STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS's) approved by the International Accounting Standards Board. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The Council is required to disclose information relating to the impact of any accounting policy change that will be required by a new standard that has been issued but not yet adopted. The 2011/2012 Code introduces new requirements relating to FRS 30 Heritage Assets.

2. Qualitative Characteristics of Financial Statements

- **Understandability** - although a reasonable knowledge of accounting and local government is assumed, all reasonable steps have been taken to ensure that the financial statements are as comprehensible as possible.
- **Relevance** - the objective of the financial statements is to provide information on the Council's financial position, performance and cash flow that is useful for assessing the stewardship of public funds and for making economic decisions.
- **Materiality** – omissions or misstatements of items are only material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.
- **Reliability** - financial information can be depended upon to represent faithfully the substance of the transactions and other events that have taken place. The information is free from bias, free from material error, is complete within the bounds of materiality and cost and has been prepared in a prudent manner.
- **Comparability** - the Statement of Accounts contains prior year information to enable comparisons to be made.

3. Accounting Concepts

The following underlying assumptions are made in the preparation of the Council's accounts:

- **Accrual basis** - the financial statements, except the Cash Flow Statement, have been prepared on an accrual basis. The accrual 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.
- **Going Concern** – the financial statements have been prepared on a going concern basis. It is assumed that the functions of the Council will continue in operation for the foreseeable future.

4. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. Exceptions to this are payments of regular quarterly accounts (e.g., telephones, electricity) and Penalty

Charge Notice income. 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

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. Capital Grants Received in Advance

The Council receives funds from property developers to provide education, highway and other community assets as part of their development. These funds are held for periods of time as specified within the planning consent and used to provide and or maintain those assets.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. IAS 7 indicates that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Monies held by the Council's investment managers are classified as investments.

8. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are charged with depreciation attributable to the asset used by the relevant service and revaluation and impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which losses can be written off.

Depreciation and impairment losses have no effect on council tax levels as compensating adjustments are made between the General Fund and the Capital Adjustment Account. However, the Council is required to make annual contributions from revenue towards the repayment of debt. Notional interest is not charged to services but actual interest payable on outstanding borrowings, including interest payable under finance leases is charged directly to the Comprehensive Income and Expenditure Statement.

9. Customer and Client Receipts

With the exception of some income, e.g. car park penalty charge notices which is recorded on a cash basis, income is accrued and accounted for in the period to which it relates. Provision is made for doubtful debts and known uncollectible debts are written off.

10. Depreciation

Depreciation has been applied to most of the Council's non-current (formerly fixed) assets using the straight-line method over their economic lives. The objective of depreciation is to reflect in the revenue account the cost of the use of tangible fixed assets (i.e. amount of economic benefit consumed) in a period. No depreciation is charged in the year of acquisition of an asset.

Depreciation is calculated upon the following basis:

Council Dwellings – properties in this asset category are valued using the Beacon valuation method. This means properties are grouped on the basis of size, type and location and an average value is given to each property in the group. Depreciation is charged on a straight-line basis dependant on the age of the property.
Other Land and Buildings – all the Council buildings although regularly repaired and maintained, are depreciated over their useful economic lives;
Vehicles, Plant and Equipment – depreciation is applied on a straight-line basis over the useful economic lives of the assets. The majority of these range between three and ten years;
Infrastructure Assets – are depreciated on a straight-line basis over a thirty year period;
Community Assets – are not depreciated;
Surplus Assets – are depreciated in accordance with their original asset category.

11. Employee Cost

Three categories of employee benefits exist under the 2011/2012 Code:

Benefits payable during employment – covers short-term employee benefits, such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as expenses in the year in which the employee renders service to the council. Accruals are made for holiday entitlements etc. but these sums are reversed out through the Movement in Reserves Statement. This category of benefits also includes those 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.
Termination benefits – covers amounts that are payable as a result of a decision by the Council 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 salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the Council. Redundancy and other termination costs are accrued to the year that the notice is served.
Post-employment benefits – in common with all local authorities the Council is required to participate in a pension scheme to provide specific deferred benefits to its employees by way of retirement pensions, widows' pensions, lump sum retirement payments and death grants. Benefits are paid from the Pension Fund, which receives contributions from both employees and employers. The Council participates in the scheme administered by Kent County Council. 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. Pension costs are recognised in full in the year the benefits are agreed. In the Income and Expenditure Account the liability is debited to the net cost of services. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the FRS 17 costs are reversed out in the Statement of Movements on the General Fund Balance as a transfer to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability.

Teaching staff are entitled to be members of the Teachers Pension Scheme administered by Capita Teachers Pensions on behalf of the Department for Education (DfE).

12. Estimation Techniques

Significant estimates are involved in the calculation of some parts of the Council's accounts. These include the calculation of the pension assets and liabilities by the fund's actuary, the valuation of non-current assets, the provision for bad and doubtful debts and the calculation of embedded leases. Details of each of these are shown in the relevant notes to the core financial statements.

13. Events After the Balance Sheet Date

These are events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. Events arising between the Balance Sheet date and final approval of the Statement of Accounts will be reflected in the statements if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts reported. Where conditions arose after the Balance Sheet date the Statement of Accounts is not adjusted to reflect such events but, where material, disclose is made by way of a note to the accounts.

Those that provide evidence of conditions that existed at the end of the financial year – the Statement of Accounts is adjusted to reflect such events;

14. Exceptional Items

Where material, items of income and expenditure are disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts.

15. Financial Instruments

Financial Assets

The Council's financial assets (investments) are classified into Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market and Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments. Financial assets are maintained in the Balance Sheet at fair value.

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

The Council has made a small number of loans to eligible employees, for the purchase of motor vehicles for example and charitable organisations at less than market rates (soft loans). The value of these loans has been considered to be immaterial and the calculation of the present value of interest foregone, required by the Code, has not been undertaken.

Available-for-Sale Assets – these 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 independent experts.

Financial Liabilities

These comprise borrowing and are initially measured at fair value and carried at their amortised cost. Annual charges to 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. For the borrowing the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

16. Foreign Currency Transactions

When 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.

17. Government Grants and Contributions

Specific revenue grants received are accrued and credited to the Comprehensive Income and Expenditure Statement in the same period as the related expenditure is incurred and shown against the relative service income 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 Statement under ‘Taxation and Non-Specific Grant Income’.

Capital grants received where no conditions exist will be credited to the Comprehensive Income and Expenditure statement in the year of receipt. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement when applied to finance capital expenditure or to the capital Grant Unapplied Account.

Capital grants, where conditions exist, 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.

18. Investment Property

Investment property (land and/or buildings) are used solely to earn rental income or for capital appreciation or both. The Council’s major investment property is Gillingham Business Park which is let on a long lease. Investment properties are not depreciated but are revalued annually according to market conditions at the year end.

19. Leases

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. A right to use an asset in return for payment may be subject to this lease policy even though a formal lease agreement may not exist.

Finance Leases

As lessee, the Council records finance leases as assets and liabilities at amounts equal to the fair value of the property plant or equipment or, if lower, the present value of the minimum lease payments. Lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The Council will recognise assets under finance leases 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 are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from the use of the asset. Charges are recorded on a straight-line basis over the lease term unless another basis is more representative of the benefits received by the Council.

Embedded Leases

These are assets that although not owned by the Council are used primarily by the authority for service provision. Examples are vehicles used by the Council's highways maintenance and waste contractors. In these cases estimated values for the vehicles have been used along with a leased term in line with the contract period. Assets are recognised in the balance sheet at the net book value and offset by a deferred liability. The lease charge forms part of the contract payment on behalf of these vehicles on a straight line basis over the life of the asset.

20. Overheads and Support Services

In accordance with the CIPFA Best Value Accounting Code of Practice 2010/2011 (BVACOP), all overheads not defined as Non Distributed Costs are fully recharged to service expenditure. Unapportionable Central Overheads, which are clearly defined in the Code, together with Democratic Representation and Management and Corporate Management Costs, are service expenditure headings in their own right, to which overheads have been allocated, and are not apportioned further.

21. Prior Period Adjustments, Changes in Accounting Policy 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 will be accounted for in the current and future years accounts.
Changes in accounting policies are usually only made when required by proper accounting practices, such as the introduction of IFRS. Where changes are made, they are applied retrospectively by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

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

22. Property Plant and Equipment

These are tangible fixed assets (now known as non-current assets) that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Property, plant and equipment is further analysed into the following categories in accordance with the Code:

Council Dwellings
Other Land and Buildings
Vehicles, Plant and Equipment
Infrastructure Assets
Community Assets
Assets Held for Sale
Assets Under Construction

Investment property is now classed as a long term asset and not included within the Property, Plant and Equipment category.

Recognition – expenditure, generally above the de minimis level of £25,000, on the acquisition, creation or enhancement of property, plant or equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to revenue as it is Incurred.

Measurement – assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then valued on the basis recommended by CIPFA in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Fixed assets are classified into the groups required by the Code and are included in the accounts on the following bases:

a. Council dwellings and other land and buildings are valued on the basis of the fair value in existing use or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost;
b. Infrastructure Assets, Community Assets and Vehicles, Plant and Equipment are included in the balance sheet at historical cost less depreciation where applicable. These assets are not shown at market value and so are not subject to a revaluation review;
c. All other assets are included in the balance sheet at fair value determined as the amount that would be paid for the asset in its existing use. In instances where it is lower, depreciated replacement cost has been used;
d. Assets under Construction covers assets currently not yet ready for operational purposes, and should be in operation within one year of the balance sheet date, accordingly the Council does not depreciate or revalue assets under construction.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Consolidated Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

*Impairmen*t – the values of assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment losses are identified they are accounted for by:

- Where there is a balance of revaluation gains for the affected asset in the Revaluation Reserve, the value of the asset in the Balance Sheet is written down against that balance up to the amount of the accumulated gains;
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the value of the asset in the Balance Sheet is written down against the relevant service line in the Consolidated Income and Expenditure Statement with a corresponding transfer from the Capital Adjustment Account.

Depreciation – is provided for on all assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Disposals – when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the ‘Other Operating Expenditure’ line in the Consolidated Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the relevant asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement).

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.

23. Provisions, Contingent Liabilities and Contingent Assets

Provisions – are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made, but where the timing of the transfer is uncertain. For instance, the Council may be involved in an insurance claim that could eventually result in the making of a settlement or the payment of compensation. The specific purposes of the Council’s provisions are explained in a note to the Core Financial Statements.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Contingent Liabilities – arise when an event occurs that gives the Council a possible financial obligation that may or may not be incurred depending on the outcome of a future event such as a court case. Contingent liabilities also arise in circumstances where a provision would ordinarily be made but either it is unlikely that expenditure will be required or the amount of the obligation cannot be reliably measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed as a note to the accounts.

Contingent Assets – arise when an event has taken place that gives the Council a possible asset that may or may not be confirmed depending on the outcome of a future event not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed as a note to the accounts.

24. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service 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.
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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. These reserves are explained in the notes to the core financial statements.

25. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets, for example, disabled facilities grants, has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

26. VAT

VAT payable (for both revenue and capital) is included in the accounts as an expense only to the extent that it is not recoverable from the Government. The Council is able to recover VAT on nearly all its expenditure. VAT receivable is excluded from income as it is all payable to HM Revenue and Customs.