STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Statement of Accounts summarises the Council's income and expenditure for the year and its financial position at the year-end. The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Financial Reporting Standards. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS), International Financial Reporting Standards (IFRS's) approved by the International Accounting Standards Board, International Public Sector Accounting Standards (IPSAS) and the Urgent Issues Task Force's (UITF) Abstracts. The accounting convention adopted for the preparation of these accounts is an historical cost basis modified by the revaluation of certain categories of assets.

2. QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION

- Relevance - in accordance with IAS 8, Accounting Polices, Changes in Accounting Estimates and Errors, the objective of the principal statements is to provide information on the Council's financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.
- Reliability - the financial information can be depended upon to represent accurately the substance of the transactions that have taken place. The accounts are unbiased, free from material error, have been prepared in a prudent manner and have included all issues that would assist users to make adequate decisions on the authority's financial standing.
- Comparability - the Statement of Accounts contain comparative information about the Council so that performance may be compared with a prior period.
- Understandability - although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.
- Materiality - an item of information is material to the accounts if its misstatement or omission might reasonably be expected to influence assessments of the Authority's stewardship and economic decisions.

3. ACCOUNTING CONCEPTS

- Going Concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Statement of Accounts have been prepared on a going concern basis.
- Accruals - the financial statements, other than the Cash Flow Statement, have been prepared on an accruals basis. The accruals basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

4. ACCRUALS OF INCOME AND EXPENDITURE

Income and Expenditure of goods and services provided or received by the end of the financial year are accrued ensuring income and expenditure is accounted for in the period to which it relates.

Interest due on investment but not yet received is accrued to the appropriate financial year and is shown as interest received within the comprehensive income and expenditure account and against investments within the balance sheet.

Exceptions to this principle are listed below along with the reasons;

- electricity, gas and similar periodical payments which are charged at the date of meter reading rather than being apportioned between financial years
- car parking penalty charge notices which are accounted for on the day of receipt.

This policy is consistently applied each year and, therefore, does not have a material effect on the year's accounts.

5. ASSETS HELD FOR SALE (NON-CURRENT ASSETS)

These are assets that have been declared surplus to the Council's operational requirements and are being actively marketed and have an estimated sale date within twelve months of the balance sheet date. They will be reported on the balance sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets available for sale are not subject to depreciation.

6. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and are shown on the balance sheet at their nominal value. The authority has defined cash equivalents as internally held investments with a maturity of three months or less from the balance sheet date. This is a variation from the Code, which requires all investments within this timeframe to be recognised as cash equivalents, the variation is not deemed to create a misstatement on the balance sheet.

7. COUNCIL TAX AND NATIONAL NON-DOMESTIC RATES

The Council is a billing authority and as much is required to bill local residents and businesses for Council Tax and National Non-Domestic (Business) Rates. The Council acts as an agent on behalf of the major precepting authorities, Kent County Council, Kent Police Authority and Kent and Medway Towns Fire Authority, for Council Tax and the Government for National Non-Domestic (Business) Rates.

As such the accounts only show the amount owed by and to taxpayers in respect of out Council Tax. Major precepting authorities will be shown as net debtors or creditors on the balance sheet. Similarly the accounts only show the net debtor of creditor in respect of National Non-Domestic (Business) Rates received and paid over to the Government

The amount shown in the Comprehensive Income and Expenditure Account as the demand on the collection fund includes the accrued amount of council tax collected as well as amounts from previous year's estimates. This adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

8. CONTINGENT ASSETS AND LIABILITIES

Contingent assets are not be recognised in the accounting statements, they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures should indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities are not be recognised in the accounting statements, they are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability the authority should disclose the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

9. DEBT WRITE OFF

The Director of Finance is required to report to the Cabinet amounts owing of £1,000 or more where efforts to collect the sums have failed and any other action would be uneconomic or impractical or in the opinion of the Director of Finance there is a valid reason for not pursuing the debt. The Cabinet or Cabinet Member has the authority to approve the write-off of the debt.

The Director of Finance, following consultation with the relevant Chief Officer where appropriate, may write off amounts of less than £1,000. The Director of Finance must report any such write-offs they have approved at least twice a year to the Cabinet.

The Director of Finance has established a provision for bad debts for the major areas of income. This provision is reviewed at least annually assessing the size, type and age of debt.

10. EMPLOYEE BENEFITS

Three categories of employee benefits exist, under IAS 19 and IPSAS 25 Employee Benefits as detailed below.

Benefits payable during employment

This covers:

a) Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.

b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued in accordance with Accounting Policy 4 above.

Termination benefits

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred.

Post-employment benefits

This not only covers pensions but also other benefits payable post-employment such as life insurance and medical care which are not offered to staff at this Council.

As part of the terms and conditions of employment of its employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Under IAS 19 requires that the employer recognises as an asset or liability the surplus/deficit in a pension scheme. The surplus / deficit in a pension scheme is the excess/shortfall of the value of assets when compared to the present value of the scheme liabilities. A prerequisite of the introduction of IAS 19 was that it did not impact on taxation requirements. Where the contributions paid to the pension scheme do not match the change in the authority's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from a pension reserve. Actuarial gains/losses are shown as movements on the pensions asset/liability account and pensions reserve. There is no impact on the Comprehensive Income and Expenditure Account. The balance sheet is to show the net pension asset or liability and an equivalent pension reserve balance.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Council Pension Fund for funding purposes was at 31 March 2010 and changes to contribution rates as a result of that valuation will take effect from 1 April 2011.

11. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

The authorised for issue date can be any of the three dates given below;

- when the responsible finance officer certifies the statement as 'true and fair view' and makes them available to members for approval, this is normally the end of June.
- when the statement is ready for publication, this is normally the end of June.
- when the audit of the statement is certified closed, if later than the publication date, this is normally the end of September.

Events arising after the Balance Sheet date will be reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts to be included (adjusting events). Such events:

- could materially alter an estimate of, for example, debtors, creditors or a bad debt provision, previously identified in the accounting processes
- could substitute a materially different actual figure for an estimate, or
- could reflect a permanent impairment or betterment in the financial position but only where the originating event took place prior to the year-end and the amounts are considered material to the accounts.

12. EXCEPTIONAL ITEMS AND PRIOR YEAR ADJUSTMENTS

Exceptional items, when they occur, are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

Prior period adjustments arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect.

13. FINANCIAL INSTRUMENTS

Financial Instruments are broken down between Financial Assets (investments and debtors) and Financial Liabilities (creditors and loans payable).

Debtors and Creditors are measured at fair value and are carried in the balance sheet at amortised cost.

Investments are broken down in two ways. Firstly, by maturity in that any investment with a maturity date of more than 364 days after the balance sheet date will be classed as long-term and less than as short-term; and secondly by class of asset such as loans and receivables or available-for-sale.

Accrued interest receivable within 364 days of the balance sheet date will be recognised as part of the short term investment balance, irrespective of the date of maturity of the investment.

Unrealised gains and losses occur on externally managed funds where an active market is available for the purchase or sale of these investments. The unrealised gain or loss will not be recognised within the Comprehensive Income and Expenditure Account under Interest Received until the investment is realised or matures. The unrealised gain or loss will be recognised in the balance sheet under the investment headings but will be offset by a Financial Instruments Adjustment Account within the Council's unusable reserves.

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market, these are measured at fair value and are carried on the balance sheet at amortised cost.

Available-for-sale assets have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the balance sheet at fair value using determinations from our Fund Manager.

Accrued interest receivable on investments are shown against short or long term investment balances within the balance sheet depending whether the interest is due to be received within 364 days of the balance sheet date. This is contrary to the IFRS code which requires accrued interest to be shown separately within current assets, however it is felt that it is appropriate that the entire balance for investments is shown within a single balance on the balance sheet.

The Council has one financial guarantee which was entered into prior to 1 April 2006, therefore, is not treated as a financial instrument, but as a contingent liability under Accounting Policy 8.

14. FOREIGN CURRENCY TRANSACTIONS

When, and if, foreign currency transactions occur the Council will convert the amount received or paid to the prevailing sterling amount as at the date of the transaction.

15. GAINS OR LOSSES ON DISPOSAL OF FIXED ASSETS

When an asset is disposed of or de-commissioned, the value of the asset and the income from the sale are both charged to the Comprehensive Income and Expenditure Account which, therefore, bears a net gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Receipts in excess of £10,000 are categorised as capital receipts. The receipt is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve via the Movement in Reserves Statement. Receipts below £10,000 are considered de-minimus and are included in revenue income.

The loss on disposal 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 Movement on Reserves Statement.

16. GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS

Revenue grants received are accrued and credited to the Comprehensive Income and Expenditure Account in the same period as the related expenditure is incurred.

Grants specific to a particular service will be shown against the service expenditure line. General grant in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool are credited and disclosed separately in the Comprehensive Income and Expenditure Account under General Government Grants.

Capital grants and capital contributions (such as Section 106 Developer Contributions) received will be credited to the Comprehensive Income and Expenditure Account in the year that the capital expenditure is incurred. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

17. IMPAIRMENT OF FIXED ASSETS

A review for impairment of a fixed asset whether carried at historical cost or valuation should be carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in a fixed asset's market value during the period;
- evidence of obsolescence or physical damage to the fixed asset;
- a significant adverse change in the statutory or other regulatory environment in which the authority operates;
- a commitment by the authority to undertake a significant reorganisation.

In the event that impairment is identified the value will either be written off to the revaluation reserve, where sufficient reserve levels for that asset exist or written off to revenue through the Comprehensive Income and Expenditure Account. Any impairment at the balance sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer making the impairment.

18. INTANGIBLE ASSETS

These are non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. The most common class of intangible asset in local authorities is computer software.

An intangible asset shall initially be measured at cost and is not subject to revaluation. It is, however, subject to amortisation which for computer software has been assessed as 5 years.

19. INVESTMENT PROPERTIES

Investment property is property (land and / or buildings) held solely to earn rental income or for capital appreciation or both, for this authority these are properties that have been recognised as such through the Council's Asset Management Plan.

Investment property is initially recognised at cost, but is subject to valuation at fair value at the end of each accounting period, losses or gains shall be recognised in the Comprehensive Income and Expenditure statement.

Depreciation will not be charged against investment property.

20. LEASES

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An operating lease is a lease other than a finance lease.

A definition of a lease includes hire purchase arrangements.

Finance Leases

As lessee, the Council shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments.

Minimum lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The finance charge shall be calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The authority will recognise asset under finance lease in the balance sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease shall be depreciated. The depreciation policy for leased assets shall be consistent with the policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

Operating Leases

Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by an authority.

Embedded Leases

These are assets that although not owned by the Council are used primarily by the authority for service provision. An example of this would be vehicles used by the Council's Street Cleansing and Refuse and Recycling Collection contractor. In this case an estimated value for the vehicles has been used along with a leased term in line with the contract period. Assets will be recognised in the balance sheet at the Net Book Value and offset by a Deferred Liability. The lease charge will then form part of the contract payment on behalf of these vehicles on a straight line basis over the life of the asset.

21. OVERHEADS

The majority of management and administrative expenses, including buildings, are allocated to Services. Costs of Support Services are allocated on the basis of estimated time spent by officers on Services and costs of buildings are apportioned on a floor area basis. The costs of Corporate Management and Democratic Core, resulting from the Council being a multifunctional authority, are allocated to a separate objective head and, in accordance with the Code of Practice, are not reapportioned.

22. PRIVATE FINANCE INIATIVE (PFI)

PFI arrangements involve the operator undertaking an obligation to provide infrastructure (and related services) that is used to provide services to the public (irrespective of who provides those services to the public). By extension, this includes providing infrastructure (and related services) for the direct use of a public sector entity where these services contribute to the provision of services to the public (e.g. office and administrative buildings).

23. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are; held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

The category is split into five sub categories.
Land and Buildings.
Vehicles, Plant and Equipment.
Community Assets.
Infrastructure Assets.
Assets under Construction.

The Accounting policy for each type of asset is detailed below.

Land and Buildings
These are held on the balance sheet at cost allowing for revaluation over a five year rolling programme as given below.

Asset Class	Year of Valuation	
Public Toilets	2004/05	Completed
Council Offices	2005/06	Completed
Car Parks	2006/07	Completed
Leisure Premises	2007/08	Completed
Public Toilets	2009/10	Completed

The valuations are carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) on a market value for existing use, unless it is felt the property is of a specialist nature where depreciated replacement cost may be used. The method used on the current year’s valuation will be explained in the notes to the accounts. Items of plant that are functional to the operation of a building are included in the valuation for that building.

All buildings are subject to straight line depreciation over there estimated useful lives which will be between 5 and 60 years depending on the asset type. In accordance with recognised accounting practice land is not depreciated.

IFRS requires the consideration of componentisation of material items property plant and equipment, where they are of a material financial nature or have significantly differing life expectancies. Following a review of our property, plant and equipment asset registers the Council has decided that only the Council's Offices and major Leisure Facilities will be subject to componentisation if the replacement value to the asset is in excess of £100,000.

Vehicles, Plant and Equipment
Major items of plant are included within the valuation of buildings above. Other items of plant are recognised in the balance sheet at cost and are subject to straight line depreciation over a period between 2 and 20 years.

Community Assets
These are defined as Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and allotments.

As such these assets are held on the balance sheet at historic cost and are not subject to revaluation or depreciation.

Infrastructure Assets
These are defined as fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

These assets are carried on the balance sheet at historic cost (i.e. the amount paid in acquisition) and are not subject to revaluation. These assets are subject to straight line deprecation over a period between 10 and 40 years.

Assets under Construction
This covers assets currently not yet ready for operational purposes, and in this Council's case will be in operation within one year of the balance sheet date, accordingly the Council does not depreciate or revalue assets under construction.

Capital de-minimi

The authority has set a de-minimis level of £5,000 for new capital plan schemes and individual items of plant and equipment etc.

Within vehicles, plant & equipment there are items whose individual value is below the de-minimis level e.g. a computer. The aggregate value of all such like items purchased in the year would exceed the de-minimis level.

24. PROVISIONS

The Council sets aside provisions for liabilities or losses that are either likely to, or certain to be incurred, but uncertain as to the amount or the date on which they will arise.

Provisions are recognised when:

a) the Council has a present obligation (legal or constructive) as a result of a past event;
b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
c) a reliable estimate can be made of the amount of the obligation.

25. RESERVES

The Council maintains both general and earmarked reserves. General reserves are to meet general, rather than specific, future expenditure and earmarked reserves, such as the building repairs reserve, are for specific purposes. No expenditure is charged directly to a reserve but is charged to the service revenue account within the Comprehensive Income and Expenditure Account, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

26. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Payments of a capital nature to external bodies or individuals where no fixed asset owned by the Council is created, for example house renovation grants or grants to voluntary organisations. Under Statute such expenditure is amortised in full to service revenue accounts in the year the grant is paid to the organisation concerned.

27. STOCKS AND WORK IN PROGRESS

Stock is valued at the latest price paid. This is a departure from the requirements of the Code and IAS 2, which require stocks to be shown at actual cost or net realisable value, if lower. The difference in value is not considered to be material. Work in progress on uncompleted jobs is valued at cost.

28. VALUE ADDED TAX

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.