and equipment, investment property, and intangible assets	-15,628	-11,740
Proceeds from short-term and long-term investments	-1,052,992	-754,698
Other receipts from investing activities	-250,208	-161,251
<b>Net cash flows</b>	<b>76,923</b>	<b>23,346</b>

**Note 32. Cash Flow Statement - Financing Activities**

	2018-19	2017-18
	£'000	£'000
Cash receipts of short- and long-term borrowing	-49,093	-41,279
Relating to finance leases and on-balance sheet PFI contracts	3,859	3,384
Repayments of short- and long-term borrowing	85,485	64,183
<b>Net cash flows from financing activities</b>	<b>40,251</b>	<b>26,288</b>

**Note 33. Reconciliation of Liabilities arising from Financing Activities**

	2018-19	Financing	Non-cash changes		2018-19
	1 April	cash flows	Acquisition	Other non-cash changes	31 March
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	-889,995	46,854		-11,170	-854,311
Short-term borrowings	-64,716	1,651		-487	-63,552
• IFRIC 12	-2,677	121			-2,556
• Lease Liabilities	-553	39			-514
• On balance sheet PFI liabilities	-230,426	5,998			-224,428
<b>Total liabilities from financing activities</b>	<b>-1,188,367</b>	<b>54,663</b>	<b>0</b>	<b>-11,657</b>	<b>-1,145,361</b>

## Note 34 - Trading Operations

### Note 34. Trading Operations

The results of the various trading operations for 2018-19 are shown below prior to transfers to and from reserves.

<b>Business unit/activity</b>	<b>Turnover</b>	<b>Expenditure</b>	<b>Surplus/ Deficit(-)</b>	<b>Surplus/ Deficit(-)</b>
	<b>£'000</b>	<b>£'000</b>	<b>2018-19</b>	<b>2017-18</b>
			<b>£'000</b>	<b>£'000</b>
<b>Kent County Supplies and Furniture</b> Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	46,830	44,035	2,795	2,984
<b>Brokerage Services</b> Procurement and distribution of Services, including Laser energy buying group	254,220	251,923	2,297	1,726
<b>Transport Services</b> Provision of lease cars, minibuses and lorries, plus vehicle maintenance and repairs	641	635	6	44
<b>Total surplus</b>	<b>301,691</b>	<b>296,593</b>	<b>5,098</b>	<b>4,754</b>

The trading surplus excludes the wholly owned subsidiaries. Information on these can be found in Note 42 on page 127.

## Note 35 - Audit Costs and Note 36 - Dedicated Schools Grant

### Note 35. Audit Costs

In 2018-19 the following fees were paid relating to external audit and inspection :

	<b>2018-19</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to Grant Thornton UK LLP for external audit services carried out by the appointed auditor	120	156
Fees payable in respect of other services provided by the appointed auditor	12	14
	132	170

### Note 36. 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 2018. 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 2018-19 are as follows:

	<b>Central Expenditure</b>	<b>Individual Schools Budget</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Final DSG for 2018-19 before Academy recoupment			1,178,540
Academy figure recouped for 2018-19			-503,478
Total DSG after Academy recoupment for 2018-19			675,062
Brought forward from 2017-18			-2,155
Carry Forward to 2019-20 agreed in advance			0
Agreed initial budget distribution in 2018-19	123,467	549,440	672,907
In-year adjustments	-2,418	4,317	1,899
Final budgeted distribution in 2018-19	121,049	553,757	674,806
Less actual central expenditure	127,549		
Less Actual ISB deployed to schools		553,757	
Plus Local Council contribution for 2018-19			0
Carry Forward to 2019-20	-6,500	0	-6,500

## Note 37 - Related Party Transactions

### Note 37. 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). Grants received from government departments are set out in Note 11 on expenditure and income analysed by nature.

#### 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 38 on pages 106 to 112 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 £3.409m and cash held by the Pension Fund on behalf of KCC is £4.683m.

Payments to other local authorities and health bodies, excluding precepts, totalled £82m.  
Receipts from other local authorities and health bodies totalled £79.9m.

#### Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 42 on pages 127 to 129.

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.

CS Kent sales to KCC amounted to £34.9m (2017-18 £35.7m). CS Kent made purchases from KCC amounting to £0.3m (2017-18 £0.6m). CS Kent declared a dividend of £nil (2017-18 £0.5m) to Kent County Trading Limited.

CS Trading sales to KCC amounted to £2.4m (2017-18 £2.6m). CS Trading made purchases from KCC amounting to £1.9m (2017-18 £2.6m). KCC indirectly holds £4.0m of its share capital.

Kent County Trading Limited declared a dividend of £nil (2017-18 £0.5m) to KCC.

Kent Top Temps Limited declared a dividend of £nil (2017-18 £nil) to Kent County Trading Limited.

GEN<sup>2</sup> sales to KCC amounted to £7.181m. GEN<sup>2</sup> made purchases from KCC amounting to £0.463m. GEN<sup>2</sup> made combined purchases from the subsidiary trading companies belonging to Kent County Trading Ltd (wholly owned by KCC) of £0.64m.

Invicta Law Limited sales to KCC amounted to £8.3m. Invicta Law Limited made purchases from KCC amounting to £0.4m. Invicta Law also made purchases from Commercial Services Kent Ltd, a subsidiary trading company belonging to Kent County Trading Ltd (wholly owned by KCC), of £nil.

Cantium Business Solutions Limited sales to KCC amounted to £10m. Cantium Business Solutions made purchases from KCC amounting to £0.4m. Cantium Business Solutions Limited made combined purchases from the subsidiary trading companies belonging to Kent County Trading Ltd (wholly owned by KCC) of £0.5m.

## Note 37 - Related Party Transactions and Note 38 - Pension Costs

EDSECO Limited (trading as The Education People) sales to KCC amounted to £6.63m. EDSECO Limited made purchases from KCC amounting to £2.59m (of which £1.45m relates to company set up costs). EDSECO Limited made combined purchases from the subsidiary trading companies belonging to Kent County Trading Ltd (wholly owned by KCC) of £0.63m.

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

	<b>Payments made in 18-19</b>
<i>Active companies with less than 50% control</i>	<b>£</b>
Visit Kent Ltd	315,000
Locate in Kent Ltd	1,200,810
Trading Standards South East Ltd	-3,614
Kent PFI Holdings Company 1 Ltd	10,450,518
TRICS Consortium Ltd	3,340
Aylesham & District Community Workshop Trust	10,748
Coomtech Ltd	100,000
Discovery Park Technology Investments (GP) Ltd	2,988
The North Kent Architecture Centre Ltd	7,236
<i>Active companies with greater than 50% control</i>	
Produced in Kent (PINK) Ltd	30,950

### Note 38. Pension Costs

#### Note 38a - 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 for 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 2018-19 Kent County Council paid £36.1m (£36.6m in 2017-18), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 16.5% (16.5% in 2017-18) 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 2018-19 these amounted to £4.8m (£4.9m in 2017-18), representing 2.2% (2.2% in 2017-18) 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 38 - Pensions Costs

In 2018-19 Kent County Council paid £0.11m (£0.14m in 2017-18), to the NHS Pension Scheme in respect of public health pension costs, which represented 14.4% (14.4% in 2017-18) of employees pensionable pay.

### Note 38b. 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 of Kent County Council and external Investment Fund managers (for details of investment fund managers see note 15e 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:

	<b>Local Government Pension Scheme</b>	
	<b>2018-19</b>	<b>2017-18</b>
	£000's	£000's
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
• Current service cost	-121,491	-131,683
• Past service costs	-1,507	-4,946
<b>Financing and Investment Income and Expenditure</b>		
• Net interest expenses	-35,395	-40,371
• (Gain)/loss from settlements	2,585	6,318
• Administration expenses	-1,251	-1,205
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>-157,059</b>	<b>-171,887</b>

## Note 38 - Pensions Costs

	2018-19	2017-18
	£000's	£000's
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>		
• Return on plan assets (excluding the amount included in the net interest expenses)	131,015	18,122
• Actuarial gains and losses arising on changes in demographic assumptions	225,975	
• Actuarial gains and losses arising on changes in financial assumptions	-181,354	185,791
• Other	4,615	4,615
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>180,251</b>	<b>208,528</b>
<b>Movement in Reserves statement</b>		
• Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	157,059	171,887
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
• Employers' contributions payable to scheme	-71,117	-71,164

### 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 2018-19, Kent County Council paid an employer's contribution of £71.1m (£71.2m in 2017-18) into the Pension Fund, representing 21% (21% in 2017-18) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2018-19 was based on the review carried out as at 31 March 2017. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

### 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:

	<b>Local Government Pension Scheme</b>	
	£'000	
	2018-19	2017-18
Present value of the defined benefit obligation	3,959,064	3,873,977
Fair value of plan assets	-2,679,625	-2,505,233
Sub total	1,279,439	1,368,744
Other movements in the liability/(asset)	54,347	59,351
<b>Net liability arising from defined benefit obligation</b>	<b>1,333,786</b>	<b>1,428,095</b>

## Note 38 - Pensions Costs

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

	Local Government Pension Scheme	
	£'000	
	2018-19	2017-18
Opening fair value of scheme assets	2,505,233	2,438,225
Interest income	63,630	65,603
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	131,015	18,122
• Other		
Contributions from employer	75,732	75,779
Contributions from employees into the scheme	25,030	22,704
Benefits paid	-116,527	-108,207
Other	-4,488	-6,993
<b>Closing fair value of scheme assets</b>	<b>2,679,625</b>	<b>2,505,233</b>

The actual return on scheme assets in the year was £194,645k (2017-18: £83,725k)

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

	Liabilities: Local Government Pension Scheme	
	£'000	
	2018-19	2017-18
Opening balance at 1 April	3,933,328	3,974,125
Current service cost	121,491	131,683
Interest cost	99,025	105,974
Contribution from scheme participants	25,030	22,704
Remeasurement gains/(losses):		
• Actuarial gains and losses arising on changes in demographic assumptions	-225,975	
• Actuarial gains and losses arising on changes in financial assumptions	181,354	-185,791
• Other	-4,615	-4,615
Past service costs	1,507	4,946
Benefits paid	-111,912	-103,592
Liabilities extinguished on settlements	-5,822	-12,106
<b>Closing balance at 31 March</b>	<b>4,013,411</b>	<b>3,933,328</b>

## Note 38 - Pensions Costs

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	Fair value of scheme assets
	2018-19	2017-18
	£'000	£'000
Cash and cash equivalents	48,704	83,239
<b>Equity instruments: <i>By industry type</i></b>		
• Consumer	26,830	227,044
• Manufacturing	24,092	210,646
• Energy and utilities	8,003	69,054
• Financial institutions	19,831	195,719
• Health and care	12,702	97,955
• Information technology	9,927	113,405
• Telecommunication services	3,425	24,372
• Real Estate	2,849	7,312
• Miscellaneous/Unclassified		20,264
Sub-total equity	107,659	965,771
<b>Bonds: <i>By sector</i></b>		
• Financial services	675	2,394
• Miscellaneous/Unclassified	156,058	149,070
Sub-total bonds	156,733	151,464
<b>Property: <i>By type</i></b>		
• Retail	99,585	104,957
• Offices	33,873	49,267
• Industrial	76,790	54,712
Sub-total property	210,248	208,936
<b>Private equity:</b>		
• UK	12,390	9,559
• Overseas	33,739	28,466
Sub-total private equity	46,129	38,025
<b>Other investment funds:</b>		
• Infrastructure	20,996	16,067
• Property	111,601	106,056
• Equity Pooled Funds	1,662,662	651,880
• Corporate Fixed Interest Pooled Funds	104,890	107,226
Sub-total other investment funds	1,900,149	881,229
<b>Derivatives</b>		
Forward currency contracts	-1,955	-222
Target Return Portfolio	211,958	176,791
<b>Total assets</b>	<b>2,679,625</b>	<b>2,505,233</b>

## Note 38 - Pensions Costs

The decrease in pension deficit during the year has arisen principally due to the technical increase 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. Had these markets remained at their 2018 levels then the pensions deficit would have been £181,354,000 less at £1,152,132,000.

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 2019 is £66,452k, 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:

	<b>Local Government Pension Scheme</b>	
	<b>2018-19</b>	<b>2017-18</b>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.0 years	23.1 years
Women	24.0 years	25.2 years
Longevity at 65 for future pensioners:		
Men	23.7 years	25.3 years
Women	25.8 years	27.5 years
Rate of inflation	3.4%	3.3%
Rate of increase in Consumer Price Index	2.4%	2.3%
Rate of increase in salaries	3.7%	3.6%
Rate of increase in pensions	2.4%	2.3%
Rate for discounting scheme liabilities	2.4%	2.6%
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.

## Note 38 - Pensions Costs and Note 39 - Financial Instruments

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	Decrease in Assumption
	£'000	£'000
Adjustment to discount rate (increase or decrease by 0.1%)	3,941,190	4,087,027
Adjustment to long-term salary increase (increase or decrease by 0.1%)	4,019,850	4,007,017
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)	4,080,515	3,947,513
Adjustment to mortality age rate assumption (increase or decrease in 1 year)	4,157,733	3,874,111

### Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £1.6m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2019 in accordance with IAS19.

### Commercial Services, GEN<sup>2</sup> Property Ltd, and Invicta Law Ltd, Cantium Business Solutions Ltd and The Education People

The Balance Sheet includes the assets and liabilities for the wholly-owned subsidiaries of KCC. All entities have 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 39. 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 39 - Financial Instruments

### Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take a form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to start up companies 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, 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.

Any gains or losses that arise from the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

### Expected Credit Loss Model

The Council recognises expected credit losses on all of its contractual financial assets held at amortised cost or fair value through other comprehensive income, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligation. Credit risk plays a crucial factor in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

For loans and investments, the loss allowance is equal to 12-month expected credit losses (ECLs) unless credit risk has increased significantly in which case it is equal to lifetime ECLs. For trade receivables without a significant financing component, the loss allowance is always equal to lifetime ECLs.

To calculate ECLs, a two-year delay in cash flows is assumed to arise in the event of default. For 12-month ECLs, only default events occurring in the next 12 months are considered.

## Note 39 - Financial Instruments

### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

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.

Any gains or losses that arise from the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

### Available-for-Sale Financial Assets (AFS) under IAS 39 (comparative periods)

AFS assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

All AFS financial assets were measured at fair value. Changes in fair value were balanced by an entry in the AFS Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception was where impairment losses had been incurred – these were 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 AFS Reserve.

Where assets were identified as impaired because of a likelihood arising from a past event that payments due under the contract would not be made (fixed or determinable payments) or fair value falls below cost, the asset was 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 had a fixed or determinable payments, the impairment loss was 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 was 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 arose on derecognition of the asset were 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 AFS Reserve.

### 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.

## Note 39 - 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
- short-term loans from other local authorities
- overdraft with NatWest Bank
- finance leases on land and buildings
- Private Finance Initiative contracts detailed in Note 20
- 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:

**Amortised cost** (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

- cash
- bank current and deposit accounts
- fixed term deposits with the DMO
- fixed term deposits with banks and building societies
- treasury bills issued by the UK Government
- covered bonds issued by financial institutions and backed by a pool of assets
- loans to other local authorities
- trade receivables for goods and services delivered.

**Fair value through profit and loss** (all other financial assets) comprising:

- money market funds
- shares in unlisted companies
- unquoted equity investments relating to KCC wholly owned companies
- pooled equity, bond, and property investment funds

## Note 39 - Financial Instruments

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

#### Financial Assets

	Non-current		Current		Total
	Investments	Debtors	Investments	Debtors	
	31 Mar 2019	31 Mar 2019	31 Mar 2019	31 Mar 2019	31 Mar 2019
	£000's	£000's	£000's	£000's	£000's
Fair value through profit or loss	170,277		92,870		263,147
Amortised cost	90,464		123,908	90,812	305,184
<b>Total financial assets</b>	<b>260,741</b>	<b>0</b>	<b>216,778</b>	<b>90,812</b>	<b>568,331</b>
Non-financial assets		54,271		110,076	0
<b>Total</b>	<b>260,741</b>	<b>54,271</b>	<b>216,778</b>	<b>200,888</b>	<b>568,331</b>

#### Financial Liabilities

	Non-current				Total
	Borrowings		Creditors		
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019
	£000's	£000's	£000's	£000's	£000's
Fair value through profit or loss					0
Amortised cost	854,311	889,995			920,475
<b>Total financial liabilities</b>	<b>854,311</b>	<b>889,995</b>	<b>0</b>	<b>0</b>	<b>920,475</b>
Non-financial liabilities	220,818	227,515	5,327	43	498,339
<b>Total</b>	<b>1,075,129</b>	<b>1,117,510</b>	<b>5,327</b>	<b>43</b>	<b>1,418,814</b>

	Current				Total
	Borrowings		Creditors		
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019
	£000's	£000's	£000's	£000's	£000's
Fair value through profit or loss					0
Amortised cost	63,552	64,716	2,612		920,475
<b>Total financial liabilities</b>	<b>63,552</b>	<b>64,716</b>	<b>2,612</b>	<b>0</b>	<b>920,475</b>
Non-financial liabilities	6,680	6,141	265,514	215,965	498,339
<b>Total</b>	<b>70,232</b>	<b>70,857</b>	<b>268,126</b>	<b>215,965</b>	<b>1,418,814</b>

## Note 39 - Financial Instruments

### Financial Instruments Designated at Fair Value through Profit or Loss

For Money Market Funds, Bond, equity and property funds the fair value is calculated at Level 1 valuation techniques, as set out on page 120.

The shareholdings in our wholly owned subsidiaries and unquoted equity is not subject to credit risk and is therefore limited to the value of our investment. Fair value is calculated at Level 3 valuation techniques, as set out on page 120.

### Reclassification and remeasurement of financial assets at 1 April 2018

This note shows the effect of reclassifications of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the remeasurements of carrying amounts then required.

	<b>New classifications at 1 April 2018</b>			
	<b>Carrying amount brought forward at 1 April £'000</b>	<b>Amortised cost £'000</b>	<b>Fair value through other comprehensive income £'000</b>	<b>Fair value through profit or loss £'000</b>
<b>Previous classifications</b>				
Loans and receivables	85,694	85,694		
Available for sale	204,909	64,907		140,002
Cash equivalents available for sale	79,820			79,820
Unquoted investment at cost	6,317			6,317
Unquoted / quoted equity investment at fair value	5,866			5,866
Financial assets carried at contract amounts	176,984	176,984		
<b>Reclassified amounts at 1 April 2018</b>	<b>559,590</b>	<b>327,585</b>	<b>0</b>	<b>232,005</b>
Remeasurement at 1 April 2018				-574
<b>Remeasured carrying amounts at 1 April 2018</b>		<b>327,585</b>	<b>0</b>	<b>231,431</b>

The remeasurement impacted on the Pooled Investment Adjustment Account. There has been no impact on the General Fund.

## Note 39 - Financial Instruments

### Effect of reclassification and remeasurement on the Balance Sheet

	New classifications at 1 April 2018				Total Balance Sheet carrying amount £'000
	Amortised cost £'000	Fair value through other comprehen- sive income £'000	Fair value through profit or loss £'000	Non- financial instruments balances £'000	
<b>Remeasured carrying amounts at 1 April 2018</b>	<b>327,585</b>	<b>0</b>	<b>231,431</b>		
Non-current instruments	64,908		151,611		<b>216,519</b>
Long-term debtors	68,242				<b>68,242</b>
Current investments	17,452				<b>17,452</b>
Current debtors	176,984				<b>176,984</b>
Cash equivalents			79,820		<b>79,820</b>

### Application of classification requirements at 1 April 2018

The following judgements were made in reclassifying financial instruments at 1 April 2018:

- Covered bonds were reclassified from available for sale to amortised cost as the fact that they have a quoted market price is no longer relevant to their classification and they are being held as part of a business model to collect contractual cash flows.
- Money Market Funds, pooled bond, equity and property investment funds were reclassified from available for sale to fair value through profit or loss as there are no contractual payments comprising interest or principal.
- Quoted / unquoted shares were reclassified from available for sale to fair value through profit or loss as there are no contractual payments comprising interest or principal.

## Note 39 - Financial Instruments

### Income, Expense Gains / Losses

	2018-19		2017-18	
	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000
<b>Net gains/losses on:</b>				
Financial assets measured at fair value through the profit or loss	-1,498	-	-	-
Financial assets measured at amortised cost		-		-
Financial assets measured at fair value through other comprehensive income				1,199
Financial liabilities measured at amortised cost	-1,258	-950	-950	-950
<b>Total net gain/losses</b>	<b>-2,756</b>	<b>-950</b>	<b>-950</b>	<b>249</b>
<b>Interest revenue</b>				
Financial assets measured at amortised cost	510	-		-
Financial Assets measured at fair value through profit or loss	7,920			
<b>Total interest revenue</b>	<b>8,430</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Interest expenses</b>	<b>-55,677</b>	<b>-</b>	<b>-47,136</b>	<b>-</b>
<b>Fee income</b>				
Financial assets or financial liabilities that are not at fair value through profit or loss		-		-
Trust and other fiduciary activities		-		-
<b>Total fee income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fee expense</b>				
Financial assets or financial liabilities that are not at fair value through profit or loss	-20,482	-	-20,896	-
Trust and other fiduciary activities		-		-
<b>Total fee expense</b>	<b>-20,482</b>	<b>0</b>	<b>-20,896</b>	<b>0</b>

### 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 table on the following page, including the valuation techniques used to measure them.

## Note 39 - 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 2019 £'000	As at 31 Mar 2018 £'000
<b>Fair value through Profit and Loss</b>				
Money market funds	Level 1	Unadjusted quoted prices in active markets for identical shares	92,870	79,844
Equity Shares	Level 1	Unadjusted quoted prices in active markets for identical shares	43	322
Bond, equity, and property funds	Level 1	Unadjusted quoted prices in active markets for identical shares	149,768	133,915
Equity Funds	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	8,407	5,723
Unquoted Equity	Level 3	Company net assets multiplied by the percentage share capital owned	12,059	5,544
Covered bonds	Level 1	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly		64,767
			<b>263,147</b>	<b>290,115</b>

In 2017-18 the financial assets would have been classified as 'Available for Sale'. Covered Bonds have been reclassified to 'Amortised Cost' as disclosed on page 118.

### 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 Unquoted Equity held at fair value, are analysed below:

	2018-19 £'000	2017-18 £'000
Opening balance	5,544	0
Transfers into Level 3	6,317	5,334
Transfers out of Level 3		
Additions	2,898	500
Derecognition		-520
Total gains or (loss) for the period:		
Included in Surplus or Deficit on the Provision of Services	-2,700	
Included in Other Comprehensive Income and Expenditure		230
Closing Balance	12,059	5,544

## Note 39 - Financial Instruments

### 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 on the previous page), all other financial liabilities and financial assets held by the Authority as well as long-term debtors and creditors are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows:

Financial Liabilities	31 March 2019		31 March 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial liabilities held at amortised cost				
PWLB loans	498,432	635,565	479,904	621,423
Long-term LOBO and Market Loans	419,431	634,861	474,808	737,551
Other long-term loans				
PFI and finance lease liabilities	227,498		233,656	293,930
<b>Total</b>	<b>1,145,361</b>	<b>1,270,426</b>	<b>1,188,368</b>	<b>1,652,904</b>

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 2018) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2019		Restated 31 March 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial assets held at amortised cost				
- long-term investments	90,464	90,435		64,767
- short-term investments			97,271	97,271
- cash and cash equivalents	-12,495	-12,495	-8,131	-8,131
Long-term debtors	54,271	50,777	62,942	58,985
<b>Total</b>	<b>41,776</b>	<b>38,282</b>	<b>152,082</b>	<b>148,125</b>

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

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

## Note 39 - Financial Instruments

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

	31 March 2019			
	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant un- observable inputs (Level 3) £'000	Total £'000
<i>Recurring fair value measurements using:</i>				
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		635,565		<b>635,565</b>
• Long-term LOBO and Market Loans		634,861		<b>634,861</b>
PFI and finance lease liabilities				<b>0</b>
<b>Total</b>	<b>0</b>	<b>1,270,426</b>	<b>0</b>	<b>1,270,426</b>
<b>Financial Assets</b>				
Financial assets held at amortised cost:				
• Soft loans to third parties			22,821	<b>22,821</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>22,821</b>	<b>22,821</b>
	31 March 2018			
	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant un- observable inputs (Level 3) £'000	Total £'000
<i>Recurring fair value measurements using:</i>				
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		621,423		<b>621,423</b>
• Long-term LOBO and Market Loans		737,551		<b>737,551</b>
PFI and finance lease liabilities			293,930	<b>293,930</b>
<b>Total</b>	<b>0</b>	<b>1,358,974</b>	<b>293,930</b>	<b>1,652,904</b>
<b>Financial Assets</b>				
Loans and receivables:				
• Soft loans to third parties			28,786	<b>28,786</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>28,786</b>	<b>28,786</b>

## Note 39 - Financial Instruments and Note 40 - Nature and Extent of Risks Arising from Financial Instruments

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 2019 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 proprietary 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 2019 based on new lending rates for equivalent loans at that date	• estimated ranges of interest rates at 31 March 2019 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 40. Nature and Extent of Risks Arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with 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 Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government 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 Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

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.

## Note 40 - Nature and Extent of Risks Arising from Financial Instruments

### Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £20m is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £15m applies. The Council also sets limits on investments in certain sectors. No more than £250m in total can be invested for a period longer than one year.

The credit quality of £90m of the Council's investments is enhanced by collateral held in the form of covered bonds collateralised by 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:

<b>Credit Rating</b>	<b>31 Mar 2019</b>	<b>31 Mar 2018</b>
	<b>£000's</b>	<b>£000's</b>
AAA	235,622	144,353
AA-	0	3,050
A	0	5,000
A-	2,000	
Unrated Pooled Funds/Equity/Other Local Authorities	239,809	154,658
<b>Total Investments</b>	<b>477,431</b>	<b>307,061</b>

All deposits outstanding as at 31 March 2019 met the Council's credit rating criteria on 31 March 2019.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £367k.

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by [three] or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent.

## Note 40 - Nature and Extent of Risks Arising from Financial Instruments

### Collateral and Other Credit Enhancements

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 2019 was £10.5m.

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

<b>Time to maturity</b>	<b>31 Mar 2019</b>	<b>31 Mar 2018</b>
<b>Years</b>	<b>£000's</b>	<b>£000's</b>
Not over 1	23,065	24,152
Over 1 but not over 2	33,291	19,848
Over 2 but not over 5	76,551	68,441
Over 5 but not over 10	77,916	82,491
Over 10 but not over 20	154,057	106,972
Over 20 but not over 30	164,527	178,893
Over 30 but not over 40	135,700	140,700
Over 40	201,100	171,000
Uncertain date *	40,000	150,000
<b>Total</b>	<b>906,207</b>	<b>942,497</b>

\* The Council has £90m 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 to 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 will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments 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 measured at fair value will be reflected in Other Comprehensive Income and Expenditure or the Provision of Services as appropriate. The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, £338m (2018: £485m) of net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates and £90m (2018: £150m) to variable rates.

## Note 40 - Nature and Extent of Risks Arising from Financial Instruments and Note 41 - Contingent Liabilities

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

	<u>£000's</u>
Increase in interest payable on variable rate borrowings	75
Increase in interest receivable on variable rate investments	-616
Decrease in fair value of investments held at FVPL	-5
<b>Impact on Provision of Services (surplus)</b>	<b>-541</b>
Decrease in fair value of fixed rate investment assets	-661
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>-981</b>
Decrease in fair value of loans and investments at amortised cost*	<b>(556)</b>

\*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.

**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 £50m (2018 £36.2m). A 5% fall in commercial property prices would result in a £1.82m 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 has no foreign currency investments and therefore is not exposed to the risk of adverse movements in exchange rates.

## Note 41. 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 five claims relating to discrimination and breach of contract in employment. Of these, four are unfair dismissal and discrimination cases and one is a compensation 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 £90k and an additional amount of approximately £200k for those not officially pleaded. However, on a number of these claims the prospects for successfully defending these cases 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 407 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 10 such cases of which legal costs are expected to exceed £115k in total.

### **Asylum, Ordinary Residence & Judicial review cases**

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

### **Care Home and Domiciliary Service Fee Debts**

There are a number of cases in relation to debts owed by KCC in respect of care home and domiciliary care. In most of these cases the legal fees will be below £10k but there are up to four cases where costs may exceed £10k.

## **Note 42. Subsidiary Undertakings**

### **Accounting Policy**

### **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.

### **Subsidiary Undertakings**

**Commercial Services Kent Ltd** (CS Kent) is a subsidiary of Kent County Trading Limited, wholly owned by Kent County Council (KCC). CS Kent is a Teckal company providing services to KCC which include a recruitment business that is 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. CS Kent also provides waste management services to KCC across a couple of municipal waste collection and transfer centres in Kent and fleet, print and design services for both KCC and some other public sector bodies.

CS Kent had a turnover in 2018-19 of £40.1m (2017-18 £41.3m) with a net profit of £0.9m before tax (2017-18 £0.7m). In 2017-18 its net assets were £1.6m and in 2018-19 its net assets are £1.7m. An unsecured loan and unsecured line of credit has been provided by KCC to CS Kent during the year on which interest is charged at commercial rates and the balance outstanding at 31 March 2019 was £3.1m.

**Commercial Services Trading Ltd** (CS Trading) is a subsidiary of Kent County Trading Limited, wholly owned by Kent County Council. CS Trading operates business units trading with the public and private sector. 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; Vehicle Maintenance services including MOT's, servicing, accident repair, body shop work and vehicle restoration; and the Lumina brand, which offers a brokerage service to small private businesses.

## Note 42 - Subsidiary Note

CS Trading had a turnover in 2018-19 of £14.1m (2017-18 £17.3m) with a net loss of £0.9m before tax (2017-18 £0.4m). In 2017-18 its net assets were £5.0m and in 2018-19 its net assets are £5.0m. An unsecured loan and unsecured line of credit has been provided by KCC to CS Trading during the year on which interest is charged at commercial rates and the balance outstanding at 31 March 2019 was £1.7m.

**Kent Top Temps Ltd** (KTT) is a subsidiary of Kent County Trading Limited, wholly owned by Kent County Council (KCC), which ceased trading in 2013. In 2017-18 its net assets were £0.0m and in 2018-19 its net assets are £0.0m.

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 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 2017-18, in the draft, unaudited EKOLLP accounts, the net assets of the joint operation are £8.2m with an operating profit before members remuneration and profit shares available for discretionary division among members of £0.06m.

**GEN<sup>2</sup> Property Ltd** is a property and project management consultancy, wholly owned by Kent County Council (KCC). It commenced trading on 3 May 2016. The Company trades as a Teckal company, predominantly providing services to KCC. GEN<sup>2</sup> manages KCC's property estate on its behalf and receives a management fee for this work. The Company also provides project management (and where appropriate, employer's agent and quantity surveying services) of KCC's capital building work, along with any other ad hoc property work KCC may require.

GEN<sup>2</sup> also offers services to other public sector bodies in London and the South East including other Local Authorities, the Health sector, schools, and blue light services.

GEN<sup>2</sup> had a turnover in 2018-19 of £7.58m (2017-18 £8.236m) with a net profit of £0.449m before tax (2017-18 £0.939m).

**Invicta Law Ltd** is a law firm, wholly owned by Kent County Council (KCC). It commenced trading on 1 June 2017. The Company trades as a professional law firm, predominantly providing services to KCC. Invicta Law carries out most of KCC's law work and bills on a time spent or fixed fee basis for this work undertaken.

Invicta Law also offers services to other public sector clients mainly in London and the South East including other Local Authorities, schools, and blue light services along with SME private sector businesses.

Invicta Law had a turnover in 2018-19 of £8.8m (2017-18 7.0m) with a net profit of £0.2m before tax (2017-18 loss £0.8m)

**Cantium Business Solutions Ltd** (Cantium) is an outsourced service provider whose core business is to deliver transactional Finance, HR and ICT support services. Wholly owned by Kent County Council (KCC), it commenced trading on the 1 July 2018. The company trades as a Teckal company. Cantium has a diverse customer base predominantly within the public sector. Its largest customer is KCC to which it provides a fully outsourced IT support services including project delivery. It delivers KCC's transactional finance processing function and provides various HR employee related services including payroll processing.

Cantium spans over approx. 1500 clients predominantly across the Education, Government and Health sectors. Cantium is the "modern utility" supporting clients in the optimised delivery of their back office, enabling them to focus on their core frontline services.

Cantium had a turnover in 2018-19 of £22.2m with a net profit of £1.03m before tax.

## Note 42 - Subsidiary Note

**EDSECO Ltd** (trading as The Education People) is an education services company, wholly owned by Kent County Council (KCC). It commenced trading on 1 September 2018. The Company trades as a Teckal company, predominantly providing services to KCC schools and academies, but also to other education providers both inside and outside of Kent. The Education People is a one-stop shop for a variety of professional education services, supporting the full age range from early years and childcare settings to schools and further education colleges. The services provided by TEP helps improve learning, wellbeing and children's development and the transformation of education across the County.

EDSECO Ltd had a turnover in 2018-19 (7 months trading) of £10.96m with a net loss of £0.92m.

Collectively these subsidiaries do not have a material impact on Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2018-19. This situation is reviewed on an annual basis.

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

### **Note 43. 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 2019, up to the date when these accounts were authorised, that require any adjustment to these accounts.

### **Note 44. 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 134 to 161.

The following pages provide details of prior period adjustments relating to accounting treatments.

### Accounting treatment relating to Financial Assets

In implementing IFRS 9 Financial Instruments, an error in the treatment of amortised and fair value gains or losses was found:

- The amortised premium was taken to the Available for Sale Reserve instead of being recognised in the Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement (CIES).
- The fair value gains or losses were taken in error to the surplus or Deficit on the Provision of Service in the CIES instead of Other Comprehensive Income & Expenditure via the Available for Sale Reserve.
- The total value of the error is £3.4m and has been corrected through Earmarked Reserves.

### Growing Places Funding

A prior period adjustment of £5.3m has been made to reflect a correction of the treatment of Growing Places Funding received in 2017-18. In 2017-18, the money was passed to Invicta Law ready to be transferred to a third party on finalisation of a legal agreement. A long term debtor was created to reflect this in 2017-18 however during 2018-19 it transpired that the money had not actually transferred to the third party. The long term debtor and capital funding accounting undertaken in 2017-18 has therefore been reversed in 2018-19.

### 2017-18 Restated Comprehensive Income and Expenditure Statement

Service		Original Net Expenditure £'000	£'000	Restated £'000
Adult Social Care & Health including Disabled Children's Services	ASCH	403,429		403,429
Children, Young People & Education	CYPE	245,812		245,812
Growth, Environment & Transport	GET	262,359		262,359
Strategic & Corporate Services including Public Health	S&CS	110,715		110,715
Financing Items & Unallocated	FI&U	3,137		3,137
<b>Net Cost of Service</b>		<b>1,025,452</b>	<b>0</b>	<b>1,025,452</b>
Other operating Expenditure		42,912		42,912
Net Surplus on trading accounts		-4,754		-4,754
Financing and Investment Income and Expenditure		94,418	1,434	95,852
Taxation and Non Specific Grant Income		-1,020,520	5,300	-1,015,220
		<b>137,508</b>	<b>6,734</b>	<b>144,242</b>
(Surplus)/deficit arising on revaluation of non current assets		-148,008		-148,008
Remeasurement of the net defined benefit liability		-208,528		-208,528
(Surplus)/deficit on revaluation of available for sale financial assets		1,068	-819	249
Other Comprehensive Income and Expenditure		<b>-355,468</b>	<b>-819</b>	<b>-356,287</b>
<b>Net General Fund Surplus(-)/Deficit</b>		<b>-217,960</b>	<b>5,915</b>	<b>-212,045</b>

## Prior Period Adjustments

### 2016-17 Restated Balance Sheet

<b>31 March 2017</b>			
	<b>Original</b>	<b>Changes</b>	<b>Restated</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Property Plant & Equipment	2,444,492		2,444,492
Heritage Assets	7,779		7,779
Investment Property	47,212		47,212
Intangible assets	4,294		4,294
Long-term investments	176,763		176,763
Long-term debtors	83,883		83,883
<b>Total long-term assets</b>	<b>2,764,423</b>	<b>0</b>	<b>2,764,423</b>
Inventories	3,957		3,957
Assets held for sale (>1yr)	1,713		1,713
Short-term debtors	183,607		183,607
Short-term investments	72,483		72,483
Cash and Cash equivalents	47,787		47,787
<b>Total current assets</b>	<b>309,547</b>	<b>0</b>	<b>309,547</b>
Temporary borrowing	-104,952		-104,952
Short-term Lease Liability	-5,982		-5,982
Short-term provisions	-18,955		-18,955
Creditors	-245,817		-245,817
<b>Total current liabilities</b>	<b>-375,706</b>	<b>0</b>	<b>-375,706</b>
Creditors due after one year	-35		-35
Provisions	-11,520		-11,520
Long-term borrowing	-873,440		-873,440
Other Long-Term Liabilities	-1,806,526		-1,806,526
Capital Grants Receipts in Advance	-43,638		-43,638
<b>Long-Term Liabilities</b>	<b>-2,735,159</b>	<b>0</b>	<b>-2,735,159</b>
<b>Net Assets / (Liabilities)</b>	<b>-36,895</b>	<b>0</b>	<b>-36,895</b>
<b>Usable Reserves</b>	<b>-314,264</b>	<b>2,012</b>	<b>-312,252</b>
<b>Unusable Reserves</b>	<b>351,159</b>	<b>-2,012</b>	<b>349,147</b>
<b>Total Reserves</b>	<b>36,895</b>	<b>0</b>	<b>36,895</b>

## Prior Period Adjustments

### 2017-18 Restated Balance Sheet

<b>31 March 2018</b>			
	<b>Original</b>	<b>Changes</b>	<b>Restated</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Property Plant & Equipment	2,524,215		2,524,215
Heritage Assets	7,942		7,942
Investment Property	40,445		40,445
Intangible assets	3,619		3,619
Long-term investments	217,708	-615	217,093
Long-term debtors	68,242	-5,300	62,942
<b>Total long-term assets</b>	<b>2,862,171</b>	<b>-5,915</b>	<b>2,856,256</b>
Inventories	4,657		4,657
Assets held for sale (>1yr)	2,997		2,997
Short-term debtors	200,210		200,210
Short-term investments	17,452		17,452
Cash and Cash equivalents	71,689		71,689
<b>Total current assets</b>	<b>297,005</b>	<b>0</b>	<b>297,005</b>
Temporary borrowing	-64,716		-64,716
Short-term Lease Liability	-6,141		-6,141
Short-term provisions	-17,289		-17,289
Creditors	-243,317		-243,317
<b>Total current liabilities</b>	<b>-331,463</b>	<b>0</b>	<b>-331,463</b>
Creditors due after one year	-43		-43
Provisions	-10,835		-10,835
Long-term borrowing	-889,995		-889,995
Other Long-Term Liabilities	-1,691,102		-1,691,102
Capital Grants Receipts in Advance	-54,673		-54,673
<b>Long-Term Liabilities</b>	<b>-2,646,648</b>	<b>0</b>	<b>-2,646,648</b>
<b>Net Assets / (Liabilities)</b>	<b>181,065</b>	<b>-5,915</b>	<b>175,150</b>
			<b>0</b>
<b>Usable Reserves</b>	<b>-315,275</b>	<b>3,446</b>	<b>-311,829</b>
<b>Unusable Reserves</b>	<b>134,210</b>	<b>2,469</b>	<b>136,679</b>
<b>Total Reserves</b>	<b>-181,065</b>	<b>5,915</b>	<b>-175,150</b>

## Pension Fund Accounts

The following financial statements are taken from the Kent County Council Superannuation Fund's Annual Report and Accounts 2019 available from the Fund's website at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk).

### Fund Account for the year ended 31 March

	Notes	2018-19 £000's	2017-18 £000's
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	238,331	232,037
Transfers in from other pension funds	8	9,427	11,262
		247,758	243,299
Benefits	9	-235,953	-220,876
Payments to and on account of leavers	10	-12,585	-11,497
		-248,538	-232,373
<b>Net additions from dealings with Members</b>		<b>-780</b>	<b>10,926</b>
Management Expenses	11	-27,184	-23,285
<b>Net additions/withdrawals including fund management expenses</b>		<b>-27,964</b>	<b>-12,359</b>
<b>Returns on Investments</b>			
Investment Income	13	117,258	121,717
Taxes on Income		-5,103	-4,929
Profits and losses on disposal of investments and changes in the market value of investments	15a	305,132	159,242
<b>Net Return on Investments</b>		<b>417,287</b>	<b>276,030</b>
<b>Net increase in the Net Assets available for benefits during the year</b>		<b>389,323</b>	<b>263,671</b>

### Net Assets Statement as at 31 March

	Notes	2019 £000's	2018 £000's
Investment Assets		6,211,004	5,807,787
Investment Liabilities		-5,906	-16,857
<b>Net Investment Assets</b>	15	<b>6,205,098</b>	<b>5,790,930</b>
Current Assets	21	31,537	56,409
Current Liabilities	22	-18,466	-18,493
<b>Net Assets available to fund benefits at the period end</b>		<b>6,218,169</b>	<b>5,828,846</b>

## 1. Description of the Fund

### General

The Kent County Council Superannuation Fund (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 and borough councils in Kent and a number of other employers 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 Amendments) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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 313 employers actively participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2019	31Mar 2018	31Mar 2019	31Mar 2018	31Mar 2019	31Mar 2018
Kent County Council	21,435	23,142	21,696	20,865	22,676	22,357
Other Employers	29,910	29,633	20,043	18,948	21,656	20,019
Total	51,345	52,775	41,739	39,813	44,332	42,376

### Funding

Benefits are funded by contributions and investment earnings. The 2016 triennial valuation certified a common contribution rate of 21% of pensionable pay to be paid by each employer participating in the Kent Pension Fund for 2018-19. 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.

## Pension Fund Accounts

### Benefits

Pension benefits under the LGPS are based on the following:

	<b>Service pre April 2008</b>	<b>Membership from 1 April 2008 to 31 March 2014</b>	<b>Membership from 1 April 2014</b>
<b>Pension</b>	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
<b>Lump sum</b>	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](http://www.kentpensionfund.co.uk)

### 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2018-19 financial year and its position at 31 March 2019.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 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 (IAS)19 basis is disclosed at note 20 of these accounts.

### 3. 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.

##### 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 receipts basis and are included in 'transfers in'. Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

##### c) Investment income

Dividends, interest, and stock lending income on securities 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 which 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 providing the payment has been approved.

##### 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 UK income 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.

## Notes to the Pension Fund Accounts

### f) Management 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 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. Fees incurred include fees directly paid to fund managers as well as fees deducted from the funds by pooled fund managers which is grossed up to increase the income from these investments.

### Net Assets Statement

#### g) Financial assets

Financial assets 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 at fair value in accordance with the requirements of the Code and IFRS 13 and IFRS 9. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

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

#### h) Freehold and Leasehold Properties

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 2018. 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 2019.

#### i) 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. Under the European Market Infrastructure Regulations the Fund's forward currency contracts are required to be covered by margin cash. These amounts are included in cash or cash equivalents held by the Fund and reflected in a corresponding margin cash liability under investment liabilities.

#### j) 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 change in market value of assets.

## Notes to the Pension Fund Accounts

### **k) Cash and cash equivalents**

Cash comprises cash at bank 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.

### **l) Financial Liabilities**

The Fund recognises financial liabilities relating to investments 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. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### **m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis 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 2019 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016. 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).

### **n) Contingent Assets and Liabilities**

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.

### **o) Pooling Expenses**

The Fund is part of ACCESS, a group of 11 LGPS Administering Authorities who, as part of a Government initiative, have agreed to pool their investments to achieve cost and scale benefits. Pooling costs included in the Fund's accounts reflect the Fund's proportion of the cost of setting up the governance arrangements of the Pool.

### **p) Additional Voluntary Contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in note 23.

## Notes to the Pension Fund Accounts

### 4. Critical judgements in applying accounting policy

#### Pension fund liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return

### 5. Assumptions made about future and other major sources of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits (Note 20)	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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £173m. A 0.1% increase in assumed earning inflation would increase the value of liabilities by approx. £17m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £333m.
Private Equity (Note 17)	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 £150m. There is a risk that this investment may be under-or-over stated in the accounts. Potential change in valuation due to change in these factors is estimated in Note 17.
Freehold and Leasehold Property and Pooled Property Funds (Note 17)	Valuation techniques are used to determine the fair values of directly held property and pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property	The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £49m on a fair value of £487m.

## Notes to the Pension Fund Accounts

### 6. Events after the Balance Sheet date

As at 3rd June 2019, dealing in the units of the Woodford Equity Income Fund has been suspended by the Fund's Authorised Corporate Director(ACD). Although the Superannuation Fund Committee has decided to redeem the value of its holdings in the Woodford Fund, it will not be able to do so until the suspension is lifted. The duration of the suspension is not fixed, and will be reviewed periodically by the ACD. As per the FCA rules the ACD is required to review the situation every 28 days and to inform the FCA and the investors of any developments. There is no time limit for how long the suspension can be in place however we are liaising with the ACD and the Fund Manager to receive further updates as and when they can be shared. When the suspension is lifted it is the intention of the committee to redeem the investment in the Woodford fund. The final valuation achieved from the redemption will be dependent on the valuation of the underlying holdings of the Woodford Fund on the final date of dealing. It is not possible to predict the final valuation on an uncertain future date and therefore Kent County Council do not believe it to be appropriate to provide for a gain or a loss on the investment at this stage.

### 7. Contributions Receivable

	2018-19 £000's	2017-18 £000's
<b>By Category</b>		
Employees' contributions	53,904	52,872
Employers' contributions		
- normal contributions	127,999	123,336
- deficit recovery contributions	51,965	50,546
- augmentation contributions	4,463	5,283
Total Employers' contributions	184,427	179,165
<b>Total contributions receivable</b>	<b>238,331</b>	<b>232,037</b>
<b>By type of employer</b>		
Kent County Council	89,394	92,591
Scheduled Bodies	135,013	126,629
Admitted Bodies	13,924	12,817
	<b>238,331</b>	<b>232,037</b>

### 8. Transfers in from other pension funds

	2018-19 £000's	2017-18 £000's
Individual	9,427	11,262
Group	0	0
	<b>9,427</b>	<b>11,262</b>

### 9. Benefits Payable

	2018-19 £000's	2017-18 £000's
<b>By Category</b>		
Pensions	192,254	184,721
Retirement Commutation and lump sum benefits	38,006	32,003
Death benefits	5,693	4,152
	<b>235,953</b>	<b>220,876</b>
<b>By type of employer</b>		
Kent County Council	107,867	103,583
Scheduled Bodies	113,639	104,529
Admitted Bodies	14,447	12,764
	<b>235,953</b>	<b>220,876</b>

## Notes to the Pension Fund Accounts

### 10. Payments to and on account of leavers

	2018-19 £000's	2017-18 £000's
Group transfers	0	0
Individual transfers	10,695	10,269
Payments for members joining state scheme	199	73
Refunds of contributions	1,691	1,155
	<b>12,585</b>	<b>11,497</b>

### 11. Management Expenses

	Notes	2018-19 £000's	2017-18 £000's
Administration costs		3,110	2,667
Governance and oversight costs		343	369
Investment management expenses	12	23,570	20,140
Audit Fees		24	31
Pooling Expenses		137	78
		<b>27,184</b>	<b>23,285</b>

### 12. Investment Management Expenses

	2018-19 £000's	2017-18 £000's
Investment Managers Fees	20,220	18,573
Transaction Costs	3,260	1,491
Custody fees	90	76
<b>Total</b>	<b>23,570</b>	<b>20,140</b>

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

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.

### 13. Summary of Income from Investments

	Notes	2018-19		2017-18	
		£000's	%	£000's	%
Bonds		17,007	14.5	15,235	12.5
Equities		52,526	44.8	61,986	50.9
Pooled Investments		14,099	12.0	11,878	9.7
Private Equity / Infrastructure		7,978	6.8	7,444	6.1
Property	14	18,114	15.4	17,107	14.1
Pooled Property Investments		5,482	4.7	6,273	5.2
Cash and cash equivalents		1,010	0.9	630	0.5
Stock Lending		1,042	0.9	1,164	1.0
<b>Total</b>		<b>117,258</b>	<b>100.0</b>	<b>121,717</b>	<b>100.0</b>

## Notes to the Pension Fund Accounts

### 14. Property Income and Expenditure

	2018-19 £000's	2017-18 £000's
Rental Income from Investment Properties	22,326	21,419
Direct Operating Expenses	-4,212	-4,312
<b>Net operating income from Property</b>	<b>18,114</b>	<b>17,107</b>

### 15. Investments

	Market Value as at 31 March 19 £000's	Market Value as at 31 March 18 £000's
<b>Investment Assets</b>		
Bonds	363,728	353,090
Equities	249,994	2,224,616
Pooled Investments	4,601,708	2,195,389
Private Equity/Infrastructure	150,015	128,895
Property	487,193	484,241
Pooled Property Investments	257,690	247,201
Derivative contracts		
- Forward Currency contracts	3,122	5,593
Investment Cash and cash equivalents	80,526	148,514
Investment Income due	17,028	17,995
Amounts receivable for sales	0	2,253
<b>Total Investment Assets</b>	<b>6,211,004</b>	<b>5,807,787</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	-1,373	-8,864
Margin cash liability	-4,533	-7,993
<b>Total Investment Liabilities</b>	<b>-5,906</b>	<b>-16,857</b>
<b>Net Investment Assets</b>	<b>6,205,098</b>	<b>5,790,930</b>

## Notes to the Pension Fund Accounts

### 15a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 18 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 19 £000's
Bonds	353,090	96,498	-110,813	24,953	363,728
Equities	2,224,616	406,586	-2,447,741	66,533	249,994
Pooled Investments	2,195,389	2,573,875	-364,067	196,511	4,601,708
Private Equity/Infrastructure	128,895	30,710	-25,899	16,309	150,015
Property	484,241	31,700	-43,749	15,001	487,193
Pooled Property Investments	247,201	2,011	-2,706	11,184	257,690
	5,633,432	3,141,380	-2,994,975	330,491	6,110,328
Derivative contracts					
- Forward Currency contracts	5,593	5,262,823	-5,239,422	-25,872	3,122
	<b>5,639,025</b>	<b>8,404,203</b>	<b>-8,234,397</b>	<b>304,619</b>	<b>6,113,450</b>
Other Investment balances					
- Investment Cash and cash equivalents	148,514			513	80,526
- Amounts receivable for sales	2,253				0
- Amounts payable for purchases	-8,864				-1,373
- Margin cash liability	-7,993				-4,533
- Investment Income due	17,995				17,028
<b>Net Investment Assets</b>	<b>5,790,930</b>			<b>305,132</b>	<b>6,205,098</b>

	Market Value as at 31 March 17 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 18 £000's
Bonds	339,752	96,357	-51,109	-31,910	353,090
Equities	2,192,637	462,950	-569,918	138,947	2,224,616
Pooled Investments	2,030,342	822,973	-615,671	-42,255	2,195,389
Private Equity/Infrastructure	137,717	13,891	-33,963	11,250	128,895
Property	468,827	0	-19,728	35,142	484,241
Pooled Property Investments	230,129	14,236	-16,157	18,993	247,201
	5,399,404	1,410,407	-1,306,546	130,167	5,633,432
Derivative contracts					
- Forward Currency contracts	2,905	7,540,507	-7,567,732	29,913	5,593
	<b>5,402,309</b>	<b>8,950,914</b>	<b>-8,874,278</b>	<b>160,080</b>	<b>5,639,025</b>
Other Investment balances					
- Investment Cash and cash equivalents	121,323			-838	148,514
- Amounts receivable for sales	14,103				2,253
- Amounts payable for purchases	-12,905				-8,864
- Margin cash liability	0				-7,993
- Investment Income due	16,948				17,995
<b>Net Investment Assets</b>	<b>5,541,778</b>			<b>159,242</b>	<b>5,790,930</b>

## Notes to the Pension Fund Accounts

### 15b. Analysis of Investments

	Market Value as at 31 March 19 £'000's	Market Value as at 31 March 18 £'000's
<b>Bonds</b>		
<b>UK</b>		
Corporate Quoted	34,873	24,213
<b>Overseas</b>		
Public Sector Quoted	39,948	42,724
Corporate Quoted	288,907	286,153
	<b>363,728</b>	<b>353,090</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	33,301	957,184
<b>Overseas</b>		
Quoted	216,693	1,267,432
	<b>249,994</b>	<b>2,224,616</b>
<b>Pooled Funds</b>		
<b>UK</b>		
Fixed Income Unit Trusts	240,897	246,993
Unit Trusts	1,553,260	617,014
<b>Overseas</b>		
Unit Trusts	2,807,551	1,331,382
	<b>4,601,708</b>	<b>2,195,389</b>
Property	487,193	484,241
Property Unit Trusts	257,690	247,201
Private Equity Funds/Infrastructure	150,015	128,895
	<b>894,898</b>	<b>860,337</b>
Derivatives	3,122	5,593
Cash and cash equivalents	80,526	148,514
Investment income due	17,028	17,995
Amounts receivable for sales	0	2,253
	<b>100,676</b>	<b>174,355</b>
<b>Total Investment Assets</b>	<b>6,211,004</b>	<b>5,807,787</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	-1,373	-8,864
Margin cash liability	-4,533	-7,993
<b>Total Investment Liabilities</b>	<b>-5,906</b>	<b>-16,857</b>
<b>NET INVESTMENT ASSETS</b>	<b>6,205,098</b>	<b>5,790,930</b>

## Notes to the Pension Fund Accounts

### 15c. 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 hedges the overseas exposure of the portfolio.

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	EUR	1,609	GBP	1,380	6	
Up to one month	USD	779	GBP	595	3	
Up to one month	USD	3,940	GBP	3,003	19	
Up to one month	USD	6,511	GBP	4,913	82	
Up to one month	USD	587	GBP	453		-3
Up to one month	USD	494	GBP	374	4	
Up to one month	GBP	3,004	USD	3,940		-19
Up to one month	GBP	55	USD	71	0	
Up to one month	GBP	595	USD	779		-3
Up to one month	GBP	751	CHF	963	9	
Up to one month	GBP	6,212	USD	8,228		-99
Up to one month	GBP	5,476	USD	7,257		-91
Up to one month	GBP	1,104	USD	1,471		-24
Up to one month	GBP	2,742	USD	3,535	30	
Up to one month	GBP	2,918	USD	3,777	21	
Up to one month	GBP	3,865	USD	5,056		-14
Up to one month	GBP	942	USD	1,234		-4
Up to one month	GBP	934	USD	1,228		-8
Up to one month	GBP	973	USD	1,286		-14
Up to one month	GBP	2,940	USD	3,800	25	
Up to one month	GBP	122,963	USD	158,662	1,263	
Up to one month	GBP	122,859	USD	158,662	1,158	
Up to one month	GBP	2,155	EUR	2,511		-10
Up to one month	GBP	2,074	EUR	2,409		-3
Up to one month	GBP	36,969	EUR	41,946	794	
					3,414	-292
<b>Net forward currency contracts at 31 March 2019</b>						<b>3,122</b>
Prior year comparative						
Open forward currency contracts at 31 March 2018					6,227	-634
<b>Net forward currency contracts at 31 March 2018</b>						<b>5,593</b>

## Notes to the Pension Fund Accounts

### 15d. Property Holdings

	Year ending 31 March 19 £000's	Year ending 31 March 18 £000's
<b>Opening Balance</b>	484,241	468,827
Additions	31,700	0
Disposals	-43,750	-19,728
Net increase in market value	15,002	35,142
<b>Closing Balance</b>	<b>487,193</b>	<b>484,241</b>

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 any 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 19 £000's	Year ending 31 March 18 £000's
Within one year	19,769	19,928
Between one and five years	47,985	58,943
Later than five years	39,740	65,086
	<b>107,494</b>	<b>143,957</b>

The above disclosures have been reduced by a credit loss allowance of 0.35% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property letting agents. The income has also been reduced to take into account of the possibility of the tenant availing of break clauses in the contract to terminate the tenancy.

### 15e. Investments analysed by Fund Manager

	Market Value as at 31 March 2019		Market Value as at 31 March 2018	
	£000's	%	£000's	%
<b>Investments managed by Link for the ACCESS Pool</b>				
Baillie Gifford	1,299,300	20.9	0	0.0
Schroders	957,557	15.4	0	0.0
M&G	357,903	5.8	0	0.0
<b>Investments managed outside the ACCESS Pool</b>				
Baillie Gifford	2,763	0.0	1,169,875	20.1
DTZ	543,548	8.8	539,450	9.3
Fidelity	129,377	2.1	121,047	2.1
Goldman Sachs	384,637	6.2	368,217	6.4
HarbourVest	73,316	1.2	67,867	1.1
Impax	47,716	0.8	44,550	0.8
Kames	52,368	0.8	52,615	0.9
Kent County Council Investment Team	55,040	0.9	86,799	1.5
M&G	31,604	0.5	338,730	5.9
Partners Group	48,211	0.8	38,173	0.7
BMO (Pyrford)	424,373	6.8	409,629	7.1
Ruffer	67,970	1.1	0	0.0
Sarasin	253,960	4.1	230,105	4.0
Schroders	532,993	8.6	1,423,802	24.6
UBS	654,320	10.5	602,911	10.4
YFM	28,488	0.5	22,855	0.4
Woodford	259,654	4.2	274,305	4.7
	<b>6,205,098</b>	<b>100</b>	<b>5,790,930</b>	<b>100</b>

## Notes to the Pension Fund Accounts

All the external fund managers above are registered in the United Kingdom. During the year assets managed by the following managers were transferred to the ACCESS pool:

Baillie Gifford  
Schroders (UK Equity)  
M&G (Global Dividend Fund)

### 15f. Single investments exceeding 5% of net assets available for benefits

Investments	31 March 2019	
	£000's	% of net assets
LF ACCESS Global Equity Core Fund	1,299,300	20.9
LF ACCESS UK Equity Fund	957,557	15.4
UBS Life UK Equity Tracker Fund	336,049	5.4
LF ACCESS Global Dividend Fund	357,903	5.8
BMO Investments Ireland (Plc) Global Total Return Fund	424,373	6.8

Investments	31 March 2018	
	£000's	% of net assets
UBS Life UK Equity Tracker Fund	315,980	5.4
M&G Global Dividend Fund	315,095	5.4
BMO Investments Ireland (Plc) Global Total Return Fund	409,629	7.0

### 15g. Stock Lending

The Custodians undertake a programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds. The programme lends directly held global equities and bonds to approved borrowers against a collateral of Government and Supranational fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

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.

Loan Type	31 March 2019		Collateral type
	Market Value £000's	Collateral Value £000's	
Equities	11,877	12,444	Treasury Notes and other Government debt
Bonds	11,653	12,210	Treasury Notes and other Government debt
	<b>23,530</b>	<b>24,654</b>	

Loan Type	31 March 2018		Collateral type
	Market Value £000's	Collateral Value £000's	
Equities	214,815	226,963	Treasury Notes and other Government debt
Bonds	18,042	19,062	Treasury Notes and other Government debt
	<b>232,857</b>	<b>246,025</b>	

During the year a large part of the Fund's directly held assets included in the custodian's securities lending programme were transferred to the Link pooled funds. This reduced the amount available for loan as at 31 March 2019.

## Notes to the Pension Fund Accounts

### 16. Financial Instruments

#### 16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. The implementation of IFRS9 has not resulted in changes to the classification of financial assets/liabilities.

	31 March 2019			31 March 2018		
	Designated as fair value through profit and loss £000's	Assets at amortised cost £000's	Financial liabilities at amortised cost £000's	Designated as fair value through profit and loss £000's	Assets at amortised cost £000's	Financial liabilities at amortised cost £000's
<b>Financial Assets</b>						
Bonds	363,728			353,090		
Equities	249,994			2,224,616		
Pooled Investments	4,601,708			2,195,389		
Property Pooled Investments	257,690			247,201		
Private Equity/Infrastructure	150,015			128,895		
Derivative contracts	3,122			5,593		
Cash & Cash equivalents		86,099			176,232	
Other Investment Balances		17,028			20,248	
Debtors/ Receivables		25,964			28,692	
	<b>5,626,257</b>	<b>129,091</b>	<b>0</b>	<b>5,154,784</b>	<b>225,172</b>	<b>0</b>
<b>Financial Liabilities</b>						
Other Investment balances			-5,906			-16,857
Creditors			-18,466			-18,493
	<b>0</b>	<b>0</b>	<b>-24,372</b>	<b>0</b>	<b>0</b>	<b>-35,350</b>
<b>Total</b>	<b>5,626,257</b>	<b>129,091</b>	<b>-24,372</b>	<b>5,154,784</b>	<b>225,172</b>	<b>-35,350</b>

#### 16b. Net Gains and Losses on Financial Instruments

	31 March 19 £000's	31 March 18 £000's
<b>Financial assets</b>		
Fair value through profit and loss	289,618	124,938
Assets at amortised cost	513	(838)
<b>Total</b>	<b>290,131</b>	<b>124,100</b>

## Notes to the Pension Fund Accounts

### 17. Valuation of assets and liabilities carried at Fair Value

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	Wide range of deals executed in the currency markets, exchange rate risk	Not required

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value as at 31 March 2019 £000's	Value on increase £000's	Value on decrease £000's
Private Equity	30.1%	101,804	132,447	71,161
Infrastructure	17.2%	48,211	56,503	39,919

## Notes to the Pension Fund Accounts

### 17a. Fair Value Hierarchy

#### Level 1

Assets and Liabilities 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

Assets and Liabilities 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 Derivatives, Direct Property Investments, Property Unit Trusts and Property Unit Trusts and investments in Link pooled funds for ACCESS.

#### Level 3

Assets and Liabilities 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, who provide a detailed breakdown of the valuations of underlying assets as well as a reconciliation of movements in fair values. 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 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 Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
<b>Values at 31 March 2019</b>				
<b>Assets</b>				
Financial assets at fair value through profit and loss	2,600,671	2,875,571	150,015	5,626,257
Non- Financial assets at fair value through profit and loss		487,193		487,193
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Net Investment Assets</b>	<b>2,600,671</b>	<b>3,362,764</b>	<b>150,015</b>	<b>6,113,450</b>

	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
<b>Values at 31 March 2018</b>				
<b>Assets</b>				
Financial assets at fair value through profit and loss	4,773,095	252,794	128,895	5,154,784
Non- Financial assets at fair value through profit and loss	0	484,241	0	484,241
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Net Investment Assets</b>	<b>4,773,095</b>	<b>737,035</b>	<b>128,895</b>	<b>5,639,025</b>

## Notes to the Pension Fund Accounts

### 17b. Reconciliation of Fair Value Measurements within Level 3

	£000's
Market Value 1 April 2018	128,895
Transfers into level 3	0
Transfers out of level 3	0
Purchases during the year	30,710
Sales during the year	-25,899
Unrealised gains/ losses	16,309
Realised gains/losses	0
Market Value 31 March 2019	<u>150,015</u>

### 18. Nature and extent of Risks Arising From Financial Instruments

#### Risk and risk management

The Fund's primary long-term risk is that the value of its assets will fall short that 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.

#### 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 security 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. The possible loss 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 and their activity 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 2018-19 reporting period.

## Notes to the Pension Fund Accounts

Asset Type	Potential Market Movements (+/-)
UK Equities	17.3
Overseas Equities	17.8
Global Pooled Equities inc UK	17.8
Bonds	5.5
Property	10.8
Infrastructure	17.2
Private Equity	30.1

The potential price changes disclosed above are based on predicted volatilities calculated by our fund managers. 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 would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 19 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
<b>Cash and cash equivalents</b>	86,099	0.00	86,099	86,099
<b>Investment portfolio assets:</b>				
UK Equities	33,301	17.30	39,062	27,540
Overseas Equities	216,693	17.80	255,264	178,122
Global Pooled Equities inc UK	4,360,811	17.80	5,137,035	3,584,587
Bonds incl Bond Funds	604,625	5.50	637,879	571,371
Property Pooled Funds	257,690	10.80	285,521	229,859
Private Equity	101,804	30.10	132,447	71,161
Infrastructure Funds	48,211	17.20	56,503	39,919
Net derivative assets	3,122	0.00	3,122	3,122
Investment income due	17,028	0.00	17,028	17,028
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	-1,373	0.00	-1,373	-1,373
Margin Cash Liability	-4,533	0.00	-4,533	-4,533
<b>Total</b>	<b>5,723,478</b>		<b>6,644,055</b>	<b>4,802,901</b>

## Notes to the Pension Fund Accounts

Asset Type	Value as at 31 March 18 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
<b>Cash and cash equivalents</b>	176,232	0.00	176,232	176,232
<b>Investment portfolio assets:</b>				
UK Equities	957,184	17.30	1,122,777	791,591
Overseas Equities	1,267,432	17.80	1,493,035	1,041,829
Global Pooled Equities inc UK	1,948,396	17.80	2,295,210	1,601,582
Bonds incl Bond Funds	600,083	5.50	633,088	567,078
Property Pooled Funds	247,201	10.80	273,899	220,503
Private Equity	90,722	30.10	118,029	63,415
Infrastructure Funds	38,173	17.20	44,739	31,607
Net derivative assets	5,593	0.00	5,593	5,593
Investment income due	17,995	0.00	17,995	17,995
Amounts receivable for sales	2,253	0.00	2,253	2,253
Amounts payable for purchases	-8,864	0.00	-8,864	-8,864
Margin Cash Liability	-7,993	0.00	-7,993	-7,993
<b>Total</b>	<b>5,334,407</b>		<b>6,165,993</b>	<b>4,502,821</b>

### 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 exposures to interest rate movements as at 31 March 2019 and 31 March 2018 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 19 £'000s	31 March 18 £'000s
Cash and cash equivalents	80,526	149,724
Cash Balances	5,573	26,508
Bonds		
- Directly held securities	363,728	353,090
- Pooled Funds	240,897	246,992
<b>Total</b>	<b>690,724</b>	<b>776,314</b>

### 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 one percent 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 one percent 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 +/- one percent change in interest rates:

## Notes to the Pension Fund Accounts

Asset Type	Carrying amount as at 31 March 19	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000's	£000's	£000's
Cash and cash equivalents	80,526	0	0
Cash Balances	5,573	0	0
Bonds			
- Directly held securities	363,728	-3,637	3,637
- Pooled Funds	240,897	-2,409	2,409
<b>Total change in assets available</b>	<b>690,724</b>	<b>-6,046</b>	<b>6,046</b>

Asset Type	Carrying amount as at 31 March 18	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000's	£000's	£000's
Cash and cash equivalents	149,724	0	0
Cash Balances	26,508	0	0
Bonds			
- Directly held securities	353,090	-3,351	3,351
- Pooled Funds	246,992	-2,470	2,470
<b>Total change in assets available</b>	<b>776,314</b>	<b>-5,821</b>	<b>5,821</b>

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 100 bps 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 GBP, 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 (£329m) of the assets managed by Goldman Sachs Asset Management held in non GBP 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 2019 and 2018:

Currency exposure - asset type	Asset value as at 31 March 19	Asset value as at 31 March 18
	£000's	£000's
Overseas Equities	216,693	1,267,432
Overseas Pooled Funds	2,807,551	1,331,382
Overseas Bonds	6,577	42,724
Overseas Private Equity, Infrastructure and Property funds	122,156	107,041
Non GBP Cash	15,287	38,240
<b>Total overseas assets</b>	<b>3,168,264</b>	<b>2,786,819</b>

## Notes to the Pension Fund Accounts

### 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 2018-19 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	Change to	Change to
	value as at 31 March 19	net assets available to pay benefits +8.4%	net assets available to pay benefits -8.4%
	£000's	£000's	£000's
Overseas Equities	216,693	234,895	198,491
Overseas Pooled Funds	2,807,551	3,043,385	2,571,717
Overseas Bonds	6,577	7,129	6,025
Overseas Private Equity, Infrastructure and Property funds	122,156	132,417	111,895
Non GBP Cash	15,287	16,571	14,003
<b>Total change in assets available</b>	<b>3,168,264</b>	<b>3,434,398</b>	<b>2,902,130</b>

Currency exposure - asset type	Asset	Change to	Change to
	value as at 31 March 18	net assets available to pay benefits +8.4%	net assets available to pay benefits -8.4%
	£000's	£000's	£000's
Overseas Equities	1,267,432	1,373,896	1,160,968
Overseas Pooled Funds	1,331,382	1,443,218	1,219,546
Overseas Bonds	42,724	46,313	39,135
Overseas Private Equity, Infrastructure and Property funds	107,041	116,032	98,050
Non GBP Cash	38,240	41,452	35,028
<b>Total change in assets available</b>	<b>2,786,819</b>	<b>3,020,912</b>	<b>2,552,726</b>

### 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. Derivative contracts are also covered by margins which provide collateral against risk of default by the counterparties.

## Notes to the Pension Fund Accounts

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:

	<b>Rating</b>	Balance as at 31 March 19 £000's	Balance as at 31 March 18 £000's
<b>Money Market Funds</b>			
Northern Trust Sterling Fund	<b>AAAm</b>	7,442	40,386
SSGA Liquidity Fund	<b>AAAm</b>	19	6,497
Blackrock USD Government Liquidity Fund	<b>AAAm</b>	6,222	6,519
Aberdeen Sterling Liquidity Fund	<b>AAAm</b>	3,750	39
Goldman Sachs Liquid Reserve Government Fund	<b>AAAm</b>	12,014	15,085
Aviva Investors Sterling Liquidity Fund	<b>AAAm</b>	14,996	8,184
Deutsche Managed Sterling Fund	<b>AAAm</b>	15,004	8,210
HSBC Global Liquidity Fund	<b>AAAm</b>	33	85
LGIM Liquidity Fund	<b>AAAm</b>	14,992	7,447
Insight Sterling Liquidity Fund	<b>AAAm</b>	16	7,414
		<b>74,488</b>	<b>99,866</b>
<b>Cash Plus Funds</b>			
Royal London Cash Plus Fund	<b>AAAf</b>	<b>0</b>	<b>14,996</b>
Payden Sterling Reserve Fund	<b>AAAf</b>	<b>0</b>	<b>14,941</b>
Aberdeen Ultra Short Duration Sterling Fund	<b>AAAf</b>	<b>0</b>	<b>10,017</b>
		<b>0</b>	<b>39,954</b>
<b>Bank Deposit Accounts</b>			
HSBC BIBCA	<b>AA-</b>	0	2,435
NatWest SIBA	<b>BBB+</b>	8	12
		<b>8</b>	<b>2,447</b>
<b>Bank Current Accounts</b>			
NatWest Current Account	<b>BBB+</b>	53	91
NatWest Current Account - Euro	<b>BBB+</b>	4,146	26,416
NatWest Current Account - USD	<b>BBB+</b>	732	1
Northern Trust - Current Accounts	<b>AA-</b>	3,939	5,695
Barclays - DTZ client monies account	<b>A*+</b>	2,733	1,762
		<b>11,603</b>	<b>33,965</b>
<b>Total</b>		<b>86,099</b>	<b>176,232</b>

### 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 Fund has adequate cash resources to meet its commitments. The Council has immediate access to the Fund's money market fund and current account 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 2019 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 2013 (as amended), the Fund is required to obtain an actuary's 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 2016.

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 2016 valuation a maximum deficit recovery period of 17 years (2013- 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.

In the 2016 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £4,556m and the liabilities were £5,103m. The assets therefore, represented 89% (2013 - 83%) 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 increased from 20% to 20.9% of pensionable salaries in 2017-18 and to 21% in 2018-19 and 2019-20. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding 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 remaining working lifetime, 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 2016 actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate
Rate of return on investments (discount rate)	5.4% p.a.
Rate of general pay increases: Long term	3.9% p.a.
Short Term	CPI for period 31 March 2016 to 31 March 2020
Rate of increases to pensions payment (in excess of guaranteed minimum pension):	2.4% p.a.

### 20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, every year the fund's actuary undertakes a valuation of the Fund's liabilities on an IAS 19 basis, 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 Accounts

<b>Actuarial present value of promised retirement benefits</b>	31 March 19	31 March 18
	£m	£m
Present value of promised retirement benefits	-9,300.5	-9,029.1
Fair value of scheme assets at bid value	6,218.2	5,828.8
Net liability	-3,082.3	-3,200.3

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 66.9% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

<b>Assumptions used:</b>	<b>% p.a.</b>
Salary increase rate	3.9%
Inflation/Pensions increase rate	2.4%
Discount rate	2.4%

In December 2018 the Court of Appeal passed the McCloud judgement, which relates to age discrimination in relation to judges and firefighters pensions. Although the case only relates directly to these two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. Whilst there is uncertainty of how this judgement may affect LGPS members' past or future service benefits CIPFA has suggested that local authorities should consider the materiality of the impact. Our actuaries have used GAD's analysis to calculate the likely additional costs and have based it on all members who were active at 31 March 2012 until their retirement. This exercise has estimated the additional costs to be £70.5m (0.7% of the Fund's liabilities).

### 21. Current Assets

	31 March 19	31 March 18
	£000's	£000's
<b>Debtors</b>		
- Contributions due - Employees	4,055	4,040
- Contributions due - Employers	12,690	12,592
- Sundry debtors	9,219	12,060
Total External Debtors	25,964	28,692
Cash	5,573	27,717
<b>Total</b>	31,537	56,409

Sundry Debtors includes a sum of £2.7m for rents and charges due from tenants of properties owned by the Pension Fund. Based on historic experience and information of similar properties, it can be expected that dues of £0.9m may not be fully received.

### 22. Current Liabilities

	31 March 19	31 March 18
	£000's	£000's
<b>Creditors</b>		
- Benefits Payable	10,472	11,320
- Sundry Creditors	3,311	4,079
Total External Creditors	13,783	15,399
Owing to Kent County Council	4,683	3,094
<b>Total</b>	18,466	18,493

## Notes to the Pension Fund Accounts

### 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	
	2018-19 £000's	2017-18 £000's	2018-19 £000's	2017-18 £000's	2018-19 £000's	2017-18 £000's
Value at 1 April	8,480	7,591	2,087	2,373	534	614
Value at 31 March	8,636	8,480	2,017	2,087	424	534
Contributions paid	1,633	1,641	110	124	1	1

### 24. Related Party Transactions

The Kent 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.

	2018-19 £000's	2017-18 £000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	71,127	71,592
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		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	3,409	3,022
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-4,683	-3,094

### Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2018-19 was the Director of Finance

Total remuneration payable to key management personnel is set out below:

	31 March 19 £000's	31 March 18 £000's
Salary	97	141
Allowances	4	8
Other	5	5
Employer's pension contributions	20	32
Total	126	186

The remuneration for the current year is lower than previous year as the position of the Director of Finance was vacant for part of the year.

### 25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2019 totalled £352.5m (31 March 2018: £89.3m)

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

41 admitted body employers in the Kent Pension 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 Fund and payment will only be triggered in the event of employer default.

## Opinion

We have audited the financial statements of Kent County Council (the 'Authority') for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements and Policies and Judgements. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance Operations (Acting Deputy s151)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance Operations (Acting Deputy s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The Head of Finance Operations (Acting Deputy s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, set out on pages 3 to 15 and 169 to 179 (the Narrative Report and the Annual Governance Statement) other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent Auditor's Report to the Members of Kent County Council**

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, (the Narrative Report and the Annual Governance Statement) for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## **Independent Auditor's Report to the Members of Kent County Council**

### **Responsibilities of the Authority, the Head of Finance Operations (Acting Deputy s151) and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance Operations (Acting Deputy s151). The Head of Finance Operations (Acting Deputy s151) 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance Operations (Acting Deputy s151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance Operations (Acting Deputy s151) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing 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.

#### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

## **Independent Auditor's Report to the Members of Kent County Council**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - 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 2019. As the Authority has not finalised 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 with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice 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 2019. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention in 2016/17 by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

*Paul Dossett*

**Paul Dossett, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor**

**London  
25 July 2019**

# Independent Auditor's Report to the Members of Kent County Council on the superannuation fund financial statements

## Opinion

We have audited the financial statements of the Kent County Council Superannuation Fund (the 'pension fund') administered by Kent County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance Operations (Acting Deputy s151)'s use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Head of Finance Operations (Acting Deputy s151) has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

## Other information

The Head of Finance Operations (Acting Deputy s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent Auditor's Report to the Members of Kent County Council**

### **Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Head of Finance Operations (Acting Deputy s151) and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance Operations (Acting Deputy s151). The Head of Finance Operations (Acting Deputy s151) is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance Operations (Acting Deputy s151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Head of Finance Operations (Acting Deputy s151) is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Kent County Council Governance and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

*Paul Dossett*

**Paul Dossett, Key Audit Partner**  
**for and on behalf of Grant Thornton UK LLP, Appointed Auditor**

**London**  
**25 July 2019**

### Scope of Responsibility

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law, 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 during the past year and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2015 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, 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 General Counsel completed the annual review of the Code of Corporate Governance during 2018-19. The Code of Corporate Governance is included at Appendix 10 of the Constitution. The outcome of this review has resulted in changes that were approved by Members at the County Council meeting in July 2018. Further significant structural changes to the Constitution are being finalised and consulted on with Members before being brought before County Council no later than October 2019.

### 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.

## Annual Governance Statement

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 2019 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:

The Council's governance environment is consistent with the revised code of corporate governance and the 2016 CIPFA guidance "Delivering Good Governance" framework. Members of the Governance and Audit Committee will this year consider a specific recommendation around the Annual Governance Statement for the first time. According to the CIPFA guidance, the annual governance statement should:

- Provide a meaningful but brief communication regarding the review of governance that has taken place including the role of the governance structures involved (such as the Authority, the audit, and other committees)
- Be high level, strategic, and written in an open and readable style
- Focus on outcomes and value for money and relate to the Authority's vision for the area.

Accordingly, we have reduced some of the minutiae and repetition previously provided. Instead, for each principle in the 2016 guidance we have described an overview of some of the Council's relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism and Assurances Received
<p><b>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b></p>	<p>Kent County Council is a Member led authority and the roles and responsibilities of elected Members and Officers and the processes to govern the conduct of the Council's business are defined in the Constitution, Contract and Tenders Standing Orders, and Financial Regulations. The Monitoring Officer and Section 151 Officer respectively are responsible for reviewing and updating these as required.</p> <p>Throughout the year, the Monitoring Officer has met with Officers, Members and investigated legal issues raised by the public with a view to making amendments to processes and procedures where appropriate.</p> <p>During the year, significant changes have been made to the Council's Constitution to strengthen governance, accountability and responsibility. The role of informal governance has been clarified and Operating Standards have been created by the Head of Paid Service to clarify responsibilities for Officers.</p> <p>The high ethical values and standards of behaviour expected from elected Members and Officers to make sure that public business is conducted with fairness and integrity are defined in Member and Officer Codes of Conduct.</p> <p>The Monitoring Officer is responsible for ensuring compliance with all applicable statutes and regulations and that agreed procedures are followed. Throughout the year, the Monitoring Officer has provided reports, guidance and advice to the Corporate Management Team, Corporate Board and the political committees of the Council either directly or through his Officers. He also regularly meets with the Leaders of the two main opposition groups to ensure that they can directly raise any concerns about integrity or governance.</p> <p>The Council seeks feedback from the public through its complaints and comments procedures and responds to the outcomes, as appropriate. The County Council's Annual Customer Feedback report, which includes complaints and compliments is submitted to the Governance and Audit Committee in order that they can keep this area under review. The Council's Whistleblowing Policy is available on the intranet.</p>

## Annual Governance Statement

Principle	Description of Governance Mechanism and Assurances Received
	<p>The Council seeks feedback from the public through its complaints and comments procedures and responds to the outcomes, as appropriate.</p> <p>The Governance and Audit Committee meets throughout the year and considers audit activity and reports alongside updates, reports, and advice from the Section 151 Officer and Monitoring Officer</p>
<p><b>B. Ensuring openness and comprehensive stakeholder engagement</b></p>	<p>Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.</p> <p>The Council has invested in the technology and the staffing to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. An online library of meetings is kept for six months meaning that the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny.</p> <p>Decisions made by Council, the Cabinet, or other Committees are documented and published on the County Council's website, excluding any confidential/exempt information. All decisions are explicit about the criteria, rationale, and factors taken into consideration by the decision maker(s).</p> <p>The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users. Social media channels are utilised to support the Authority's engagement with stakeholders. Details of current, planned, and past consultations are available on the Council's website along with information on how the public/stakeholders can put forward their views.</p> <p>The Authority engages with stakeholders through different social media channels.</p>
<p><b>C. Defining outcomes in terms of sustainable economic, social and environmental benefits</b></p>	<p>The Strategic Statement for 2015 - 2020 'Increasing Opportunities, Improving Outcomes' sets out in detail KCC's vision for improving lives by ensuring every pound spent in Kent is delivering better outcomes for residents, communities, and businesses, to an aligned timetable within the resources strategy and budget. Strategic outcome 2, 'We want Kent communities to feel the benefits of economic growth by being in-work, healthy and enjoying a good quality of life' sets out how this outcome is measured.</p> <p>The Council has developed a new business planning approach. The Strategic Delivery Plan for 2019-22 will capture all our significant commissioning, service and policy activity in one place, looking ahead over the next 3 years.</p> <p>The performance of the Council against measurable outcome-led targets is assessed through performance monitoring reports that are considered within directorates, by the Corporate Management Team, Cabinet Committees, Cabinet and subsequently at meetings of relevance. They can also be called in to the Scrutiny Committee and the Governance and Audit Committee.</p>
<p><b>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</b></p>	<p>Decision makers receive objective analysis of a variety of options indicating how intended outcomes could be achieved together alongside the detail of any associated risks.</p> <p>The Council has created a range of informal governance mechanisms to inform decision making and the delivery of effective services. The informal governance groups include the cross-party Commissioning Advisory Board and the Service Commissioning Board.</p>

## Annual Governance Statement

Principle	Description of Governance Mechanism and Assurances Received
	<p>Clear guidance and protocols for decision making and the involvement of legal and financial Officers in significant decisions ensures that they are only made after the relevant options and associated risks have been assessed. Rules are also in place and monitored in relation to the signing and sealing of contracts and agreements.</p>
<p><b>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it</b></p>	<p>The Corporate Management Team consists of the Head of Paid Service, Corporate Directors for Adult Social Care and Health, Finance, Children, Young People and Education, People &amp; Communications, Growth, Environment and Transport, the General Counsel, and the Director for Public Health. They are supported through an extended Corporate Management Team of Directors and a Challenger group of Heads of Service and Senior Officers.</p> <p>The roles of Officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the Total Contribution Pay process (TCP).</p> <p>The Head of Paid Service is responsible for corporate management and operational responsibility as defined in law and KCC's Constitution. The Head of Paid Service is the County Council's principal advisor directing the management process and Officers of the Council to deliver its strategic aims and objectives. The Head of Paid Service provides strategic leadership to the Corporate Management Team, developing dynamic and collaborative relationships within CMT and between Cabinet and Chief Officers as the leadership team, and delivering the strategic vision and whole organisation outcomes for the people of Kent.</p> <p>The Corporate Management Team, supported by the Corporate Director of People &amp; Communications, make decisions on allocating funding for training to respond to organisational priorities and review the outcomes and effectiveness of strategies and development within divisions and across the organisation. In conjunction with Members, they also determine the mandatory training programme for all Officers. An ongoing programme of development is also in place for KCC's elected Members.</p> <p>In recent years, the organisation implemented the Kent Manager standard to ensure that the organisation's managers are appropriately trained. A new e-learning platform has been launched to support the development of management capacity alongside an increased focus on succession planning for senior and strategic roles.</p> <p>The organisation has also developed a new leadership strategy to meet the needs and expectations of a changing organisation in a rapidly developing and challenging operating environment.</p>
<p><b>F. Managing risks and performance through robust internal control and strong public financial management</b></p>	<p>The Council has a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public. Risk management is embedded into the Council's activities and decision-making and regular reports are provided from divisional level, directorate level, and cross-organisation with relevant Cabinet Committees and Cabinet receiving regular updates and advice. The Corporate Risk Register is published on the Council's website and is regularly reviewed.</p> <p>The Corporate Director of Finance (the statutory Section 151 Officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.</p>

## Annual Governance Statement

Principle	Description of Governance Mechanism and Assurances Received
	<p>The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The Authority has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. A Medium-Term Financial Plan and associated Risk Register is in place. Revenue and capital budget planning based on corporate priorities are led by the Executive, supported by the Corporate Management Team, and presented for approval by full Council in February each year.</p> <p>Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a regular basis for control purposes, this includes the annual outturn. Members can scrutinise any element of budget monitoring through the relevant Cabinet Committee to ensure performance and risks are managed.</p> <p>The financial management has resulted in a balanced budget being delivered for the past 18 years.</p>
<p><b>G. Implementing good practices in transparency reporting, and audit to deliver effective accountability</b></p>	<p>The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to KCC's Governance and Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity.</p> <p>The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny, and Inspection bodies. The Governance and Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.</p>

### 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 2017-18 AGS. They also detail any new issues that have arisen since 1 April 2018, 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 2017-18 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 can review decisions made or action taken in relation to all Council functions 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).

### Opinion and wording from Internal Audit and Counter Fraud Unit

Internal Audit has concluded, overall, that substantial assurance can be assigned in relation to the Council's corporate governance, risk management and internal control arrangements

This opinion is based upon the evaluation of the findings, conclusions and assurances from the work undertaken by Internal Audit compared to eight key indicators of corporate health. Furthermore, there was an increase in systems or functions assigned a "substantial" assurance or better in 2018-19 and a reduction in the assigning of "limited" assurance or worse

The opinion is also based on an improvement in the level of implementation by management of actions to address internal control and risk management issues identified by Internal Audit reports. The momentum on such improvement needs to be maintained, however, and the overall full implementation rate of 56% leaves room for significant improvement.

No incidences of material external or internal fraud have been detected or reported and there was positive external assurance that the Council has effective arrangements in place to manage the risk of fraud. Areas for further improvement have also been highlighted and reported in the Internal Audit Annual Report and the Council has been receptive to addressing issues raised by Internal Audit.

### Progress update - significant governance issues

A number of areas where key internal controls still needed to be enhanced were identified in last year's statement, Section 1 below provide an update on actions taken during the past year.

#### 1.1 Finance

##### Financial climate

AA key consideration of the 2019-20 Budget setting process was the Council's financial resilience. In response to continued increased pressure on spending because of the rising demand for services, inflation and the living wage, the authority will need to continue to be vigilant to remain resilient. The budget was formulated following a robust process of internal challenge with Cabinet Members and Corporate Directors, public consultation and scrutiny by Members of all political groups.

Kent County Council's financial position continues to be closely monitored and reported to Cabinet and the Cabinet Committees. The Corporate Management Team, Directors, managers and staff remain committed to meeting the financial challenges that the authority is presented with. Despite the £640 million savings the authority has already made since 2010, we are forecasting that there will be a considerable shortfall to find in the forthcoming year and in years to come.

##### Funding considerations - High Needs

A number of actions have been taken in-year to address pressures associated with High Needs. Actions include the successful implementation of Funding Review changes in mainstream schools reducing budget pressures, the agreement of a new funding methodology with FE colleges in respect of High Needs Funding and the creation of a county panel (including Headteachers) to ensure consistent decision making. Whilst positive budget impacts are being seen in response to the actions taken, the authority did not receive a favourable outcome of the January 2019 Ofsted/CQC Local Area inspection of SEND and the Transformation Programme and Written Statement of Action will respond to the findings. This will continue to be a high priority area of focus for Kent County Council.

It is important to note that we have identified that the current shortfall in High Needs funding and the estimated deficit on the Dedicated Schools Grant (DSG) is the highest budget risk, this will therefore remain a key area of focus.

We will also need to continue to lobby government to improve the funding for High Needs and introduce structural reforms to help manage the significant rise in demand.

### Funding considerations - School Placements

The delivery of new school places continues to be constrained by capital budget pressures and reliant on the Education and Schools Funding Agency (ESFA). In response to the current position, a number of actions were taken in-year including negotiations with the ESFA during Summer 2018 over funding which concluded successfully, the implementation of changes agreed with the ESFA and the development on a case by case basis of contingency plans for alternative interim accommodation for each Free School project. The Kent Commissioning Plan, which was agreed by Cabinet in January 2019, contains the forecast expansions numbers and locations, are all fully costed and kept under review.

Kent County Council will continue to work closely with the ESFA and lobby Government on matters associated with school placements.

### 1.2 Staffing, structures and operating models

#### Section 151 Officer recruitment

A new Section 151 Officer/Corporate Director of Finance was recruited in 2018. The interim arrangements put in place ahead of the postholder joining the authority were effective and ensured that the statutory Section 151 Officer duties were successfully discharged, and continuity retained.

#### Adult Social Care operating model

The County Council agreed the proposed changes to the Adult Social Care and Health top tier structure on 18 October 2018. The new Operating Models for Adult Social Care and Health are now complete and are being delivered within the Directorate. Work to further embed the new operating models will be monitored over the coming year by the Corporate Director of Adult Social Care and Health.

#### Proposed changes to Top Tier posts in the Children, Young People and Education Directorate

The County Council agreed on 17 May 2018 that that the posts of Director Specialist Children's Services and Director of Early Help and Preventative Services should be deleted; and two new Director posts, Director Integrated Children's Services (Early Help and Preventative Services Lead) and Director Integrated Children's Services (Social Work Lead) be introduced. The changes have been implemented and postholders are in place and are supporting the Corporate Director to deliver the Change for Kent Children Programme which is a new approach to the delivery of integrated services for children and families in Kent.

### 1.3 Post-European Union exit border - systems and infrastructure arrangements

This year all services have considered their Brexit preparedness arrangements in the event of a no-deal scenario and the authority's position was reported to full Council in July 2018, December 2018 and March 2019, items have also been received by Cabinet Committees. As part of KCC's significant planning activity, consideration has been given to operational matters, statutory service requirements, business continuity planning, commissioning, the supply chain, data handling, communications, partnership working, cost and infrastructure requirements.

Working with all public agencies through the Kent Resilience Forum and through internal business continuity planning preparations, the authority is well positioned to minimise disruption associated with the UK's withdrawal from the EU. The authority cannot though be complacent, and plans will continue to be reviewed and revised. The potential impact on the county, including statutory and financial considerations, will be closely monitored as further national developments evolve. KCC remains in close dialogue with Central Government on this important matter and the Corporate Management Team receive regular updates on the authority's overall preparedness. A notable amount of staff resource has been allocated to the co-ordination of Kent County Council's arrangements.

## Annual Governance Statement

### 1.4 Kent County Council's Constitution

The process to review Kent County Council's Constitution commenced in January 2017 and has been reported and discussed with Members. Changes to the Constitution were made throughout 2018/19 including the formal adoption of the new CIPFA/SOLACE code including a range of consequential changes to the Constitution in July 2018. The final version of the new constitution will be taken to County Council no later than October 2019.

### 1.5 Strategic Development Plan (SDP)

During 2018/19 we developed the draft Strategic Delivery Plan for 2019-22. The plan sets out how KCC will achieve better outcomes for the people of Kent, by acting as a single business plan for the authority. The SDP is focused on the most significant activity for the Council and will be refreshed annually and monitored regularly.

### 1.6 Operating Standards

New Operating Standards setting out arrangements for the effective operation of the Council were implemented this year. The standards bring essential management information together in one place, so all staff can carry out core management tasks effectively and consistently.

The Operating Standards set out clear requirements for how directorates and corporate services discharge roles, and different levels of management accountability and responsibility. The standards are considered mandatory for Officers to follow and this is a live document which is owned and updated by the Head of Paid Service and supports a new requirement in the Constitution.

## **Enhancement of key internal controls**

In our respective capacities as Leader of the Council, Head of Paid Service (which in the instance of the Head of Paid Service includes chairing the Corporate Management Team which takes a regular review of risk and mitigations across the Authority as a whole), Monitoring Officer and Acting Section 151 Officer we have identified particular areas where key internal controls still need to be enhanced. These are set out in Section 2 below.

### 2.1 Financial Climate

#### General financial position

It is important that all areas of the authority continue to monitor and find ways to proportionally respond to the increasingly challenging financial and demand position whilst delivering statutory duties and existing savings targets. The Corporate Management Team have received a report on lessons learnt from the Northamptonshire County Council situation and CMT will be instrumental in KCC's budget setting and management processes. Formal monitoring will continue to be reported at Cabinet and Cabinet Committees. (Lead Officers – Corporate Management Team).

#### Spending Review and Local Government Finance Settlement

2019-20 is the final year of the current four-year funding agreement with Central Government. KCC has no indicative funding allocations for 2020-21 and there is a great deal of uncertainty about the outcome of the Spending Review, Fair Funding Review, reforms to business rate retention, and the Social Care Green Paper. The funding settlement is vital to knowing the savings we may need to deliver the 2020-21 budget, at this stage the MTFP includes a scenario if the settlement is similar to the previous settlement, this results in the need to find approximately £90m of savings over the next two years, the vast majority of which have yet to be identified.

## Annual Governance Statement

We will need to contribute to the Spending Review at the appropriate time and continue to monitor progress of the Fair Funding Review, reform of business rate retention and social care green paper. As part of this Kent County Council will need to develop a number of possible scenarios and potential savings plans which balance these. We cannot delay making savings plans until we have the outcome of the settlement as this will be too late for the 2020-21 budget. (Lead Officers – Corporate Management Team).

### High Needs Funding

We have identified that the current shortfall in High Needs Funding and the estimated deficit on the Dedicated Schools Grant (DSG) is the highest budget risk. The Education and Schools Funding Agency (ESFA) have recently introduced a deficit recovery process where authorities accrue deficits on the DSG of over 1%. If current trends continue, we will exceed this threshold in 2019-20.

To ensure that we monitor this position closely, Finance will be introducing a specific section into the regular budget monitoring report to look at High Needs forecasts. In addition, work will continue with schools and the Schools Forum on local plans to reduce the deficit. KCC will need to continue to lobby Government to improve the funding for High Needs and introduce structural reforms to help manage the significant rise in demand. KCC representatives have already met with the Parliamentary Under-Secretary of State for Children and Families to discuss specific issues affecting Councils and areas across England relating to High Needs Funding and to seek ways in which Government could assist local authorities to tackle High Needs Funding issues.

(Lead Officers – Corporate Director of Children, Young People & Education and Corporate Director of Finance).

### Asylum Funding

There continues to be a shortfall of funding to support the number of former Unaccompanied Asylum-Seeker Children (UASC) under Leaving Care regulations. At the time of writing this statement KCC was waiting for the conclusion of the Home Office's UASC funding review and it is hoped that Kent's situation will be recognised. The Leader, Cabinet Member and Senior Officers will continue to make representations to the Home Office regarding funding and the National Transfer Scheme. (Lead Officer – Corporate Director of Children, Young People & Education)

### Adult Social Care – funding and pressures

The publication of Government's Green Paper on Social Care has been further delayed. The authority will need to be prepared for any policy and funding formula changes outlined in this paper when this is released and any implications these changes may bring.

In terms of specific pressures, the extensive winter pressures on services was a significant challenge across Adult Social Care, with Kent as a whole system continuing to be RED on the Delayed Transfers of Care (DTOC) activity. However, the investment from Adult Social Care & Health for social care contracts enabled adult social care DTOC across Kent to remain within the 30% figure. (Lead Officer – Corporate Director of Adult Social Care & Health).

### 2.2 Response to Special Educational Needs & Disability (SEND) Ofsted/CQC Local Area Inspection

It is important that KCC focuses on improving SEND services in response to issues arising from the Local Area Ofsted/CQC inspection. The findings of the inspection were set out in a published letter on 29th March 2019 and whilst the Chief Inspector identified a number of strengths in the local area, there were also areas of significant weakness identified across Kent.

In response to the inspection outcome, the 0-25 Health and Wellbeing Board have established a SEND Improvement Board due to the need for a coordinated response by education, health and social care to the Ofsted/CQC inspection. The Improvement Board will retain a strategic overview of the required Written Statement of Action and the implementation of the agreed actions to improve the outcomes for children with SEND in Kent. The Written Statement of Action needs to be agreed with Health and submitted to the DfE by 28 June 2019. The local area will be subject to quarterly monitoring by DfE/NHS England and a full re-inspection between 12-18 months after the Written Statement of Action has been approved. (Lead Officer – Corporate Director of Children, Young People & Education).

### 2.3 New Multi-Agency Local Safeguarding Partnership Arrangements

New multi-agency local safeguarding arrangements will be implemented because of the changes to the Children Act 2004. The three safeguarding partners must publish a document which explains the new arrangements by 29 June 2019. Following publication, partners will have until 29 September 2019 to implement the new arrangements. At the point of the implementation of the proposed new multiagency local safeguarding arrangements, the Kent Safeguarding Children Board will formally cease, except for relevant residual tasks.

A Shadow Executive Board will lead and manage the key communications with relevant stakeholders to inform them about the of new multi-agency local safeguarding arrangements. An action plan will be taken forward during the transition months of July, August and September 2019 to engage relevant agencies on how the subgroups and partnership level groups will function. The review work will result in making clear, the expectations placed on the key partners including membership, roles and responsibilities. (Lead Officer –Director of Strategy, Policy, Relationships and Corporate Assurance).

### 2.4 Preparedness for the UK's exit from the European Union

The authority has made good progress in planning for the UK's exit from the European Union. In response to the EU and UK agreeing a flexible extension until 31st October 2019 we must remain focussed on the preparedness of our services to respond to a number of different scenarios which may impact the county. In response to a recommendation from the Civil Contingencies Secretariat, KCC is using this additional time to make sure records are up to date, debriefs and lessons learned are captured and arrangements reviewed and developed rather than removed.

KCC Business Continuity plans are now in place across all services. However, the agreed extension means that a number of plans will need to be reviewed and updated before planned EU withdrawal on 31st October 2019.

Directorates have been asked to review the costs of their Brexit preparedness and the authority will continue to remain in dialogue with MCHLG about funding and resourcing implications. (Lead Officers –Corporate Director of Growth, Environment & Transport/Corporate Management Team).

### 2.5 Traded Services

Holding Company (HoldCo) structure

On 15 September 2017, 5 December 2017, 16 March 2018 and 22 June 2018 members of the Policy and Resources Cabinet Committee contributed to the development of plans for a Holding Company to better arrange the diverse commercial interests that the Council wholly owns. The committee commented on and endorsed the proposals set out in these reports.

The Holding Company Board has now been established and work is underway on a programme of integration and the development of a Business Plan.

Governance and the role of the shareholder

The General Counsel proposes to take his annual review in relation to the Council's wholly owned companies to the Governance and Audit Committee during the Autumn 2019 session of the committee programme.

Shareholder oversight of company activity is retained through an established Shareholder Board arrangement and reserved matters that require Board approval are in place as part of the Governance Protocols. KCC Non-Executive Directors are appointed to each of the Company Boards.

As part of the companies' audit arrangements, it is intended that each company will report an Annual Governance Statement to HoldCo for consolidated group reporting to the Shareholder Board. (Lead Officer – General Counsel).

### 2.6 Cyber-security

Kent County Council took part in a Local Government Association (LGA) cyber security self-assessment in 2018. The authority's rating was consistent with the majority of authorities across the UK. An action plan has been put in place in response to the LGA self-assessment and the Director of Infrastructure and the Compliance and Risk Manager will monitor progress. (Lead Officers - Director of Infrastructure and Compliance and Risk Manager).

### **Annual Governance Statement 2018/19 conclusion**

We will, over the coming year, take appropriate action to address all these matters. We are satisfied that these steps will address the need for improvements that were identified in the effectiveness review and will monitor their implementation and operation as part of our next annual review.

The Monitoring Officer can confirm for financial year ending March 2019 that save for the issues previously reported to Members of the Governance and Audit Committee, the County Council and through the annual complaints report, there is no known unlawfulness or maladministration. It is further confirmed that all executive decisions, as defined in the Council's Constitution, were handled, processed and recorded in the correct manner during the period 1 April 2018 to 31 March 2019. This assurance is provided with the caveat that planned changes to the Council's governance are agreed by Members during 2019/20.

The Acting Section 151 Officer provided assurance to the County Council that the budget proposed and approved for 2019-20 by the County Council on 14th February 2019 was based on robust estimates and allowed for an adequate level of reserves to cover foreseeable eventualities and general reserve for the unforeseeable risks. The Acting Section 151 Officer further assures the Council that he is satisfied that financial transactions and financial activity on behalf of the Council or where the Council manages activity on behalf of others were handled, processed and recorded in the correct manner during the period 1 April 2018 to 31 March 2019.

The key functions of the Chief Financial Officer (CFO) in a local authority are to achieve value for money and secure sound stewardship for public funds. To achieve these the CFO is responsible for leading and directing the financial strategy and operations for the organisation. The Chartered Institute of Public Finance and Accountancy have produced a statement on the role of the CFO identifying five principles that define the core activities and behaviours for the role of the CFO. For each principle the statement sets out the governance requirements and expectation to enable the CFO to carry out their role effectively. The Annual Governance Statement includes the identification of the financial environment in which the 2019-20 budget has been set [with a focus on maintaining and enhancing the financial resilience of the Council], including the identification of the main financial risks, the monitoring and reporting of financial performance throughout the year, and the uncertainty over future settlements in accordance with the principles outlined in the CIPFA statement.



Ben Watts  
Monitoring Officer



Dave Shipton  
Acting Section 151 Officer



Paul Carter  
Leader



David Cockburn  
Head of Paid Service

On behalf of Kent County Council  
24 July 2019

## **Glossary of terms**

### **Agency**

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

### **Best Value Accounting**

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The 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 26 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.

Further information on the accounts can be obtained from the Chief Accountant (please call 03000 41 41 41).

This publication is available in alternative formats and can be explained in a range of languages. Please call 03000 41 41 41 or Text Relay 18001 03000 41 41 41.