Head of Legal and Democratic Services and Monitoring Officer, T W Mortimer LLB Solicitor

AU

ASHFORD
BOROUGH COUNCIL

Audit Committee

Notice of a meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane, Ashford, Kent TN23 1PL on Wednesday 28th September 2011 at 7.00 pm

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The Members of this Committee are:-

Cllr. Clokie (Chairman)
Cllr. Link (Vice-Chairman)
Cllrs. Marriott, Sims, Smith, Taylor, Wright, Yeo

NB: Under the Council's Public Participation Scheme, members of the public can submit a petition to the Executive if the issue is within its terms of reference or ask a question or speak concerning any item contained on this Agenda (Procedure Rule 9 refers)

Agenda

Page Nos.

1. **Apologies/Substitutes** – To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii)

2. **Declarations of Interest** - Declarations of Interest under the Code of Conduct adopted by the Council on the 24th May 2007 relating to items on this agenda should be made here. The nature as well as the existence of any such interest must also be declared

3. **Minutes** – To approve the Minutes of the Meeting of this Committee held on the 27th June 2011

Part I – For Decision

4. Statement of Accounts 2010/11 and the District Auditor's Annual Governance Report

5. Internal Audit Strategic Plan 2011/12 to 2013/14

6. Risk Management – Approach and Strategy for Taking Forward Risk Management at Ashford

Part II – Monitoring/Information Items

7. Annual Governance Statement – Progress on Remedying Exceptions

8. Report Tracker and Future Meetings

DS/AEH
20th September 2011

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Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **27th June 2011**

Present:

Cllr. Clokie (Chairman);
Cllr. Link (Vice-Chairman);
Cllrs. Marriott, Sims, Taylor, Wright.

Apologies:

Cllrs. Smith, Yeo.

Also Present:

Cllrs. Michael, Shorter

Deputy Chief Executive, Head of Internal Audit Partnership, Audit Partnership Manager, Revenues & Benefits Manager, Investigation & Visiting Manager, Senior Member Services & Scrutiny Support Officer

Andy Mack – Audit Commission.

46 Declarations of Interest

Councillor	Interest	Minute No.
Taylor	Code of Conduct – Personal but not Prejudicial – Had given his Portfolio Holder Views on these reports in advance of the Meeting	48, 51

47 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 21st April 2011 be approved and confirmed as a correct record.

48 Internal Audit Annual Report 2010/2011

The report considered the work of the Internal Audit Team over the financial year 2010/11 and the opinion of the Head of Internal Audit in relation to the Council's control environment, in the context of the Annual Governance Statement. It asked the Committee to decide whether the outcomes of the Internal Audit work and the other matters referred to in the report provided evidence of a substantial level of internal control within the Authority, which would support the findings and conclusions shown in the Annual Governance Statement 2010/11. The Head of Internal Audit explained that it was his opinion that substantial reliance could be placed on the Council’s control environment in terms of the overall adequacy of the controls and processes that were in place to achieve the objectives of the Council. The evidence to support that opinion was contained within the report. He asked Members to particularly take this point into account when considering the recommendations.

The Committee went through the report page by page and the following comments were made: -

- Better use of risk management and the embedding of risk management within the organisation were going to be vitally important. Risk management at Ashford Borough Council was underdeveloped and would be one of the key considerations of this Committee going forward.

- It would be important to have a complete refresh of the Strategic Risk Register and to make sure that all risks were taken into account before an opinion could be given on the adequacy of the systems.

- A Member asked about the Use of Consultants Review and it was explained that this went back a couple of years following queries raised by the Overview & Scrutiny Committee about the procurement arrangements for Consultants. A review led to a set of procedural guidelines and requested Internal Audit to do a follow-up review which concluded that the arrangements in place for engaging consultants had not become embedded within the organisation and were not being fully complied with. A further follow up report would be produced for the Overview & Scrutiny Committee (scheduled for the Autumn). Part of the problem was the varying definitions of ‘consultant’ and ‘temporary staff’ and there needing to be a better understanding of their basis of engagement. The resulting confusion meant that not all procurements for consultants went through the intended process, making it difficult to analyse spend. Perhaps the guidelines were too far reaching and the process needed to be made a bit more manageable. It was important to note though that strong controls were in place and consultants were being appointed properly.

- In response to a question it was explained that the process for ensuring audit recommendations were followed through involved: - asking the relevant Head of Service to complete an individual Action Plan explaining how they would tackle any identified actions; and then conducting a follow-up audit at a later date to go through the recommendations with the Head of Service and ask for evidence that action had been taken. If problems persisted there would then be a report back to this Committee with the Head of Service invited to come along and speak to the report.

- Data Protection and Freedom of Information were important points to consider within the Audit Plan and were reviewed as part of the three year programme of audits as compliance with these was a statutory requirement of the Council.

Resolved:

That (i) the Head of Internal Audit's opinion be noted that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.

(ii) it be noted that the only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation.

(iii) results of the work of the Internal Audit Team over the period April 2010 to March 2011 as shown in Appendix A to the report be noted and it be noted that this is the prime evidence source for the Head of Internal Audit's opinion.

(iv) it be agreed that the outcomes of the work and the other matters referred to in the report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.

(v) the improvements in control that occurred as a result of the audit process be noted.

(vi) the Committee considers that the Council's internal audit service is effective.

49 Benefit Fraud Annual Report 2010/2011

The report provided a brief introduction to the work of the Benefit Fraud and Visiting Team and set out a summary of the Team's work for the financial year 2010/11. The Investigation & Visiting Manager introduced the report and explained that this would now be an Annual Report to the Committee every June. It would also attempt to highlight any future changes/challenges. The Chairman directed Members' attention to the Update Report which included a replacement paragraph 13 to the report and clarification over paragraph 27.

A Member said that the previous Audit Committee had received a Pre-Committee briefing from the Investigation & Visiting Manager on the whole issue of fraud and it had been extremely useful in understanding the issue. He hoped that this presentation could be repeated for the new Committee at some stage this year.

A Member asked about training in fraud and how much had been carried out across the relevant Council departments. The Investigation & Visiting Manager said that the Council focussed on prevention rather than detection after the event and that was reflected in the training. Every fraud that was stopped from entering the system reduced the likelihood of an overpayment occurring that would need to be recovered. All relevant Council staff were trained in fraud awareness depending on their role, ranging from general awareness to in depth mock investigations and interviews, and this was undertaken on an annual basis. In 2010/11 training had also been provided to PCSO's and Community Wardens.

In response to a question about constant improvement of detection systems, the Investigation & Visiting Manager mentioned the National Fraud Initiative and Housing Benefit Matching Service data matching exercises and said that these were both useful tools. There was a balance to this though as the Council did have a duty to pay benefits within a certain timescale. The current payment times were four weeks for new applicants and seven days for a change in circumstance.

With regard to the general direction of travel, the Investigation & Visiting Manager said Ashford was doing well within the resources available. The Government had announced that from April 2013 there would be one Single Fraud Investigation Service to investigate all benefit fraud. This would comprise of Department of Work & Pensions, HMRC and all Local Authorities. As a result the Council was trying to keep resources at a realistic minimum and utilise resources from across the organisation through more in depth cross departmental working because the exact details of this new arrangement and how it would affect the Council were still unclear. The Investigation & Visiting Team had just completed a six month pilot into tenancy and homeless application fraud. 15 cases were looked at and 8 had proved to be fraudulent. It was considered that this was an area Members should be aware of as social housing was highlighted by the public during the recent SIMALTO resident consultation exercise and was now one of the areas included in the Five Year Business Plan.

It was agreed that future Annual Reports would include year on year figures for the basis of comparison and monitoring. There were targets around the number of sanctions and prosecutions each year and records went back a number of years, so the information was readily available.

Resolved:

That the report be received and noted.

50 Audit Committee Annual Report 2010/11

The report set out the Annual Report of the activity of the Audit Committee for 2010/11. It was noted that following this meeting the Report would go on to be received and noted by the Full Council.

The Committee went through the report page by page and the following comments were made: -

- The content and format of the report were agreed as a good basis going forward.

- In terms of the Assurance section of the report under Audit Activity, the first bullet point should be expanded to include the words “by considering reports and following through on recommendations”.

- In terms of skills development for Committee Members, it was agreed that the 6pm Pre-Committee briefings should continue as they would help to up skill Members both generally and on topical issues. The Head of Internal Audit said he would also submit a report on a future training and development programme for Members. It was agreed that the previously scheduled Meeting date of 6th September should be kept in the diary as a training evening to expand on some of the issues covered at the first Induction Session.

- The areas for development within the report had come out of an external peer review of the Audit Committee. Members wondered if there should be some firmer milestones against these in terms of when and how they would be addressed and it was agreed that these should be fleshed out a bit more to show that the Committee was responding to the points raised.

Resolved:

That (i) subject to the comments above, the content and format of the Annual Audit Committee Report be agreed.

(ii) the Annual Report be provided to the Full Council, asking that the Report, setting out how the Committee has discharged its responsibilities, be noted.

51 Annual Governance Statement 2010/11

The report explained that each year the Council must produce an Annual Governance Statement that summarised the approach to governance, demonstrated how its approach fulfilled the principles for good corporate governance in the public sector, and drew a conclusion about the effectiveness of its governance arrangements. The Statement was submitted for the Audit Committee to approve on behalf of the Council. The draft had been submitted to the Chairs of the relevant Council Committees and the Leader of the Council. The report highlighted just two areas of significance for ongoing review: - the emerging new approaches to local partnership working and the need to ensure that good principles of corporate governance were adopted in the design of these arrangements. The Chairman directed Members’ attention to the Update Report which included an insertion to the Statement after Paragraph 18 (Standards Committee).

The Committee went through the report page by page and the following comments were made: -

- The issues of risk awareness and risk management were again raised. Analysis of the Council’s approach to these would be an important part of the Committee’s work this year. There would be a need to drill down into this in more detail and perhaps a Sub-Group would need to be set up to undertake this work. The Chairman considered it was possible for staff to 'over risk manage' and he did not want to suppress innovative ideas, so it would be important to get the right balance. The Head of Internal Audit advised that the September Meeting would receive a report outlining proposals for dealing with risk management.

- From a governance perspective Members considered it important to ensure that sound principles of good governance and accountability for decision making were developed for new styles of partnership working and Localism generally. This was particularly relevant given the plans for an Ashford Locality Board. Perhaps the Community Partnership Group would be the best place for discussions about structures and detail to take place, although with this Committee's remit it too would wish to consider and advise on governance principles in this new context.

- Future Statements should contain an assessment of the Council's compliance with external requirements regarding data security and Freedom of Information. It was agreed that these two additional paragraphs would be circulated to Committee Members electronically so that they could be added to this year's Statement.

- Report authors should avoid using split infinitives in the future.

Resolved:

That subject to the comments above the 2010/11 Annual Governance Statement be approved.

52 Communities & Local Government (CLG) Consultation – Future of Local Public Audit - Response

The report outlined a final draft response to the consultation following discussion at both the April Meeting of this Committee and with the previous Chairman of the Committee. The current Chairman said that he had been involved in further discussion about the response recently and he thought a good outcome had been reached. The Committee was asked to endorse the final draft response so it could be submitted to the CLG before the close of the consultation on the 30th June 2011.

Resolved:

That the Committee endorse the draft response about the future of local external audit attached to the report and that it be reported to the CLG before the close of the consultation on the 30th June 2011.

53 Annual Audit Fee Letter 2011/12

The Chairman directed Members attention to the tabled papers which included two additional reports submitted by the Audit Commission. The first of these explained that in April the District Auditor submitted his fee proposal for external audit work relating to the financial year 2011/12 to the Chief Executive. A copy of the fee letter was attached for Members to consider. Overall, the Audit and Inspection fee proposal was £169,525 which included a fee for specific grant claims authorisation. The work plan and fee proposal had been discussed with senior management.

In response to a question about what the Council could do to help the Audit Commission and in return reduce the audit fee, Mr Mack said it was a relevant question and in reality the Council was already doing a number of things in this regard. There had been a step change in the quality of the Council's financial management in the last two years. Good financial systems, a good set of accounts and early warnings of complex issues had all contributed to this and were demonstrated by a reduction of £7000 this year, bringing the fees in at £20,000 under the Council's original budget. The fee was still slightly above the Kent average but Mr Mack said he would continue to keep the fee under review and committed to reporting back to the Committee on this issue later in the financial year.

Resolved:

That the Audit Commission's Audit Fee Proposal for 2011/12 be agreed.

54 Letter of Assurance – Compliance with International Standards for Auditing

Mr Mack introduced the second of the additional reports which explained that the Chairman of the Audit Committee had been asked by the External Auditor to provide a letter giving the necessary assurances that those charged with governance had exercised oversight of various processes relating to the management of fraud and other breaches of internal control. A draft of that letter was appended to the report for the Committee to agree and this would be evidence that the External Auditor would take into account when considering his opinion on the Council's financial statements. A similar assurance had been sought from, and given by, the Deputy Chief Executive on behalf of Management.

Resolved:

That the content of the draft letter to the Audit Commission to provide assurance in respect of International Auditing Standards be agreed.

55 Report Tracker and Future Meetings

The Chairman directed Members attention to the tabled papers which advised that the next Meeting of the Committee had been moved from the 6th September to the 28th September. As discussed earlier, the 6th September would be kept as a date for a potential training session.

Resolved:

That subject to the comments above, the report be received and noted.

Agenda Item No:	4
Report To:	**Audit Committee**
Date:	**28 September 2011**
Report Title:	**Statement of Accounts 2010/11 and the District Auditor's Annual Governance Report**
Report Author:	Ben Lockwood Finance Manager

ASHFORD
BOROUGH COUNCIL

Summary:

This report presents the 2010/11 Statement of Accounts for approval.

The District Auditor's Report is appended and he will be present at the meeting to introduce this and take questions. The audit has identified some presentational errors that have now been corrected; hence the Statement of Accounts is fully re-presented to the Committee. The adjustments are of a 'classification' nature or changes to 'disclosure notes', there are no implications for the overall financial position or standing of the Council.

The District Auditor has issued an unqualified opinion on the accounts.

There is a Post Balance Sheet Event to raise that has arisen from the Concessionary Fares Scheme. The accounts were prepared on the basis of the settlement awarded to the principal bus operator following its appeal to the Department for Transport. The relevant Kent Districts and the county council were preparing to challenge this outcome, but the bus operator then agreed a lower settlement. A note has been included to explain this and its possible impacts - there are no adjustments to the accounts that flow from this disclosure.

Once approved the accounts will be published with an accompanying simple summary of the key facts and outcomes for the year.

Key Decision: NO

Affected Wards: All

Recommendations: **The Audit Committee be asked to:-**

1. **Agree the basis upon which the accounts have been prepared (Going Concern)**

2. **note the Post Balance Sheet Event**

3. **approve the audited 2010/11 Statement of**

Accounts

4. **approve that the Chairman of this Committee signs and dates the accounts as required by Section 10(3) of the Accounts and Audit Regulations 2003 as approval by the Council.**

5. **consider the District Auditor's Annual Governance Report**

6. **approve the Chief Financial Officer's Letter of Representation to the District Auditor**

Policy Overview:	The 2010/11 Statement of Accounts complies with the requirement of various Codes of Practice and the Accounts and Audit regulations.
Financial Implications:	The 2010/11 Statement of Accounts sets out the Council's financial position as at 31st March 2011 and movement in funds during the year.
Risk Assessment	NO
Equalities Impact Assessment	NO
Other Material Implications:	None
Background Papers:	Final Accounts Working Papers
Contacts:	Ben.lockwood@ashford.gov.uk – Tel: (01233) 330540

Purpose of the Report

1. Our external auditors (the Audit Commission) have, at the time of preparing this report, were close to completing the audit of the Council's 2010/2011 financial statements. The accounts are required to be approved by this Committee and published by 30 September 2011.

2. Attached to this Report is the District Auditor's Annual Governance Report setting out his findings and conclusions in respect of the accounts. Mr Andy Mack, the District Auditor, will be present at the meeting and will wish to introduce his report and take questions.

Issue to be Decided

3. There was a 'Post Balance Sheet Event' that has occurred since the Balance Sheet Date; this is explained later in the report.

4. Apart from presentational adjustments the District Auditor has also drawn the Council's attention to three items that we have chosen not to adjust and has included four recommendations for the committee to consider.

Background

5. The 2010/11 Statement of Accounts has been completed and complies fully with International Financial Reporting Standards (IFRS). This is the culmination of a long process which has gradually seen the accounting rules change to the International Standards. This committee has received a number of presentations and reports updating them on the work necessary to convert to IFRS. This transition has resulted in a set of statements that are quite different from those presented to this committee in previous years and a presentation was given to members on 6th September outlining the content of the statements and highlighting some key areas.

6. In previous years it has been necessary for this Committee to approve the Statement of Accounts before the external audit commenced,. However following, amendments to the Accounts and Audit regulations the accounts only now need Chief Financial Officer (the deputy chief executive) must sign-off the un-audited by 30 June and that approval of the audited statements must happen post-audit and before 30 September.

Basis of Preparation

7. It is a new requirement that members approve the basis upon which the accounts have been prepared. The Statement of Accounts has been prepared on a 'Going Concern' basis, in accordance with recommended accounting practice. This means, for accounting purposes, that the organisation is expected to be in existence for the medium to long term and that the council has no intention in the foreseeable future of curtailing materially the extent of its operations.

8. This basis has been adopted as there are no plans to reorganise local government and no other factors exist that will materially affect the council's operations In the foreseeable future.

The Amended 2010/2011 Financial Statements

9. As stated above a number of classification errors or required amendments to disclosure notes have been highlighted by the audit. These are explained in **Page 6** of the District Auditor's Report, with **Appendix 2** setting out the accounting adjustments. A copy of the Financial Statements is annexed to this report.

10. All the recommendations on paragraph 9 have been adjusted in the revised financial statements enclosed with this report. None of these adjustments affect the cash position of the Council. The Committee is asked to approve the statement and agree that the Chairman sign them to show they have been adopted by the Council.

Unadjusted Misstatements

11. The Auditor's report highlights three items that have not been amended in the Accounts. These are explained below:

Housing Revenue Account (HRA) bad debt provision

12. The Auditor noted that the HRA Bad Debt provision was overstated and suggested that this be reduced by £198,000. Officers agree that the provision is overstated however there were some difficulties in extracting an aged debt analysis from the housing system which would allow an accurate calculation to be completed. Officers are working with IT to rectify the problem; however it was decided that it was better to wait for this work to be completed rather than make an estimate on the level of provision.

Assets for sale

13. The auditor identified a small number of HRA properties that had been subject to an application from the tenant to commence the right to buy process. Under the accounting code any asset must meet four conditions:

- It must be ready for sale in its current condition
- It must be highly probable that the asset will be sold (this is interpreted as a **significantly higher than 50% probability** that the asset will be sold)
- The asset **must be actively marketed** at a price that is reasonable in relation to its current value.
- The sale will be completed within one year

14. Our justification for not amending the statement is based on the position that that the Council does not actively market properties under the Right to Buy (although details of tenants' rights are available on the website) and that in the last year of 24 applications received, only four converted to sales, therefore evidence of far less than 50% probability of sale.

Minor understatement of housing creditors

15. The computer interface between the Housing and Creditors systems is run weekly. Due to the day of the week the 2010/2011 year end fell there were two days' worth of invoices not included in the list of HRA Creditors

(amounting to £50,000). This is not a material figure in the accounts and therefore officers have elected not to amend the accounts. Procedures have been implemented to remove this issue in the future. These payments will be included in the 2011/2012 accounts.

16. All three items have been discussed with the District Auditor and he is content with the explanations and the action that has been taken.

Post Balance Sheet Event

17. For 2010/11 a post balance sheet event has occurred in relation to concessionary fares. The accounts were prepared on the assumption that the council would make a payment to contribute to the principal bus operator's claim for substantial additional costs following an appeal ruling by the Department for Transport. An accrual for this item was included within the Consolidated Income and Expenditure Statement to the value of £293,520.

18. The relevant Kent district councils and KCC were considering challenging the ruling. However, this led to the bus operator agreeing to a lower settlement. This is now finalised and our accrual can be reduced by £160,000. This will be amended within the 2011/12 accounts. .

Letter of Representation

19. As last year the Deputy Chief Executive is required by the Auditor to compile a Letter of Representation, to provide further assurance to the auditors. This is appended and the Committee is asked to approve the letter.

Conclusion

20. The Audit of the 2010/11 Statements if Accounts is complete and that whilst there have been some changes these are mainly of a classification nature and have not effected the financial position of the Council.

21. The auditor is issuing an unqualified opinion to the statement of accounts and an unqualified 'Value for Money' conclusion.

Portfolio Holder's Views

22.

Contact: Ben Lockwood

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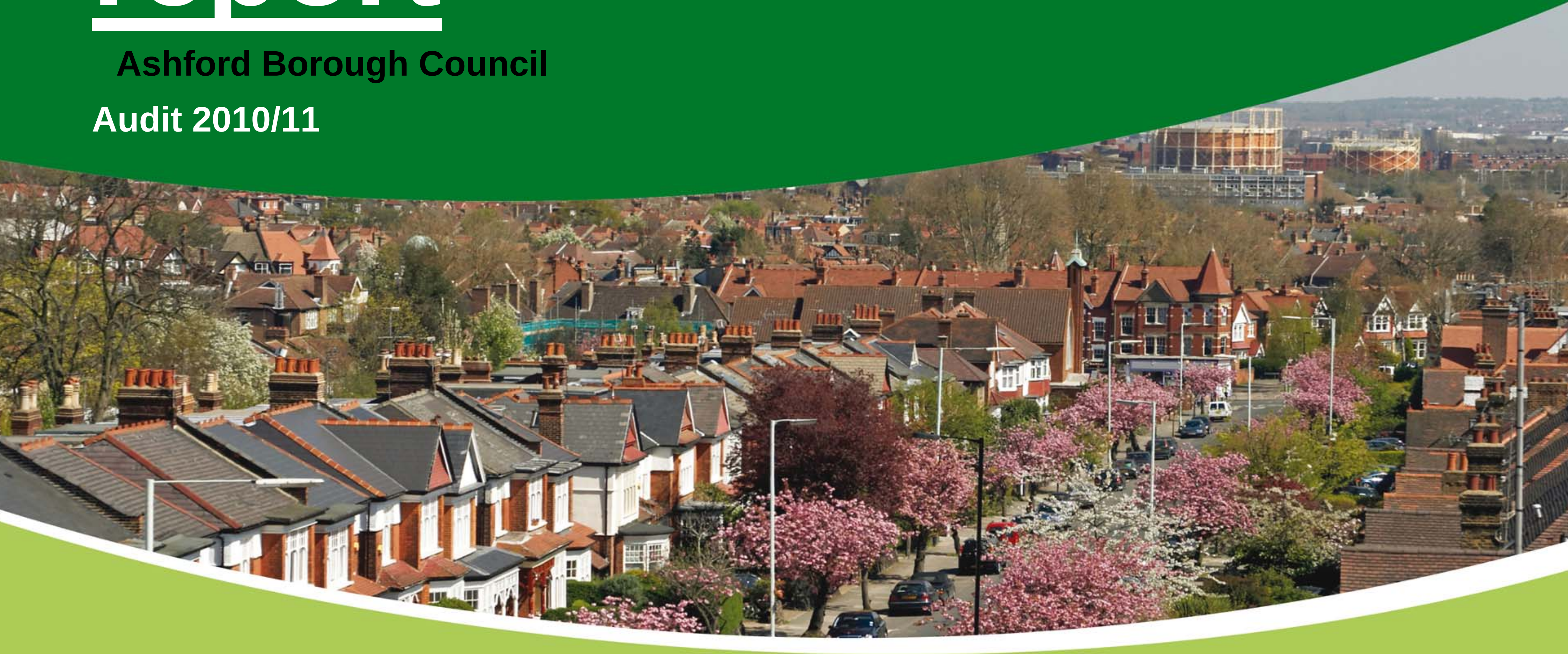
Annual governance report

Ashford Borough Council

Audit 2010/11



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

Subject to satisfactory completion of a small number of audit tests, I plan to issue an unqualified opinion on the financial statements before the statutory deadline of 30 September 2011.

The Council has worked hard during the year to respond to the requirements of the new International Financial Reporting Standards (IFRS). Officers prepared a restated balance sheet and income and expenditure figures well in advance of year end and this enabled me to review this work at an early stage. During the course of the audit, I identified several amendments to the year-end financial statements, and I have highlighted the most important of these in appendix 2 and 3. None of these amendments altered the reported financial performance.

Value for money

I intend to issue an unqualified value for money conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has good financial governance and sound arrangements for financial control. It is strengthening its financial planning to ensure it is well-placed to address the financial pressures it faces over the medium term

The Council takes a strategic approach to setting priorities and achieving cost cuts through improved efficiency and productivity.

Before I complete my audit

I confirm to you	
	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me	
	I ask the Audit Committee to: • take note of the adjustments to the financial statements set out in this report (Appendix 2); • ask the Council to amend the financial statements for the unamended mistatements or agree with officers reasons for not amending these items (Appendix 3); • approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and • agree your response to the proposed action plan (Appendix 6).

Financial statements

Subject to satisfactory completion of the rest of my audit work, I plan to issue an unqualified opinion on the financial statements.

Opinion on the financial statements

My work on the financial statements is now substantially complete. The areas where work remains outstanding are;

- completion of early grant testing on housing and council tax benefit payments to inform my opinion; and
- review of the final version of the financial statements to ensure all agreed amendments have been processed.

I expect to complete any remaining work in September. I will then issue my audit opinion by the 30 September 2011 statutory deadline after the Committee has approved the financial statements and the letter of representation.

Subject to satisfactory completion of the outstanding work I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Implementation of International Financial Reporting Standards (IFRS)

This is the first year the Council has had to prepare financial statements under IFRS. Preparing IFRS accounts has involved a significant amount of work for the Council's finance team, including

- review of transactions to identify the proper accounting treatment under the new framework;
- restatement and reformatting of all the prime statements;
- restatement of the comparatives for both 1 April 2009 and 31 March 2010; and
- work to produce several new disclosure notes.

Throughout 2010/11 the Council has had an effective framework in place to complete this work. I reviewed the Council's draft restated figures and gave some early feedback on the proposed revisions. This early work confirmed the Council had an effective framework in place to for IFRS. I highlighted two areas for extra consideration (treatment of capital grants and classification of cash equivalents). The Council subsequently made some changes to its draft restated comparatives after considering my feedback.

Errors in the financial statements

During my audit I identified several differences in the classification of figures within the accounts and recommended a few presentational changes. The areas most affected were the HRA and the Statement of Movement in Reserves. Management agreed to adjust the financial statements for most of the amendments I recommended. All non-trivial amendments (over £18,000) are in appendix 2 for information. Officers chose not to amend three items and these are outlined in appendix 3. I am satisfied that the impact of these is not material and that the differences did not have a significant impact on the reported financial position. I have asked management to confirm their reasons for not amending the financial statements in their letter of representation.

The Council's accounts were supported by a comprehensive electronic file of working papers, which provided a good audit trail for testing. The accounts were produced and signed by the S151 officer and presented for audit before the 30 June 2011 deadline. This was a good achievement given implementation of IFRS in 2010/11.

Recommendation

R1 Carry out a full internal consistency check of the draft accounts for 2011/12 to ensure:

- the entries in the movement in reserves statement are fully consistent with balance sheet reserve movements and other disclosures in the accounts; and
- the figures in the statement of movement on the housing revenue account are consistent with the HRA entries in the movement in reserves statement.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
Implementation of IFRS The Council produced its 2010/11 financial statements under International Financial Reporting Standards (IFRS). The new standards required restatement of both opening and closing balances from the previous year as well as additional disclosures. There was a risk that council's which were not well prepared for the new requirements would not succeed in preparing the necessary information in time.	I monitored the Council's progress with IFRS implementation throughout 2010/11. The Council had a strong framework for the introduction of the new standards, with timely consideration of the amendments required. I carried out early work on the restatement and highlighted two areas for extra consideration (treatment of capital grants and classification of cash equivalents). The Council subsequently made some changes to its comparatives after considering my feedback. The Council produced IFRS compliant accounts by the 30 June deadline. I identified some errors in these accounts during my audit and have noted these in this report.

Financial statements

Significant weaknesses in internal control

I have not identified any significant weaknesses in the design or operation of an internal control that might result in a material error in your financial statements

A material weakness in internal control is a deficiency in design or operation which could adversely affect the Council's ability to record, process summarise and report financial and other relevant data. I have not identified any weaknesses in the design or operation of internal controls that might result in a material error in your financial statements. However I identified some cut-off errors in housing revenue account expenditure during my audit (see appendix 3). These errors arose because of timing differences in year-end interfaces and lack of clarity over year-end bad debt adjustments.

These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. I wish to bring one matter to your attention.

Table 1: **Accounting practices, policies, estimates and financial closures**

Issue	Findings and recommendations
Related party disclosures The Council has to disclose any member related party transactions in its accounts. The Council needs to set up processes to identify any relevant disclosures.	Officers send out annual declarations to all members seeking confirmation of all related parties. Members need to complete the declarations so officers can identify any related party transactions for disclosure in the accounts. Some Members were slow in responding and officers had to carry out added procedures to ensure there were no missing disclosures in the accounts.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of the draft letter of representation prepared by management is included in appendix 4 for your approval.

Recommendations
R2 Ensure reliable year end data is obtained from all departments for inclusion in the financial statements.
R3 The Audit Committee should review the process for annual Members declarations and ensure Members respond promptly to requests made.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of these areas is set out below.

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	**The Council has good financial governance and sound arrangements for financial control. It is strengthening its financial planning to ensure it is well-placed to address the financial pressures it faces over the medium term.** The Council has a good understanding of its financial position. Members scrutinise and challenge performance and hold officers to account. The Council is introducing new performance management framework and risk management arrangements in 2011/12 to strengthen existing arrangements. The Council has refreshed its corporate priorities in 2010/11, in its new Five-Year Business Plan. It has reviewed and updated its medium term financial plan because of these priorities and the current economic climate. The Council has a good track record of managing within its budget. It achieved a £248,000 budget underspend in 2010/11 despite significant budget pressures. At 31 March 2011 it had general fund balances and reserves of £7,152,000, which is in line with its requirements.

Criterion	Findings
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	**The Council takes a strategic approach to setting priorities and achieving cost cuts through improved efficiency and productivity.** The Council has reviewed its corporate priorities and identified new strategies to help it manage its financial position in the medium term. It carried out a comprehensive consultation with residents and staff in 2010/11 to ensure it based its 2011/12 budget decisions on local needs and expected delivery costs. The Council's spending is low when compared with similar authorities. Further reductions of 15 per cent are required over the next 12 months. The updated medium term financial plan clearly considers the implications of this reduced spending. Officers have shown a strong commitment to explore the most effective way of delivering services to achieve this savings target. The Council continues to explore all opportunities for service efficiencies, for example through outsourcing, bringing services back in-house and shared services arrangements. Business planning, including arrangements for performance and risk management, is in the process of being updated and strengthened. It is important that new arrangements are finalised as a priority to ensure the full benefit is secured from the changes in 2011/12 and beyond.

Recommendation

R4 Continue efforts to strengthen business planning and ensure new arrangements are finalised in time to secure full benefits for 2011/12 and the future.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASHFORD BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Ashford Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Ashford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Deputy Chief Executive and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Deputy Chief Executive is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements
In my opinion the accounting statements:

- give a true and fair view of the state of Ashford Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters
In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception
I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities
I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion
I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Ashford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Ashford Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

Officer of the Audit Commission

Audit Commission,
1st Floor,
Millbank Tower,
Millbank,
London,
SW1P 4HQ

Date:

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

The financial statements presented for audit were complete, but I identified some casting errors in the accounts and several inconsistencies in the classification of items. These issues affected the 2010/11 figures and the comparatives. Management agreed to amend the statements to resolve all the issues I highlighted. The amendments led to several changes in the financial statements. Areas affected included:

- the explanatory foreword;
- the movement in reserves statement;
- reconciliation of income and expenditure in note 5 (amounts reported for resource allocation decisions);
- movements in capital grants in note 11;
- adjustments between accounting basis and funding basis under regulations (note16);
- analysis of movements in property plant and equipment (note 17);
- capital expenditure and financing (note 20);
- revaluation reserve and capital adjustment account movements (notes 27a and 27b); and
- the housing revenue account and its supporting notes.

The Council amended the balance sheet comparatives for both 1 April 2009 and 31 March 2010 to exclude Growth Area Funding, which the Council receive as agents for the Partnership Board. The funding balances, removed from cash equivalent and creditor balances, are £10.8 million at 1 April 2009 and £10 million at 31 March 2010. (£11.2 million was already correctly excluded from the 31 March 2011 cash and creditor balances).

I identified a few other misstatements during my audit, which management also agreed to adjust in the financial statements. Details are as follows:

Adjusted misstatement	Nature of adjustment	Value £ 000's
Comprehensive income and expenditure account (CIES) and note 15 taxation and non-specific grant income: under IFRS capital grants received with no conditions are included in the comprehensive income and expenditure account. The Council considered the nature of all its grants and included apt entries in the CIES, but the grants were not correctly classified.	The grants entries in the 2010/11 CIES and the restated comparatives have been amended to reclassify grants under the correct headings. In particular, capital grants received are included in taxation and non-specific grant income. The reconciliation of service income and expenditure in note 5 has also been amended for this reclassification.	5031
Balance sheet : both debtors and creditors were overstated as they included NNDR balances the Council hold as an agent in error.	Ratepayer debtor balances in note 25 and government department creditor balances in note 26 were both reduced.	758
Note 25 debtors: the analysis of debtor balances in note 25 was wrongly classified**.**	Government department balances were reduced and sundry debtor balances increased to correct the classification error.	758
Note 28 leases: income due from the Ashford Indoors Bowls Centre lease was incorrectly grouped over the life of the lease**.**	Finance lease disclosures in note 28 have been amended to correct the analysis errors in the principal and interest allocations.	2-5 years - 42 >5 years +42

I recommended some presentational changes to the financial statements to disclose one exceptional item separately on the face of the comprehensive income and expenditure statement. This related to the gain from the mandated recalculation of the pension past service cost using the CPI instead of the RPI. I also recommended several presentational changes to the financial statements, to amend or expand the disclosures in some areas. The Council amended the cash equivalent accounting policy, pensions disclosures and the capital commitments note. It added more financial instrument disclosures and a post balance sheet event note.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has decided not to adjust the financial statements for these items. Their reason for this is set out in the draft management representation letter in appendix 4**. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements or to tell me why they have not been amended in the signed representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.**

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Comprehensive income and expenditure account (CIES): some invoices processed in the last few days of the financial year on the housing Archouse system were excluded from accruals in error.	Creditors and housing expenditure (in both the housing revenue account and CIES) should both be increased to include all missing accruals,	local authority housing 50			creditors 50

		Comprehensive income and expenditure statement		Balance sheet	
Balance sheet: right to buy council dwelling with a higher than 50 percent probability of sale were not reclassified as held for sale (HFS) assets.	Council dwellings with a higher than 50 per cent probability of sale should be reclassified from property plant and equipment (PPE) to HFS assets on the balance sheet.			HFS assets 80	PPE 80
Note 25 debtors: the housing bad debt provision is overstated because it has not been revised in 201/11.	The provision should be reduced by £198,000 to agree to the calculated provision at 31 March 2011.	debtors 198			housing services 198

Appendix 4 – Draft Letter of Representation

To: Andy Mack
Appointed Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
London
SW1P 4HQ

Ashford Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Ashford Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

The reasons for not correcting these items are as follows:

- reason 1;
- reason 2
- reason 3

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I am not aware of any instances of:

- any fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- any risks that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I am not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Specific representations

I confirm the following specific representations:

- we have excluded all material balances held by the Council as an agent for other parties from the accounts.

Related party transactions

I confirm that I have disclosed the identity of Ashford Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Comparative financial statements

We made a £3,288,000 restatement to correct a material misstatement in the 2009/10 trade creditors figure in the financial instruments note (note 22), The note has been restated from £11,055,000 to £7,767,000. Written representations previously made for the prior period remain appropriate.

Signed on behalf of Ashford Borough Council

………………………………………………………..

Paul Naylor, Deputy Chief Executive

Date

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2011.

Signed

……………………………………………………………………………..

Councillor Clokie (Chairman)

Date

Appendix 5 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 Action Plan

Recommendations	
Recommendation 1	
Carry out a full internal consistency check of the draft accounts for 2011/12 to ensure: ■ the entries in the movement in reserves statement are fully consistent with balance sheet reserve movements and other disclosures in the accounts; and ■ the figures in the statement of movement on the housing revenue account are consistent with the HRA entries in the movement in reserves statement.	
Responsibility	Finance Manager
Priority	Medium
Date	June 2012
Comments	The introduction of IFRS resulted in a great number of changes to the format of the accounts and the introduction of new statements. Mostly, the statements have fully complied with the new standards, though the audit has been very useful in identifying areas to focus on for consistency checks. It is expected that as the new standards become more familiar to my staff there will be further improvements made to the overall quality of the statements. Officers are working with Lynn Clayton, the Audit Manager, to develop a checklist to assist this process.
Recommendation 2	
■ Ensure reliable year end data is obtained from all departments for inclusion in the financial statements	
Responsibility	Finance Manager and Service Heads

Priority	Medium
Date	April 2012
Comments	The closedown timetable will be reviewed and an additional task will be included to interface the Housing System with the Creditors system at 31/03/2012. Year-end guidance will be reviewed and if necessary more training sessions will be held.

Recommendation 3

- The Audit Committee should review the process for annual Members declarations and ensure Members respond promptly to requests made.

Responsibility	Chair of the Audit Committee and Deputy Chief Executive
Priority	Medium
Date	May 2012
Comments	The turnover of Members in the election made it particularly difficult to get returns from all members for 2010/11. Further there were exceptional circumstances (health reasons) in two cases that prevented declarations from being made.

Recommendation 4

- Continue efforts to strengthen business planning and ensure new arrangements are finalised in time to secure full benefits for 2011/12 and the future.

Responsibility	Chief Executive and Deputy Chief Executive
Priority	High
Date	November 2012
Comments	Work is ongoing to ensure that the savings identified in the Business Plan are being delivered with regular reports to Management Team and the Cabinet. Work on updating the Medium Term Financial Plan is currently being undertaken to refresh the financial plan and to ensure that resources are allocated to priority areas.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

audit commission

www.audit-commission.gov.uk

September 2011

Deputy Chief Executive, Paul Naylor CPFA MBA

Ask For: Paul Naylor
Email: paul.naylor@ashford.gov.uk
Direct Line: (01233) 330436

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Andy Mack - Appointed Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
LONDON
SW1P 4HQ

Date: 28 September 2011

Dear Andy

Ashford Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Ashford Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

The reasons for not correcting these items are as follows:

- The Housing Creditors misstatement was not adjusted because this was not material to the accounts. Processes will be reviewed and amended where necessary

- Regarding ‘assets for sale’ and the status of various prospective Right to Buy sales I have a different view on whether the Right to Buy sales identified in the audit should be classified as assets Held for Sale (as proposed by the auditor) rather than council housing assets, as currently presented in the accounts. It is my view these assets are not actively marketed (unlike, for example non-housing land that is agreed by the council as surplus to requirements and then marketed for sale), and further the evidence available suggests it is unclear that there is a greater than 50% prospect that council houses that are the subject of a RTB application will eventually be sold. For these reasons it was decided not to amend the statement.

- It is accepted that the Bad Debt Provision for Housing is overstated, but further work to identify the correct provision from the housing management information system is needed before an amendment may be made. As any adjustment was not likely to be material the statement was not revised, but Officers are to review the information within the Housing System to enable a new calculation of the provision to be made in 2011/2012.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I am not aware of any instances of:

- any fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others; and
- any risks that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I am not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Specific representations

I confirm the following specific representations:

- we have excluded all material balances held by the Council as an agent for other parties from the accounts.

Related party transactions

I confirm that I have disclosed the identity of Ashford Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Comparative financial statements

We made a £3,288,000 restatement to correct a material misstatement in the 2009/10 trade creditors figure in the financial instruments note (note 22), The note has been restated from £11,055,000 to £7,767,000. Written representations previously made for the prior period remain appropriate.

Signed on behalf of Ashford Borough Council

……………………………………………………..
Paul Naylor, Deputy Chief Executive

Date

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2011.

Signed

……………………………………………………………………………..
Councillor Clokie (Chairman)

Date

ASHFORD
BOROUGH COUNCIL

Statement of Accounts

2010-2011

Ashford
best placed in Britain

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Approval of the Statement of Accounts

After an amendment to the Accounts and Audit Regulations it is no longer necessary for Members to approve the Statement of Accounts before the audit commences, Members must however approve the accounts before 30 September. The Responsible Finance Officer (The Deputy Chief Executive) must sign the accounts before the 30 June.

Council Approval of the Statement of Accounts for the year ended 31st March 2011

The Audit Committee at its meeting on the 28 September 2011 approved the Statement of Accounts for the year ended 31 March 2011 in accordance with the Accounts and Audit Regulations 2003 (as Amended).

Signed:

Councillor Clokie
Chairman Audit Committee

Explanatory Foreword

Introduction

This foreword explains the key components of the Statement of Accounts.

Local Authority accounts are subject to a number of regulatory requirements and accounting standards. This results in a complex format which requires the reader to have a reasonable knowledge of accounting terms and presentation. Where the use of technical terms is unavoidable, an explanation is provided in the Glossary (Page 105).

The Statement of Accounts

The content and format of the Statement of Accounts is prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which has approval from the Accounting Standards Board as a Code of Practice of Local Authority Accounting (The Code). The Statement of Accounts includes the Core Financial Statements and Supplementary Financial Statements along with other statutory sections.

In recent years both central government and the Accounting Standards Board have sought to bring Local Authority accounts in line with UK GAAP (Generally Accepted Accounting Principles). However, for 2010/11, the Statements must comply with International Financial Reporting Standards (IFRS). Whilst these are broadly similar with UK GAAP there are some presentational and substantive changes.

The Main areas of Change are:

- Change in Classification of Assets
- The introduction of componentisation of fixed assets
- Changes to the treatment of Leases including embedded leases
- Change in the treatment of capital grants and contributions.

The Core Financial Statements (Page 10) comprise:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement (A new statement)
- Balance Sheet
- Cash Flow Statement

Overview of 2010/2011 Financial Results and Activity

General Fund (i.e. excluding the Housing Revenue Account)

The Comprehensive Income and Expenditure Statement (page 10) includes the General Fund, upon which the Council Tax is set, and the Housing Revenue Account. The General Fund outturn detailed overleaf excludes the Housing Revenue Account and for this reason does not reconcile with the statutory presentation of the Comprehensive Income and Expenditure Statement.

The General Fund is the main revenue fund of the Authority and covers day to day expenditure and related income on all services. The Council set its Budget Requirement at £14,690,220 (amount to be funded by Government Grant and Council Tax) with a further £760,390 levied by Parish Councils.

This was an increase of 3.99% or £5.40 to the Band D rate over the previous year.

The General Fund (un-earmarked reserve) Balance at 01 April 2010 of the year was a surplus of £3,420,133. The Council's reserves strategy is to maintain at least a minimum balance of 7% of the Budget Requirement, which for 2010/11would be £1,028,315.

General Fund Final Outturn 2010/11

Service	Revised Budget A £'000	Outturn to 31/03/11 B £'000	Variance (B-A) £'000
Net Service Expenditure	**16,874**	**16,581**	**(293)**
Capital Charges and net interest	(2,364)	(2,343)	21
Levies, Grants and Precepts	1,090	1,076	(14)
Other non Service Grants and Levies	(150)	(142)	8
Net Expenditure including Parishes	**15,450**	**15,172**	**(278)**
Support Costs Adjustments	-	30	30
	15,450	**15,202**	**(248)**
Funded By:			
Government Grant	(8,345)	(8,345)	-
Collection Fund Surplus	(30)	(30)	-
Parish Precepts	(760)	(760)	-
Council Tax	(6,315)	(6,315)	-
Total Financing	**(15,450)**	**(15,450)**	**-**
	-	**(248)**	**(248)**

The table above should be read in conjunction with the Comprehensive Income and Expenditure Statement and associated notes on page 10. The Comprehensive Income and Expenditure Statement has deficit of £90,221,000 is before the statutory adjustments contained within note 16, Adjustments between Accounting Basis and Funding Basis under Regulations This is because the Councils funding is calculated on a different basis from company accounting and so adjustments are needed to bring the figures back to the funding basis.

Comparison of Budget to General Fund Final Outturn – Major Variances	
	£'000
Staff Vacancy Savings	(426)
Government Funding cut (Housing and Planning Delivery Grant and Area Based Grant)	457
Council Tax and Housing Benefits Payments and Administration	(266)
Car Park Income and Maintenance	(43)
Management of Council Properties	68
Grounds Maintenance	(93)
Leisure Centre Utilities	(60)
Computing Network Costs	70
Other	45
	(248)

Housing Revenue Account (HRA)

For 2010/11 the Council planned a shortfall of £41,000 on the HRA to be financed from HRA reserves. However ,because of lower interest charges and support costs, actual results produced a surplus of £481,000.

Housing Revenue Account Outturn 2010/11

	Original Budget A £'000	Outturn to 31/03/11 B £'000	Variance (B-A) £'000
Income	(20,226)	(20,295)	(69)
Supervision and Management	7,547	7,547	-
Repairs and Maintenance	3,219	2,972	(247)
New Development Costs	-	331	331
Net Service Expenditure	**(9,460)**	**(9,445)**	**15**
Capital Charges and Net Interest	3,898	3,375	(523)
HRA Subsidy	3,624	3,998	374
Provision for Bad Debts	80	-	(80)
Support Costs	1,899	1,591	(308)
(Surplus)/Deficit for year	**41**	**(481)**	**(522)**

The main items of variance, in regards to service expenditure, were:

Table 3 - Comparison of Budget to Final Outturn	**£'000**
Rent income was higher than budget due to improved collection rates and fewer Right to Buys than anticipated	(57)
Stanhope PFI costs were lower than budget as a result of an accounting accrual, and income from the contractor	(131)
Income from rechargeable works in regards to the regeneration work at Bybrook, as agreed by Executive	(99)
Recovery of costs for use of Homebridge recuperative care property	(33)
Costs of the new social housing development	331
Other Minor Variances	4
Net Under Spend against budget	**15**

The accumulated HRA reserve balance at 31 March 2011 was a surplus of £2,151,678. In addition, the Major Repairs Reserve stands at £3,912,890, which is available to fund the Decent Homes programme, giving a total balance for HRA reserves of £6,064,568 (compared with £6,423,084 as at 31 March 2010). This position needs to be considered against the longer term business plan for the HRA.

- **Capital Expenditure**

Capital expenditure is spending on the acquisition, construction, enhancement or replacement of tangible assets such as land, buildings or major items of equipment and intangible assets (such as computer software) which will be used to benefit services over a number of years.

The material differences between budgeted and actual expenditure relate to timing.

In the financial year 2010/11 the budget and outturn for the capital programme was:

Summary of Capital Spending and Financing

	Budget £'000	**Actual £'000**
General Fund Capital Expenditure	2,192	5,446
HRA Capital Expenditure	4,696	7,522
Total Expenditure	**6,888**	**12,968**
Funding		
Capital Receipts		391
Ring-fenced capital receipts		1,709
GAF Funding		1,387
HCA (New Build)		1,520
Repairs and Renewals reserve		36
External Grants and Contributions		901
Developer Contributions		1,002
GF Revenue Contributions		20
Housing Subsidy		36
Major Repairs Reserve		4,189
Prudential Borrowing		1,777
Total Funding		**12,968**

Treasury Management

Borrowing

At 31 March 2011 the Council had long term borrowing of £5.9m.

The Council undertakes short term borrowing and lending (i.e. less than 365 days) on the Money Markets to manage its day to day cashflow. As at 31 March 2011 the Council's temporary borrowing stood at £10.3m.

Investments

The Council had, at 31 March 2011, investments and cash of £47.1m.

As a result of the global economic climate the Council restricted investments to Government Bonds, other Local Authorities, Government Bodies and banks that had previously been supported by the Bank of England under the credit guarantee system.

The consequence of this policy was lower investment returns; however, the security of the Council's cash was maintained. For 2010/11 an average investment return of 1.89% was achieved (2009/10 2.84%).

Pensions

As part of the Conditions of Employment, the Council is required to offer retirement benefits in accordance with statutory requirements. Payments into the pension scheme, investment assets and future liabilities are held and managed by the Kent County Council Pension Fund on behalf of all contributing member authorities.

For further information see Note 30

Stanhope Private Finance Initiative (PFI) Project

On 17 April 2007 the PFI agreement for the regeneration of the Stanhope Estate was signed. This is for the provision of the refurbishment of properties on the estate and the related housing management function. The PFI scheme will transform the whole estate, change perceptions of the area and improve residents' quality of life. Together with improvement to the properties on the estate, associated environmental and highway improvements will also be carried out over the first five years. The Contractor, the Chrysalis Consortium (a consortium comprising Gleeson Homes, Dennes and Moat Housing), will remodel much of the estate and maintain the homes and the environment to the improved standard over the remainder of the contract period (28 years), after which the properties are handed back to the Council.

Ashford's Future

Ashford was designated as one of the sustainable community growth areas in the South East of England. After the 2010 election the Coalition Government announced it was scrapping the policy of national housing targets in favour of allowing local communities to determine suitable levels of growth. The implications of this policy shift are still being determined and will be part of the 'core strategy' review that will commence in 2011.

During 2010/11 the Council has continued to work with its Ashford's Future partners to deliver the wide range of physical and social infrastructure in the Ashford Future program. The principal source of funding was the Government's Growth Area Fund allocation. 2010/11 was the last year of this funding source, the Coalition Government has created a Regional Growth Fund against which areas can bid for funding.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its Officers has the responsibility for the administration of those affairs. In this authority, that Officer is the Deputy Chief Executive.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Responsibilities of the Deputy Chief Executive

The Deputy Chief Executive is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Deputy Chief Executive has:

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

The Deputy Chief Executive has also:

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

The Statement of Accounts present a true and fair view of the financial position of Ashford Borough Council at 31 March 2010 and its income and expenditure for the year ended on that date.

Paul Naylor
Deputy Chief Executive

Core Financial Statements

Comprehensive Income and Expenditure Statement

This 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 regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/2010 Gross Exp £'000	Gross Income £'000	Net Exp £'000		**2010/2011** Gross Exp £'000	Gross Income £'000	Net Exp £'000
10,046	(9,439)	607	Central Services to the Public	10,411	(9,515)	896
30,597	(836)	29,761	Cultural, Environmental, Regulatory and Planning services	13,619	(4,366)	9,253
3,272	(2,146)	1,126	Highways and Transport services	2,524	(2,093)	431
19,691	(20,303)	(612)	Local Authority Housing (HRA)	22,668	(23,294)	(626)
(26,374)	-	(26,374)	Exceptional Item – Impairment/Gain of HRA Stock (see note 10 to the HRA)	107,637	-	107,637
31,562	(26,832)	4,730	Other Housing Services	35,444	(32,085)	3,359
3,227	(834)	2,393	Corporate and Democratic Core	3,549	(869)	2,680
			Exceptional Item –	(9,332)	0	(9,332)
2,311	0	2,311	Non Distributed Costs	1,014	0	1,014
74,332	**(60,390)**	**13,942**	**Cost of Services**	**187,534**	**(72,222)**	**115,312**
		2,111	Other operating expenditure (note 13)			15,760
		2,129	Financing and Investment Income (note 14)			2,427
		(18,944)	Taxation and non-specific grant income (note 15)			(20,606)
		(762)	**(Surplus)/Deficit on provision of services**			**112,893**
		(7,844)	Surplus or deficit on revaluation of Property, Plant and Equipment assets (notes 17 & 27)			584
		(83)	Surplus or deficit on revaluation of available for sale financial assets			119
		25,445	Actuarial gains/losses on pension assets/liabilities (note 30)			(23,375)
		16,756	**Total Comprehensive Income and Expenditure**			**90,221**

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Balance at 31 March 2010	**(3,420)**	**(2,876)**	**(1,672)**	**(4,753)**	**(1,088)**	**(13,809)**	**(270,575)**	**(284,384)**
Movement in reserves during 2010/11								
Surplus or (deficit) on the provision of services	(10,912)	-	123,805	-	-	112,893	-	112,893
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(22,672)	(22,672)
Total Comprehensive Income and Expenditure (as per core statement)	**(10,912)**	**-**	**123,805**	**-**	**-**	**112,893**	**(22,672)**	**90,221**
Other items	-	-	-	-	-	-	-	-
Adjustments between accounting basis & funding basis under regulations (note 16)	10,056	-	(124,285)	840	73	(113,316)	113,316	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(856)**	**-**	**(480)**	**840**	**73**	**(423)**	**90,644**	**90,221**
Transfers to/from Earmarked Reserves (note 12)	465	(465)	-	-	-	-	-	-
Increase/Decrease 2010/11	**(391)**	**(465)**	**(480)**	**840**	**73**	**(423)**	**90,644**	**90,221**
Balance at 31 March 2011	**(3,811)**	**(3,341)**	**(2,152)**	**(3,913)**	**(1,015)**	**(14,232)**	**(179,931)**	**(194,163)**

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Balance at 31 March 2009	**(2,951)**	**(2,214)**	**(1,233)**	**(5,847)**	**(100)**	**(12,345)**	**(289,001)**	**(301,346)**
Movement in reserves during 2009/10								
Surplus or (deficit) on the provision of services	25,349	-	(26,111)	-	-	(762)	-	(762)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	17,518	17,518
Total Comprehensive Income and Expenditure	**25,349**	**-**	**(26,111)**	**-**	**-**	**(762)**	**17,518**	**16,756**
Other Items	-	-	-	-	62	62	144	206
Adjustments between accounting basis & funding basis under regulations (note 16)	(26,481)	-	25,672	1,094	(1,050)	(764)	764	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(1,131)**	**-**	**(439)**	**1,094**	**(988)**	**(1,464)**	**18,426**	**16,962**
Transfers to/from Earmarked Reserves (note12)	662	(662)	-	-	-	-	-	-
Increase/Decrease 2009/10	**(469)**	**(662)**	**(439)**	**1,094**	**(988)**	**(1,464)**	**18,426**	**16,962**
Balance at 31 March 2010	**(3,420)**	**(2,876)**	**(1,672)**	**(4,753)**	**(1,088)**	**(13,809)**	**(270,575)**	**(284,384)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet as at 31 March of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories.

The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

01 April 2009 £'000	31 March 2010 £'000		Notes	31 March 2011 £'000	£'000
351,955	368,799	Property, Plant & Equipment	17	248,525	
80	76	Intangible Assets		69	
15,899	12,773	Long Term Investments	22	18,084	
1,662	1,658	Long Term Debtors		1,671	
369,596	**383,306**	**Long Term Assets**			**268,349**
8,881	13,342	Short Term Investments	22	13,313	
25	29	Inventories		16	
6,578	11,228	Short Term Debtors	25	6,222	
(6,023)	(5,906)	Cash and Cash Equivalents	24	4,228	
252	49	Assets Held for Sale		-	
9,713	**18,742**	**Current Assets**			**23,779**
(4,158)	(9,014)	Short Term Borrowing	22	(10,305)	
(13,474)	(13,177)	Short Term Creditors	26	(15,215)	
(882)	(219)	Capital Grants Received in Advance	11	(2,487)	
(18,514)	**(22,410)**	**Current Liabilities**			**(28,007)**
(169)	(179)	Provisions		(195)	
(38,390)	(65,835)	Pension Liability	30	(34,352)	
(491)	(821)	Pension Strain		(679)	
(19,494)	(27,698)	PFI Liability	29	(28,249)	
(905)	(723)	Finance Lease Liability	28 & 29	(532)	
-	-	Long Term Borrowing	22	(5,951)	
(59,449)	**(95,256)**	**Long Term Liabilities**			**(69,958)**
301,346	**284,382**	**Net Assets**			**194,163**
		Financing (see MiRS)			
12,345	13,807	Usable Reserves		14,233	
289,001	270,575	Unusable Reserves	27	179,930	
301,346	**284,382**	**Total Reserves**			**194,163**

Cash Flow Statement

A statement of the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. The statement summarises in simple terms where the money came from and how it was spent.

2009/2010 £'000		2010/2011 £'000	2010/2011 £'000
(762)	Net (surplus) or deficit on the provision of services	112,893	
(25,978)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(151,556)	
25,636	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35,315	
(1,104)	**Net cash flows from Operating Activities**		**(3,348)**
4,570	Investing Activities (Note 37)		8,064
(3,583)	Financing Activities (Note 38)		(14,850)
(117)	**Net increase or decrease in cash and cash equivalents**		**(10,134)**
6,023	Cash and cash equivalents at the beginning of the reporting period		5,906
5,906	**Cash and cash equivalents at the end of the reporting period (Note 39)**		**(4,228)**

Notes to the Core Financial Statements

1. Accounting Policies

General Principles

The Statement of Accounts is prepared on an income and expenditure basis 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) approved by the International Accounting Standards Board, International Public Sector Accounting Standards (IPSAS) and the Urgent Issues Task Force’s (UITF) Abstracts.

1. **Accounting Concepts and Conventions**

The Statement of Accounts summarises the Council’s transactions for the 2010/11 financial year and its position at the year end of 31 March 2011. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of assets.

A going Concern basis has been selected for the preparation of these Statement of accounts based on the assumption that the council will operate for the foreseeable future.

Qualitative characteristics are the attributes that make the information provided within these statement of accounts useful to users (IASB Framework, paragraph 24). The IASB Framework set out the four principal qualitative characteristics of financial statements that have been adopted by the Code:

- understandability
- relevance
- reliability
- comparability

The Code also includes consideration of materiality as a qualitative characteristic, although the Framework considers it as a subsidiary concept of relevance

2. **Accruals of Income and Expenditure**

With the exception of the Cash Flow Statement, the Statement of Accounts is presented on an accruals basis. The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the Statement of Accounts for the year in which those effects are experienced, and not in the year in which the cash is actually received or paid. In particular: fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services; interest payable on borrowings and receivable on investments is accounted for 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 income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Estimation Techniques

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Details of where these are used are contained in the relevant Note to the Accounts. Where a change in an estimation technique is material, an explanation is also provided of the change and its effect on the results for the current period.

4. Costs of Internal Support Services

All costs of management and administration are fully allocated to services. The basis of allocation used for the main costs of management and administration is outlined below.

Cost	Basis of Allocation
Accounting, Legal and other services	Actual time spent by staff, as recorded on time recording systems
Administrative Buildings	Area occupied
IT support of corporate financial systems	Actual direct costs (hardware costs etc.) plus cost of estimated staff resources
Network / PC support	Per capita
Executive Support, Call Centre, Customer Contact Centre and Printing	Actual use, as recorded by monitoring systems
Internal Audit	Per audit plan
Payroll and Personnel Costs	Per capita
Debtors and Creditors	Per transaction

Any non-material balances on management or administrative holding accounts at the year-end remain on those accounts, and as such are incorporated into the General Fund balances.

5. **Council Tax and National Non-Domestic Rates**

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

Therefore, the accounts only show the amount owed to/from taxpayers in respect of 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 the previous year’s estimates. This adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

6. **Capital Charges to Revenue**

General Fund Service Revenue Accounts, Support Services and Trading Accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation.

Capital charges made to the Housing Revenue Account are the amounts as determined by statutory provision.

The premature repayment of the long term loans that result in either a premium or a discount are to be amortised to the Revenue Account either in accordance with the Housing Subsidy determinations or by reference to the Treasury Management Code of Practice.

External interest payable and amounts set aside from revenue for the repayment of external loans are charged to the Income and Expenditure Account. The reversal of capital charges is credited to the Statement of Movement of General Fund balance. Capital charges therefore do not impact on the amounts required to be raised from local taxation.

7. Revenue Expenditure Funded from Capital Under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a Fixed Asset. The purpose of this is to enable it to be funded from capital resources rather than being charged to the General Fund and impact upon Council Tax. These items are generally grants and expenditure on property, not owned by the Authority.

Such expenditure is charged to the Comprehensive Income and Expenditure Account in year. A Statutory Provision allows that capital resources that meet the expenditure be debited to the Capital Adjustment account, credited to the General Fund Balance and shown as in Movement in Reserves Statement.

8. Government Grants and 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.

9. VAT

VAT is accounted for separately and is not included in the Income and Expenditure Account, whether of a capital or revenue nature. Input VAT which is not recoverable from HM Revenue and Customs will be charged to Service Revenue Accounts or added to capital expenditure as appropriate. The Council's partial exemption status is reviewed on an annual basis.

10. 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.

11. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will benefit the Council for more than one financial year.

An intangible asset shall initially be measured at cost and is not subject to revaluation. It is, however, subject to amortisation over their useful economic life. The accounting policies practiced will be the same for all fixed assets as stated below.

12. Investment Properties

Investment property is property (land and/or buildings) held solely to earn rental income, or for capital appreciation, or both.

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.

13. Fixed Assets

13.1. Recognition

All expenditure on the acquisition, creation or enhancement of a fixed asset is capitalised on an accruals basis.

13.2. 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:

Council dwellings

These are held on the balance sheet on a market value basis but discounted to allow for the Existing Use Value – Social Housing (EUV-SH) valuations.

An annual valuation is carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) as at 1st April. Material changes will be reflected in the Accounts if they arise after the valuation.

Land and Buildings

These are held on the balance sheet at cost allowing for revaluation every five years. The last revaluation was as at 1st April 2009.

The valuations are carried out by a qualified surveyor in accordance with the latest guidance issued by 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 for the current year's valuation will be explained in notes 17-19 and HRA note 2. 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 their estimated useful life, which depends on the asset type. In accordance with recognised accounting practice land is not depreciated.

IFRS requires the consideration of componentisation for material items of property, plant and equipment, where they are of a material financial nature or have significantly differing life expectancies. The Council has set a minimum asset value of £1,000,000 and a component size of at least 10% of the value.

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 the expected life of the asset.

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

Assets under Construction
This covers assets currently not yet ready for operational purposes. The Council does not depreciate or revalue assets under construction.

13.3. **Depreciation**

Depreciation on assets with a finite useful life, in line with International Financial Reporting Standards (IAS 16), is calculated on a straight-line basis according to the following policy:

- All assets with a finite useful life are depreciated on a straight-line basis over the asset life. The life of buildings is reviewed as part of the asset revaluation. The life of vehicles, plant and equipment is generally taken to be five years, unless evidence exists to support a longer or shorter life.

- Newly acquired assets are depreciated in year one; assets in the course of construction are not depreciated until they are brought into use.

For Council Dwellings the Major Repairs Allowance is used as a proxy for depreciation. Council Dwellings are revalued annually. Other HRA land and property are valued as above.

13.4. **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. On revaluation accumulated depreciation will be written back to the asset using the revaluation reserve.

14. **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.

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.

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.

15. **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 an asset under a 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.

As lessor, the Council shall derecognise the asset and show this as a long term debtor. For existing leases, which would be treated as finance leases, an adjustment will be made transferring the capital receipt into the General Reserve.

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.

16. Current Assets and Liabilities

16.1. Debtors and Creditors

The Revenue and Capital accounts of the Council are maintained on an accruals basis in accordance with the Code and other relevant IASs. 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.

16.2. **Stocks**

Stocks are valued at the latest price paid. This is a departure from the requirements of the Code and ISA 2, which requires stocks to be shown at actual cost or net realisable value if lower. The effect of the different treatment is immaterial given the low stock levels held.

16.3. **Investments**

See the accounting Policy on Financial Instruments

16.4. **Bad Debts**

The figure shown in the Statement of Accounts for debtors is adjusted for bad debts. This provision is recalculated annually by applying a percentage factor to the debt in each age category that is unlikely to be collectable. Known un-collectable debts are written off.

17. **Contingent Assets and Contingent Liabilities**

Contingent assets are not recognised in the Statement of Accounts. 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 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.

18. **Provisions**

The Council sets aside provisions for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. The value of the provision must be the best estimate of the likely liability or loss.

19. **Reserves**

The Council maintains both general and earmarked reserves. The General reserve is designed to act as a working contingency to meet unforeseen and unforeseeable costs including those relating to emergencies. Earmarked reserves, such as the repairs and renewals 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.

Capital Reserves are not available for revenue purposes and certain Capital Reserves (e.g. Usable Capital Receipts) can only be used for certain statutory purposes.

The Major Repairs Reserve is required by statutory provision to be set up in relation to the Housing Revenue Account.

20. **Pension Costs**

The amount charged to the Comprehensive Income and Expenditure Account for employees pensions should be in accordance with IAS19 Retirement Benefits, subject to the interpretations set out in the Code.

Employees can elect to be members of the Local Government Pension Scheme administered by Kent County Council. The Scheme provides defined benefits to members (retirement lump sums and pensions), earned in relation to their qualifying public service. This is accounted for in the following ways:

- Liabilities of the pension scheme 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.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% based on the indicative rate of return.

- The assets of the pension fund attributable to the Council are included on 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 net pensions liability is analysed into seven components:

  - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Account to the revenue accounts of which the employees worked.

  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the net cost of services in the Comprehensive Income and Expenditure Account as part of the Non Distributable costs.

  - Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. Debited to the Comprehensive Income and Expenditure Account under net operating expenditure.

  - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on the average expected long term return – credited to the Comprehensive Income and Expenditure Account under net operating expenditure.

  - Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or actions that reduce the expected future service or actuarial benefits of employees - debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable costs.

  - 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 assumptions have been updated. Debited to the Comprehensive Income and Expenditure Account.

A prerequisite of the introduction of IAS19 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 shows 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.

For further details see Note 30.

21. **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.

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.

22. **Financial Instruments**

The Code has significant disclosure requirements relating to Financial Instruments (e.g. loans and investments). They relate to the identification of the various types of Financial Instruments, gains and losses arising from transactions during the year, comparative valuation statements, and the assessment of risks associated with holding Financial Instruments.

Detailed disclosure of the Council's holding of Financial Instruments is included in Note 22 on page 67.

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Account 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.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments, but 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.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Account 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 Comprehensive Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Account.

Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Account when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value.

Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and,
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Movement in Reserves Statement. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Account.

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

Credit Risk

The Code requires Authorities to estimate the "Fair Value" of their Financial Instruments and compare them with the carrying amounts which appear on the Balance Sheet. The Fair Value estimate will include the future discounted cash flows associated with the Council's Financial Instruments as at 31 March 2011. The discount rate should reflect prevailing interest rates as at 31 March 2011. Full details of this disclosure are included Note 22 on page 67.

The Code identifies the following three types of risk associated with Financial Instruments:

(a) Credit risk relates to the possibility of counterparties defaulting on their financial obligations.

(b) Liquidity risk relates to the possibility of funds being unavailable to meet financial commitments.

(c) Market risk relates to possible exposure to adverse interest rate movements, or changes in other market conditions e.g. foreign exchange rates.

The Code requires Authorities to produce a sensitivity analysis, detailing the impact of a 1% interest rate change. A full assessment of these risks, including the sensitivity analysis, is included in Note 22 on page 67.

The Code's disclosure requirements in relation to credit risk are equally applicable to outstanding debtors. Note 22 on page 67 includes an age analysis of overdue debtors at the balance sheet date. In addition to this a provision for bad debts is also included in the Statement of Accounts (Statement of Accounting Policies 12.4).

23. 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 change in value and are shown on the balance sheet at their nominal value, these include investments that can be accessed immediately without incurring a penalty, such as a call accounts.

24. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available fixed assets, 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 the ownership of the fixed assets will pass to the Council at the end of the contact at no charge, the Council carries the fixed assets used under the contract on the balance sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets.

The stock is recognised at market value less the EUV-SH factor and additions are measured at cost as per the contractor model. Lifecycle costs are accounted for when they occur.

Fixed assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI operators will be analysed into the following elements:

- Fair value of the services received during the year.
- Finance charge – an interest charge on the balance sheet liability.
- Payment towards the liability.

25. **Group Accounts**

Local Authorities are required to consider all their interests in subsidiaries, associated companies and joint ventures and to prepare a full set of group financial statements where they have material interests, thereby providing a complete picture of the Authority's control over other entities.

This Council has undertaken an exercise examining all its partnership arrangements and workings with other undertakings, and has determined that it has no interests in subsidiaries, associated companies or joint ventures.

26. **Exceptional Items and Prior Year Adjustments**

Exceptional items 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 should be given within the notes to the accounts.

27. **Events after the Balance Sheet Date**

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, the amounts in the Statement of Accounts and any affected disclosures should be adjusted.

Where an event occurs after the Balance Sheet date and is indicative of conditions that arose after the Balance Sheet date the amounts recognised in the Statement of Accounts should not be adjusted but a disclosure made including:

- The nature of the event
- An estimate of the financial effect

Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue.

2. Accounting Standards Issued, Not Adopted

A small number of IFRSs are only expected to apply to local authorities in limited circumstances. As such, the Code does not include detailed accounting requirements for these IFRSs. Where an IFRS is relevant to a local authority, the authority shall comply with the requirements of the relevant IFRS. The standards not covered in detail in the Code are:

- IAS 12 *Income Taxes*

- IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- IAS 29 *Financial Reporting in Hyperinflationary Economies*
- IAS 41 *Agriculture*
- IFRS 2 *Share-based Payment*
- IFRS 4 *Insurance Contracts*
- IFRS 6 *Exploration for and Evaluation of Mineral Resources*
- IFRS 30 *Heritage Assets (to be adopted 2011/12)*

Further details of these standards and the appropriate treatment of items relating to these standards are contained in appendix A of the Code.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note1, the Authority 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:

- The authority has entered into legal proceedings against a contractor of the Stour Centre project. No allowance has been made in the accounts for any cost recovery. For more Information see note 34

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

The items in the Authority's Balance Sheet at 31 March 2011 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**
Concessionary Fares Claim	Included within the cost of services is a provision for the cost of concessionary fares. One bus company have appealed, to the Department of Transport, the re-imbursement rate used to compensate them for their losses. The judgement of this appeal has been fully provided for however this is now subject to a judicial review	If successful the provision will be written back to revenue.

Land Searches	The Government has changed the interpretation of the regulations for setting charges for Private Search Fees. A reasonable estimate has been made of potential claims and an amount has been set aside into a reserve.	A Grant has been paid to the Council to cover the cost of this change of £42,000 which has been added to a reserve to cover potential claims. The total claims could exceed £110,000
Pensions	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 actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	A 0.1% change in the discount rate (the iBoxx Corporate Bond Index) would result in a change in the liability of £2m. A 1 year change in the mortality assumption would result in a £3.6m change in the pension liability.
Sundry Bad Debts Provision	The Council has a bad debts provision of £330,000 approximately 30% of the value outstanding debt	In the current economic climate collection rates have been maintained, however any decline in collection rates for debt would result in a need to increase the provision.

5. Amounts Reported for Resource Allocation Decisions

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

2010/11	Corporate Management	Audit Partnership	Strategy, P'Ships & Comms Serv	Personnel & Development	Legal & Democratic Services	Planning & Development	Financial Services	Business Change & Tech Service	Housing (General Fund)	Sub Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure										
Employees	361	85	446	319	1,069	2,413	3,434	493	1,548	**10,168**
Premises	1	-	-	-	-	6	-	1	784	**792**
Supplies and Services	209	55	152	24	491	587	35,920	306	1,016	**38,760**
Transport	15	-	1	16	28	46	19	7	19	**151**
Total Expenditure	**586**	**140**	**599**	**359**	**1,588**	**3,052**	**39,373**	**807**	**3,367**	**49,871**
Income	**(18)**	**(2)**	**(144)**	**(22)**	**(230)**	**(2,029)**	**(40,533)**	**(42)**	**(1,868)**	**(44,888)**
Net Controllable Expenditure	**568**	**138**	**455**	**337**	**1,358**	**1,023**	**(1,160)**	**765**	**1,499**	**4,983**
Non Controllable Items										
Recharged from other Accounts	3	(138)	(61)	(252)	(205)	612	(669)	(795)	(1,412)	**(2,917)**
Capital Charges	7	-	32	-	10	487	42	74	2,932	**3,584**
Transfer to/from Reserves	-	-	-	-	-	-	-	-	-	-
Total Non-Controllable Items	**10**	**(138)**	**(29)**	**(252)**	**(195)**	**1,099**	**(627)**	**(721)**	**1,520**	**667**
Net Expenditure	**578**	**-**	**426**	**85**	**1,163**	**2,122**	**(1,787)**	**44**	**3,019**	**5,650**

2010/11	Sub Total £'000	Environmental Services £'000	Cultural Services £'000	Capital Charges £'000	Net Interest £'000	Grants and Levies £'000	Gov Grants £'000	Council Tax £'000	Transfers To Reserves £'000	Total £'000
Expenditure										
Employees	10,168	2,541	1,077	-	-	-	-	-	-	**13,786**
Premises	792	1,893	491	-	-	-	-	-	-	**3,176**
Supplies and Services	38,760	4,033	650	4,629	-	316	-	-	-	**48,388**
Transport	151	60	26	-	-	-	-	-	-	**237**
Total Expenditure	**49,871**	**8,527**	**2,244**	**4,629**	-	**316**	-	-	-	**65,587**
Income	(44,888)	**(3,745)**	**(320)**	-	**(16)**	-	**(8,437)**	**(6,347)**	-	**(63,753)**
Net Controllable Expenditure	**4,983**	**4,782**	**1,924**	**4,629**	**(16)**	**316**	**(8,437)**	**(6,347)**	-	**1,834**
Non Controllable Items										
Recharged from other Accounts	(2,917)	179	212	-	(5)	-	-	-	-	**(2,531)**
Capital Charges	3,584	589	(377)	(3,828)	(124)	-	-	-	-	**(156)**
Transfer to/from Reserves	-	13	(72)	-	56	-	-	-	611	**608**
Total Non-Controllable Items	**667**	**781**	**(237)**	**(3,828)**	**(73)**	-	-	-	**611**	**(2,079)**
Net Expenditure	**5,650**	**5,563**	**1,687**	**801**	**(89)**	**316**	**(8,437)**	**(6,347)**	**611**	**(245)**

2009/10	Corporate Management £'000	Audit Partnership £'000	Strategy, P'Ships & Comms Serv £'000	Personnel & Development £'000	Legal & Democratic Services £'000	Planning & Development £'000	Financial Services £'000	Business Change & Tech Service £'000	Housing (General Fund) £'000	Sub Total £'000
Expenditure										
Employees	453	80	344	284	1,053	2,404	3,568	512	1,469	**10,167**
Premises	-	-	-	-	15	4	-	1	956	**976**
Supplies and Services	233	54	97	28	543	1,190	37,245	253	(968)	**38,675**
Transport	8	-	1	20	25	48	15	4	15	**136**
Total Expenditure	**694**	**134**	**442**	**332**	**1,636**	**3,646**	**40,828**	**770**	**1,472**	**49,954**
Income	**(42)**	**-**	**(147)**	**(3)**	**(149)**	**(3,387)**	**(37,660)**	**(49)**	**(1,905)**	**(43,342)**
Net Controllable Expenditure	**652**	**134**	**295**	**329**	**1,487**	**259**	**3,168**	**721**	**(433)**	**6,612**
Non Controllable Items										
Recharged from other Accounts	(22)	(134)	(4)	(276)	(221)	593	(704)	(746)	(1,357)	**(2,871)**
Capital Charges	7	-	20	-	10	(13)	-	41	5,205	**5,270**
Transfer to/from Reserves	-	-	-	-	(67)	-	-	-	-	**(67)**
Total Non-Controllable Items	**(15)**	**(134)**	**16**	**(276)**	**(278)**	**580**	**(704)**	**(705)**	**3,848**	**2,332**
Net Expenditure	**637**	**-**	**311**	**53**	**1,209**	**839**	**2,464**	**16**	**3,415**	**8,944**

2009/10	Sub Total	Environmental Services	Cultural Services	Capital Charges	Net Interest	Grants and Levies	Gov Grants	Council Tax	Transfers To Reserves	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure										
Employees	10,167	2,477	1,151	-	-	-	-	-	-	**13,795**
Premises	976	1,828	426	-	-	-	-	-	-	**3,230**
Supplies and Services	38,675	4,149	(1,032)	4,196	240	324	-	35	-	**46,587**
Transport	136	59	26	-	-	-	-	-	-	**221**
Total Expenditure	**49,954**	**8,513**	**571**	**4,196**	**240**	**324**	-	**35**	-	**63,833**
Income	(43,342)	**(3,189)**	**(613)**	**(89)**	**(688)**	-	**(8,374)**	**(6,048)**	-	**(62,343)**
Net Controllable Expenditure	**6,612**	**5,324**	**(42)**	**4,107**	**(448)**	**324**	**(8,374)**	**(6,013)**	-	**1,490**
Non Controllable Items										
Recharged from other Accounts	(2,871)	198	171	-	-	-	-	-	-	**(2,502)**
Capital Charges	5,270	1,306	19,823	(26,399)	-	-	-	-	-	-
Transfer to/from Reserves	(67)	-	(56)	-	-	-	-	-	666	**543**
Total Non-Controllable Items	**2,332**	**1,504**	**19,938**	**(26,399)**	-	-	-	-	**666**	**(1,959)**
Net Expenditure	**8,944**	**6,828**	**19,896**	**(22,292)**	**(448)**	**324**	**(8,374)**	**(6,013)**	**666**	**(469)**

Reconciliation of Service Income and Expenditure to Cost of services in the Comprehensive Income and Expenditure statement

This reconciliation shows how the figures in the analysis of [directorate] income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2009/2010 £'000		2010/11 £'000
(469)	Net expenditure in the [Directorate] Analysis	(245)
(437)	Net expenditure of services and support services not included in the Analysis	(482)
598	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	113,983
17,064	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(23,035)
16,756	**Cost of services in Comprehensive Income and Expenditure statement**	**90,221**

Cost of Services Subjective Analysis

2009/10				**2010/11**		
General Fund £'000	**Housing Revenue Account £'000**	**Total £'000**		**General Fund £'000**	**Housing Revenue Account £'000**	**Total £'000**
			Expenditure			
13,174	1,903	15,077	Employees	3,704	2,020	5,724
3,218	4,029	7,247	Premises	3,176	4,173	7,349
46,266	12,151	58,417	Supplies and Services	48,210	11,025	59,235
221	58	279	Transport	238	62	300
62,879	**18,141**	**81,020**	**Total Expenditure**	**55,328**	**17,280**	**72,608**
(43,274)	**(23,620)**	(66,894)	**Income**	**(48,928)**	**(23,714)**	**(72,642)**
19,605	**(5,479)**	**14,126**	**Net Controllable Expenditure**	**6,400**	**(6,434)**	**(34)**
(2,502)	777	(1,725)	Recharged from other Accounts	(1,751)	758	(993)
23,948	(22,284)	1,664	Capital Charges	3,793	112,687	116,480
(123)	-	(123)	Transfer to/from Reserves	(141)	-	(141)
21,323	**(21,507)**	**(184)**	**Total Non-Controllable Items**	**1,901**	**113,445**	**115,346**
40,928	**(26,986)**	**13,942**	**Net Expenditure**	**8,301**	**107,011**	**115,312**

6. Trading Operations

The Council operates some trading operations, including leased shop premises, industrial sites and markets included within Cultural, Environmental and Planning Services on the face of the Comprehensive Income and Expenditure Statement page 10. The details of expenditure and income are shown below:

2009/2010 (Surplus) / Deficit £'000	Service	2010/11 Expenditure £'000	2010/11 Income £'000	2010/11 (Surplus) / Deficit £'000
660	Leased Shop Premises	124	(79)	45
169	Industrial Estates	158	(357)	(199)
30	Street Markets	15	(25)	(10)
859		**297**	**(461)**	**(164)**

7. Members' Allowances

Members were each paid a basic allowance of £4,270.93 and in addition some received Special Responsibility Allowance depending on the level of responsibility held, and were also paid travel allowances re attendance at meetings etc. With the exception of travel and subsistence allowances, the allowances are subject to tax and National Insurance Contributions.

Councillor	Basic Allowance £	Special Responsibility Allowance £	Travel Allowance £	Subsistence £	Carers' Allowance £	Total before Tax and N. I. £
Ayres	4,270.93	-	58	-	-	4,328.93
Bartlett	4,270.93	11,698.76	31.2	-	-	16,000.89
Mrs Bell	4,270.93	-	419.6	-	-	4,690.53
Bell	4,270.93	6,973.80	-	-	-	11,244.73
Blanford	4,270.93	-	782.3	-	-	5,053.23
Bradberry	4,270.93	-	3.2	-	-	4,274.13
Burgess	4,270.93	1,394.77	623.2	-	-	6,288.90
Clarkson	4,270.93	7,050.02	383.2	-	-	11,704.15
Claughton	4,270.93	6,973.80	38.4	-	-	11,283.13
Clokie	4,270.93	9,596.91	1,975.88	-	-	15,843.72
Cowley	4,270.93	-	192.8	-	-	4,463.73
Davidson	4,270.93	1,467.81	-	-	-	5,738.74
Davison	4,270.93	2,515.66	522.3	-	-	7,308.89
Ellison	4,270.93	1,549.74	160.15	-	-	5,980.82
Feacey	4,270.93	-	44.2	-	-	4,315.13
French	4,270.93	-	176.8	-	-	4,447.73
Goddard	4,270.93	1,394.77	433.3	-	-	6,099.00
Hawes	4,270.93	5,860.50	148	-	-	10,279.43
Heaton	4,270.93	-	187.1	-	-	4,458.03
Heyes	4,270.93	6,135.72	45.6	-	-	10,452.25
Mrs Heyes	4,270.93	-	40.8	-	-	4,311.73

Councillor	Basic Allowance £	Special Responsibility Allowance £	Travel Allowance £	Subsistence £	Carers' Allowance £	Total before Tax and N. I. £
Hicks	4,270.93	-	264.40	-	-	4,535.33
Hodgkinson	4,270.93	-	11.20	-	-	4,282.13
Holland	4,270.93	-	222.22	-	-	4,493.15
Honey	4,270.93	5,763.28	204	-	-	10,238.21
Howard	4,270.93	743.98	157.6	-	-	5,172.51
Hutchinson	4,270.93	2,230.79	462.4	-	-	6,964.12
Kemp	2,847.29	1,396.8	18	-	-	4,262.09
Koowaree	4,270.93	-	-	-	-	4,270.93
Laughton	4,270.93	-	-	-	-	4,270.93
Link	4,270.93	-	278.4	-	-	4,549.33
Marriott	4,270.93	5,579.05	377.9	-	-	10,227.88
Martin	4,270.93	-	127.2	-	-	4,398.13
Naughton	4,270.93	437.32	193.1	-	-	4,901.35
Norris	4,270.93	-	48	-	-	4,318.93
Packham	4,270.93	-	117.6	-	-	4,388.53
Smith	4,270.93	487.32	311.8	-	-	5,070.05
Taylor	4,270.93	2,789.51	529.6	-	-	7,590.04
Wallace	4,270.93	4,649.21	-	-	-	8,920.14
Wedgbury	4,270.93	1,859.68	-	-	-	6,130.61
Wells	4,270.93	-	145.6	-	-	4,416.53
Wood	4,270.93	11,872.02	193.6	-	-	16,336.55
Woodford	4,270.93	-	250.8	-	-	4,521.73
TOTAL	**182,226.35**	**100,421.22**	**10,179.45**	**-**	**-**	**292,827.02**
2009/10 Totals	181,828.08	96,820.41	11,957.57	11.75	0.00	290,617.81

8. Officers' Remuneration

This note provides the details of Senior Officers remuneration and the numbers of employees whose remuneration falls into the categories shown. "Remuneration" for this purpose includes taxable pay, the tax value of other benefits e.g. leased cars, and termination payments. Figures within this note will exclude any payments covered by confidentiality agreements.

Senior Employee Remuneration 2010/11

Post	Salary (Including Fees & Allow-ances) *	Bonus	Expense Allow-ances	Comp-ensation for Loss of Office	Benefits in Kind (EG Car Allow-ance)*	Total	Pension Contri-butions	Total Remuner-ation 2009/10
	£	£	£	£	£	£	£	£
Chief Executive+	104,854.91	-	-	-	2,797.24	107,652.15	27,700.64	135,352.79
Deputy Chief Executive+	90,337.56	-	-	-	4,724.45	95,062.01	24,300.78	119,362.79
Head Of Cultural & Project Services	70,924.50	-	-	-	2,716.56	73,641.06	19,927.41	93,568.47
Head of Environmental Services	74,313.42	-	-	-	-	74,313.42	19,078.65	93,392.07
Head of Housing	74,313.42	-	-	-	-	74,313.42	19,078.65	93,392.07
Head of ICT & Customer Services	74,313.42	-	-	-	-	74,313.42	19,078.65	93,392.07
Head of Legal and Democratic Services+	70,864.95	-	-	-	3,750.70	74,615.65	19,078.65	93,694.30
Head of Planning & Development	86,490.75	-	-	-	4,086.60	90,577.35	23,196.24	113,773.59
	646,412.93	**-**	**-**	**-**	**18,075.55**	**664,488.48**	**171439.67**	**835,928.15**

*Where an officer is entitled to a lease car, they may instead take a 'cash alternative'. Where this is the case the Cash Alternative is shown under 'Salary', but where a lease car is taken, the taxable benefit is shown under 'Benefits in Kind'. The taxable benefit is not the same value as the subsidy paid by the council to the employee.

+ Officers that also fulfil statutory roles

Senior Employee Remuneration 2009/10 comparators

Post	Salary (Including Fees & Allow-ances) * £	Bonus £	Expense Allow-ances £	Comp-ensation for Loss of Office £	Benefits in Kind (EG Car Allow-ance)* £	Total £	Pension Contrib-utions £	Total Remuner-ation 2009/10 £
Chief Executive (01/04/09 - 19/07/09)** +	44,745.75	-	-	-	765.40	**45,511.15**	11,633.90	**57,145.05**
Chief Executive (28/09/09 onwards)** +	50,382.41	-	-	-	-	**50,382.41**	12,533.79	**62,916.20**
Deputy Chief Executive+	90,000.96	-	-	-	4,882.82	**94,883.78**	23,400.24	**118,284.02**
Head Of Cultural & Project Services	70,659.00	-	-	-	2,736.82	**73,395.82**	19,252.56	**92,648.38**
Head of Environmental Services	74,047.92	-	-	-	-	**74,047.92**	18,371.40	**92,419.32**
Head of Financial Services***	53,125.95	-	-	-	2,094.17	**55,220.12**	13,778.55	**68,998.67**
Head of Housing	74,047.92	-	-	-	-	**74,047.92**	18,371.40	**92,419.32**
Head of ICT & Customer Services	74,047.92	-	-	-	-	**74,047.92**	18,371.40	**92,419.32**
Head of Legal and Democratic Services+	70,864.95	-	-	-	4,839.12	**75,704.07**	18,371.40	**94,075.47**
Head of Planning & Development	86,490.75	-	-	-	4,199.68	**90,690.43**	22,336.56	**113,026.99**
	688,413.53	**-**	**-**	**-**	**19,518.01**	**707,931.54**	**176,421.20**	**884,352.74**

*Where an officer is entitled to a lease car, they may instead take a 'cash alternative'. Where this is the case the Cash Alternative is shown under 'Salary', but where a lease car is taken, the taxable benefit is shown under 'Benefits in Kind'. The taxable benefit is not the same value as the subsidy paid by the council to the employee.

**The Chief Executive resigned on 19th July 2009,on an annualised Salary of £94,833.A new Chief Executive was appointed from 28th September 2009 on an annualised salary of £94,833

***The post of Head of Financial Services was made redundant as of 31st December 2009,on an annualised salary of £70,659

+ Officers that also fulfil statutory roles

Other Officer Remuneration by Band

2009/10	Remuneration Band	2010/11
3	50,000 – 54,999	5
10	55,000 – 59,999	11
4	60,000 – 64,999	1*
-	65,000 – 69,999	1
17		**18**

Figures marked with an * indicate bands which include officers who have received redundancy payments within their remuneration for the year.
The bandings only include the remuneration of senior employees and relevant officers which have not been disclosed individually above.

9. Termination Benefits

The Authority terminated the contracts of 13 employees in 2010/11,incurring liabilities of £187,859 (£758,548 in 2009/10).

10. External Audit Costs

In 2010/11 Ashford Borough Council incurred the following fees relating to external Audit and inspection:

2009/10 £'000		2010/11 £'000
148	Fees payable to the Audit Commission with regard to external Audit services carried out by the appointed Auditor	138
9	Fees Payable to the Audit Commission in respect of Statutory inspections	12
32	Fees payable to the Audit Commission for the certification of grant claims and returns	34
-	Fees payable in respect of other services provided by the Audit Commission during the year	-
189		**184**

11. Grant Income

The Authority credited the following material government grants and contributions to the Provision of Services in the Comprehensive Income and Expenditure Statement.

2009/10 £'000		2010/11 £'000
34,617	DWP: Rebates Subsidy	37,510
196	CLG: Business Rate Collection Allowance	180
82	CLG : Performance Reward Grant	-
74	CLG: Local Authority Business Growth Incentive Scheme	-
868	CLG: Planning Delivery Grant	-
168	CLG: Ashford Future's Projects	232
145	CLG: Beacon Status	-
140	CLG: Homeless Initiatives	32
94	CLG: Housing Trailblazer Program	107
811	DWP Benefit Administration	729
126	Home Office: Community Safety and Anti Social Behaviour	247
-	Future Job Fund Grants	87
-	Recycling Credits	477
356	DfT Concessionary Bus Travel	169
37,677		**39,770**

For details of the General Grants received see note 15 and for the Housing Revenue Account see note 7.

The Authority has received a number of capital grants, contributions that are yet to be applied. The balances at the year-end are as follows:

2009/10 Restated £'000	Capital Grants	2010/11 £'000
882	Receipts in Advance b/f	219
2,255	Grants Added during the year	7,299
(2,918)	Grants applied to the I&E during 2010/11	(5,031)
219	**Total**	**2,487**

12. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11.

General Fund	**Balance at 01/04/09 £'000**	**Additions £'000**	**Payments £'000**	**Balance at 31/03/10 £'000**	**Additions £'000**	**Payments £'000**	**Balance at 31/03/11 £'000**
General Fund	**2,951**	919	(450)	**3,420**	503	(111)	**3,812**
Earmarked Reserves							
Elections	**76**	60	-	**136**	61	-	**197**
Repairs & Renewals	**630**	105	(56)	**679**	103	(36)	**746**
Insurance	**1**	-	-	**1**	-	(1)	**-**
Planning Appeals	**391**	-	-	**391**	-	(56)	**335**
Stour Centre	**246**	72	(17)	**301**	73	(145)	**229**
Community Grant Fund	**13**		(5)	**8**	-	(2)	**6**
Planning Delivery Grant	**165**	369	-	**534**	-	(23)	**511**
Transport Initiatives	**133**	-	(52)	**81**	41	-	**122**
People Mover (Designer outlet)	**282**	7	(73)	**216**	4	(79)	**141**
Members' IT	**11**	8	-	**19**	10	-	**29**
Valuation of Assets	**16**	-	(4)	**12**	3	-	**15**
Hopewell Twinning Reserve	**1**	-	-	**1**	3	-	**4**
Netball Centre Reserve	**18**	-	-	**18**	-	-	**18**
Singleton Environment Centre	**26**	6	-	**32**	11	-	**43**
Section 106 Monitoring Fee	**43**	-	(21)	**22**	24	-	**46**
Actuarial Volatility Reserve	**70**	90	-	**160**	93	-	**253**
Service Pressure Reserve	**92**	161	(15)	**238**	-	(118)	**120**
Building Control Reserve	**-**	22	-	**22**	-	(5)	**17**
Green Transport Initiatives	**-**	-	-	**-**	30	-	**30**
Land Adoption Reserve	**-**	-	-	**-**	398	-	**398**
Land Searches Reserve	**-**	-	-	**-**	76	-	**76**
St Mary's Church Ruin	**-**	5	-	**5**	-	-	**5**
Total Earmarked Reserves	**2,214**	**905**	**(243)**	**2,876**	**930**	**(465)**	**3,341**
Total	**5,165**	**1,824**	**(693)**	**6,296**	**1,433**	**(576)**	**7,153**

The Purpose of the Earmarked Reserves

The following Reserves have been established to equalise expenditure for future years:

- Elections Reserve
- Valuation of Assets
- Netball Centre Reserve
- Singleton Environment Centre
- Actuarial volatility
- Members’ IT Reserve
- Planning Appeals
- Hopewell Twinning Reserve
- Section 106 Monitoring fee

The purposes of other Reserves are as follows:

Repairs and Renewals Reserve is used to finance the maintenance and renewal of operational costs including buildings, plant, furniture and equipment.

Building Control Reserve was established to hold the surpluses earned on building control fee earning work to fund any future deficits, as this service is required by legislation to break-even on a 3-year rolling basis.

Stour Centre Reserve was set up to fund fluctuations in transitional operating costs of the Stour Centre until such time as the major capital refurbishment scheme is completed and the centre, therefore, is fully functional. This reserve is now set aside for the future replacement of equipment

Community Grants Reserve was established from savings within Cultural Services salaries to fund revenue grants to local community organisations.

Planning Reserve was set up to fund pressures on the Planning Service should the Planning Delivery Grant fall below anticipated levels.

Transport Initiatives Reserve was established to hold the surpluses earned from On-Street Parking, as there is a legislative requirement that this be used for transport related schemes.

The “**People Mover**” Reserve was created in 1999/2000 using money paid to the Council by the developer of the Designer Village to pay for the shuttle bus service to Ashford Town Centre as required by the Planning Agreement.

Service Pressure Reserve was established to fund one-off items of expenditure such as spend to save initiatives to help deliver future budget savings, and to assist in relieving the budget of short-term one-off service pressures.

St Mary's Church (Little Chart) Ruin Reserve; to fund maintenance costs of this ancient monument in Little Chart.

The **Land Adoption** Reserve was set up with income received for S38 adoption work which is to be held to cover the cost of land adoption.

The **Green Transport** Reserve was set up to fund Green transport initiatives from money collected from Staff parking charges.

The **Land Searches** Reserve was established to ensure that the service breaks even over a 3 year period with surpluses and deficits transferred into the reserve. In addition to this there is the potential that income collected in the past could be reclaimed and this reserve holds a grant provided by the Government to cover these claims.

HRA	Balance at 01/04/09 £'000	Additions £'000	Payments £'000	Balance at 31/03/10 £'000	Additions £'000	Payments £'000	Balance at 31/03/11 £'000
Housing Revenue Account	**1,233**	437	**-**	**1,670**	482	**-**	**2,152**
Major Repairs Reserve	**5,847**	4,003	(5,097)	**4,753**	3,540	(4,380)	**3,913**
Total	**7,080**	**4,440**	**(5,097)**	**6,423**	**4,022**	**(4,380)**	**6,065**

13. Other Operating Expenditure

2009/2010 £'000		2010/2011 £'000
721	Parish council precepts	760
247	Levies	239
673	Payments to the Government Housing Capital Receipts Pool	296
470	Gains/losses on the disposal of non-current assets	14,465
2,111	Total	**15,760**

14. Financing and Investment Income and Expenditure

2009/2010 £'000		2010/2011 £'000
(113)	Interest payable and similar charges	60
-	Interest Payable on PFI Contracts and Finance leases	1,037
2,837	Pensions interest cost and expected return on Pension fund assets	1,906
(595)	Interest receivable and similar income	(576)
-	Income and expenditure in relation to investment properties and changes in their fair value	-
-	Other investment income	-
2,129	**Total**	**2,427**

15. Taxation and Non-Specific Grant Income

2009/2010 £'000		2010/2011 £'000
(6,784)	Council tax income	(7,138)
(6,615)	Non domestic rates	(7,287)
(2,627)	Non-ring fenced government grants	(1,150)
(2,918)	Capital grants and contributions	(5,031)
(18,944)	**Total**	**(20,606)**

16. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	**-**	-	-
Charges for depreciation and impairment of non current assets	(1,658)	-	(202)	-	-	**(1,860)**	1,860	-
Revaluation losses on Property Plant and equipment	2,157	-	(109,091)	-	-	**(106,934)**	106,934	-
Movement in the market value of Investment Properties	-	-	-	-	-	-	-	-
Amortisation of intangible assets	(39)	-	-	-	-	**(39)**	39	-
Capital grants and contributions applied	5,031	-	-	-	-	**5,031**	(5,031)	-
Revenue expenditure funded from capital under statute	(4,214)	-	-	-	-	**(4,214)**	4,214	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(59)	-	(16,754)	-	-	**(16,813)**	16,813	-

2010/11	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Inclusion of items not debited or credited to the CIES:								
Statutory provision for the financing of capital investment (MRP)	220	-	(56)	-	-	**164**	(164)	-
Annual Leave Accrual	-	-	-	-	-	**-**	-	-
Capital expenditure charged against the GF and HRA balances	56	-	36	-	-	**92**	(92)	-
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to CIES	-	-	-	-	-	**-**	-	-
Application of grants to capital financing transferred to the CAA	-	-	-	-	-	**-**	-	-
Adjustments involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	373	-	1,975	-	(2,323)	**25**	(25)	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	2,100	**2,100**	(2,100)	-
Contributions from the Capital Receipts Reserve towards admin costs of disposal	-	-	-	-	-	**-**	-	-

2010/11	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Contributions from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(296)	-	-	-	296	**-**	-	-
Adjustment involving the Major Repairs Reserve:								
Reversal of MRA credited to the HRA	-	-	-	(3,349)	-	**(3,349)**	3,349	-
Use of MRR to finance new capital expenditure	-	-	-	4,189	-	**4,189**	(4,189)	-
Adjustments involving the FIAA:								
Revaluation of Available for Sale Financial Instruments	-	-	-	-	-	-	-	-
Financial Instruments Premiums W/O	-	-	12	-	-	**12**	(12)	-
Adjustments involving the Pension Reserve:								
Reversal of items relating to retirement benefits debited or credited to the CIES	5,630	-	(621)	-	-	**5,009**	(5,009)	-
Pension Strain	142	-	-	-	-	**142**	(142)	-
Employer's pension contributions and direct payments to pensioners payable in the year	2,683	-	416	-	-	**3,099**	(3,099)	-
Adjustments involving the CFAA								

2010/11	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Amount by which CT income credited to the CIES is different from CT income calculated for the year in accordance with statutory requirements	30	-	-	-	-	**30**	(30)	-
	10,056	**-**	**(124,285)**	**840**	**73**	**(113,316)**	**113,316**	**-**

2009/10	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Adjustments involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	**-**	-	-
Charges for depreciation and impairment of non current assets	(1,224)	-	(262)	-	-	**(1,486)**	1,486	-
Revaluation losses on Property Plant and equipment	(22,364)	-	25,872	-	-	**3,508**	(3,508)	-
Movement in the market value of Investment Properties	-	-	-	-	-	**-**	-	-
Amortisation of intangible assets	(28)	-	-	-	-	**(28)**	28	-
Capital grants and contributions applied	2,919	-	-	-	-	**2,919**	(2,919)	-
Revenue expenditure funded from capital under statute	(2,545)	-	-	-	-	**(2,545)**	2,545	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(3,238)	-	(716)	-	-	**(3,954)**	3,954	-
Inclusion of items not debited or credited to the CIES:								
Statutory provision for the financing of capital investment (MRP)	227	-	-	-	-	**227**	(227)	-
Annual Leave Accrual	20	-	-	-	-	**20**	(20)	-
Capital expenditure charged against the GF and HRA balances	56	-	-	-	-	**56**	(56)	-

2009/10	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Adjustments involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to CIES	-	-	-	-	-	**-**	-	-
Application of grants to capital financing transferred to the CAA	-	-	-	-	-	**-**	-	-
Adjustments involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	2,470	-	942	-	(3,412)	**-**	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	1,689	**1,689**	(1,689)	-
Contributions from the Capital Receipts Reserve towards admin costs of disposal	-	-	-	-	-	**-**	-	-
Contributions from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(673)	-	-	-	673	**-**	-	-
Adjustment involving the Major Repairs Reserve:								
Reversal of MRA credited to the HRA	-	-	-	(3,306)	-	**(3,306)**	3,306	-
Use of MRR to finance new capital expenditure	-	-	-	4,400	-	**4,400**	(4,400)	-

2009/10	General Fund Balance £’000	Earmarked General Fund Reserves £’000	Housing Revenue Account £’000	Earmarked HRA Reserves £’000	Capital Receipts Reserve £’000	Total Usable Reserves £’000	Unusable Reserves £’000	Total £’000
Adjustments involving the FIAA:								
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	16	-	-	**16**	(16)	-
Adjustments involving the Pension Reserve:								
Reversal of items relating to retirement benefits debited or credited to the CIES	(4,309)	-	(563)	-	-	**(4,872)**	4,872	-
Pension Strain	(330)	-	-	-	-	**(330)**	330	-
Employer's pension contributions and direct payments to pensioners payable in the year	2,489	-	383	-	-	**2,872**	(2,872)	-
Adjustments involving the CFAA								
Amount by which CT income credited to the CIES is different from CT income calculated for the year in accordance with statutory requirements	50	-	-	-	-	**50**	(50)	-
	(26,481)	**-**	**25,672**	**1,094**	**(1,050)**	**(764)**	**764**	**-**

17. Property, Plant and Equipment

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Con-struction £'000	Total Property, Plant and Equip-ment £'000	PFI Assets Included in Property, Plant and Equip-ment £'000
Cost or valuation									
At 1 April 2010	322,338	45,584	3,176	229	1,136	210	107	372,780	40,938
Additions	6,965	1,083	153	-	-	-	1,016	9,217	495
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	279	(104)	-	-	-	-	282	457	-
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	2,204	-	-	-	-	-	2,204	-
De-recognition – disposals	(154)	-	-	-	-	(11)	-	(165)	-
De-recognition – transfer & demolition	(16,458)	(142)	-	-	-	-	-	(16,600)	(16,040)
Reclassification		107					(107)		
At 31 March 2011	**312,968**	**48,732**	**3,329**	**229**	**1,136**	**199**	**1,298**	**367,891**	**25,393**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Con-struction £'000	Total Property, Plant and Equip-ment £'000	PFI Assets Included in Property, Plant and Equip-ment £'000
Accumulated Depreciation and Impairment at 1 April 2010									
at 1 April 2010	-	(1,554)	(2,393)	(24)	(10)	(1)	-	(3,982)	-
Depreciation charge	(3,360)	(1,602)	(234)	(8)	(3)	-	-	(5,207)	(221)
Depreciation written out to the Revaluation Reserve	-	768	-	-	-	-	-	768	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	(959)	(849)	-	-	-	-	-	(1,808)	-
Impairment losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	(109,043)	(94)	-	-	-	-	-	(109,137)	(12,044)
At 31 March 2011	**(113,362)**	**(3,331)**	**(2,627)**	**(32)**	**(13)**	**(1)**	**-**	**(119,366)**	**(12,265)**
Net Book value									
at 31 March 2010	**322,337**	**44,030**	**783**	**205**	**1,126**	**209**	**107**	**368,797**	**40,938**
at 31 March 2011	**199,606**	**45,401**	**702**	**197**	**1,123**	**198**	**1,298**	**248,525**	**13,128**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Con-struction £'000	Total Property, Plant and Equip-ment £'000	PFI Assets Included in Property, Plant and Equip-ment £'000
Cost or valuation									
At 1 April 2009	287,845	62,841	3,031	228	1,189	1,910	-	357,044	30,455
Additions	12,604	1,179	144	-	-	-	107	14,034	8,204
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	7,620	-	-	-	185	-	7,805	-
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	22,629	-	-	-	-	-	-	22,629	2,277
De-recognition – disposals	(675)	(1,543)	-	-	(15)	(1,460)	-	(3,693)	-
Reclassification of Assets	-	39	-	-	(39)	-	-	-	-
At 31 March 2010	**322,403**	**70,136**	**3,175**	**228**	**1,135**	**635**	**107**	**397,819**	**40,936**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Con-struction £'000	Total Property, Plant and Equip-ment £'000	PFI Assets Included in Property, Plant and Equip-ment £'000
Accumulated Depreciation and Impairment									
at 1 April 2009	-	(2,889)	(2,171)	(16)	(12)	(1)	-	(5,089)	-
Depreciation charge	(3,306)	(1,254)	(221)	(8)	(3)	-	-	(4,792)	(426)
Depreciation written out to the CIES	3,306	2,604	-	-	-	-	-	5,910	426
Impairment losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services	(65)	(24,561)	-	-	-	(424)	-	(25,050)	-
Other movements in depreciation and impairment	-	(5)	-	-	5	-	-	-	-
At 31 March 2010	**(65)**	**(26,105)**	**(2,392)**	**(24)**	**(10)**	**(425)**	**-**	**(29,021)**	**-**
Net Book value									
at 31 March 2009	**287,845**	**59,952**	**860**	**212**	**1,177**	**1,909**	**-**	**351,955**	**30,455**
at 31 March 2010	**322,338**	**44,031**	**783**	**204**	**1,125**	**210**	**107**	**368,798**	**40,936**

Asset Valuation

A valuation exercise and impairment review was completed by an external valuer (Wilks Head and Eve) as at the balance sheet date. For information on the HRA stock valuation see notes to the Housing Revenue account.

Depreciation

The useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – the Council uses the Major Repairs Allowance as a proxy for depreciation
- Other Land and Buildings – the useful life estimated by a qualified valuer
- Vehicles, Plant, Furniture & Equipment – subject to professional view on life between 5-15 years.
- Infrastructure – the useful life estimated by a qualified valuer

18. Impairment Losses

There was a change in the valuation of HRA Dwellings and an impairment to the value. Please see the HRA supplementary statement, note 10 on page 99.

During 2010/11 Public Conveniences were revalued and an impairment of £57,137 reported. Due to upward revaluation in previous years £10,608 reversed gains in the Revaluation Reverse and the remaining £46,529 was written to the CIES increasing the cost of services.

19. Revaluation Gains

Gains of £2,577,347 have been reported within the Accounts. The Stour Centre was revalued using component accounting and a gain of £2,203,973 was written back to the CIES to reduce part of the revaluation loss reported in the 2009/10 Accounts. The Civic Centre was also revalued upwards increase the revaluation reserve by £373,374.

20. Capital Expenditure and Capital Financing

2009/10 £'000		2010/11 £'000
24,640	Opening Capital Financing Requirement	32,719
101	Adjustment to 2008/09 Capital Financing	-
	Capital investment:	
5,830	Property, Plant & Equipment	8,722
25	Intangible Assets	32
2,546	Revenue Expenditure Funded from Capital Under Statute	4,214
8,204	PFI Additional liability	495
	Sources of finance:	
(1,689)	Capital receipts	(2,100)
(6,655)	Government grants and other contributions	(8,999)
(283)	Sums set aside from revenue NB includes direct revenue financing, MRP and any Voluntary set aside	(256)
32,719	**Closing Capital Financing Requirement**	**34,827**
	Explanation of movements in year	
8,305	Increase in underlying need to borrow unsupported by Government financial assistance	2,272
(226)	Provision for the repayment of debt	(164)
8,079	**Increase/(decrease) in capital financing requirement**	**2,108**

21. Capital Commitments

At 31 March 2011 the Authority had the following capital commitments:

	£'000
Housing Revenue Account – New Build Council Housing	
Phase 1 – Nearing completion	260
Phase 2	6,100
Housing Revenue Account	
Heating Installation Programme (2 year contract)	1,108
Kitchen Replacements	1,185
Bathroom Replacement	762

2009/10 capital commitments were £420,000 for General Fund and £1,000,000 for the Housing Revenue Account.

22. Financial Instruments

Long Term 31-Mar-10 £'000	Short Term 31-Mar-10 £'000	Category of Financial Instrument	Long Term 31-Mar-11 £'000	Short Term 31-Mar-11 £'000
	4,064	**Total Cash and Cash Equivalents**		**4,228**
3,022	13,117	Loans and Receivables	6,015	13,094
9,751	225	Available for Sale Financial Assets	12,069	219
12,773	**13,342**	**Total Investments**	**18,084**	**13,313**
		Trade Debtors		1,214
1,160	-	Financial Assets carried at contract amount (E.g. Finance and Embedded Leases)	1,159	-
498	-	Financial assets carried at contract amounts	512	-
1,658	**-**	**Total Debtors**	**1,671**	**1,214**
-	(9,014)	Financial Liabilities at Amortised Cost	(5,951)	(10,305)
-	(7,767)	Trade Creditors at Amortised Cost		(8,519)
-	**(16,781)**	**Total Borrowings**	**(5,951)**	**(18,824)**
-	(27,698)	PFI liabilities	-	(28,249)
-	-	Finance lease liabilities	-	-
-	**(27,698)**	**Total other long term liabilities**	**-**	**(28,249)**
-	-	Financial liabilities at amortised cost	-	-
-	723	Financial liabilities carried at contract amount (E.g. Finance and Embedded Leases)	532	-
-	**723**	**Total creditors**	**532**	**-**

2010/11 Income, Expense, Gains and Losses

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000
Interest expense	81		-
Losses/Gains on derecognition	-		-
Interest payable and Similar Charges	**81**	**-**	**-**
Interest Income	-	(574)	-
Losses/Gains on derecognition	-	63	-
Interest and Investment Income	**-**	**(511)**	**-**
Surplus arising from the revaluation of financial assets	**-**	**(413)**	**-**
Net gains/loss for the year	**81**	**(924)**	**-**

2009/10 Income, Expense, Gains and Losses

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000
Interest expense	38	-	-
Losses/Gains on derecognition	(151)	-	-
Interest payable and Similar Charges	**(113)**	**-**	**-**
Interest Income	-	(612)	-
Losses/Gains on derecognition	-	33	-
Interest and Investment Income	**-**	**(579)**	**-**
Surplus arising from the revaluation of financial assets	**-**	**(532)**	**-**
Net gains/loss for the year	**(113)**	**(1,111)**	**-**

Fair Values of Assets and Liabilities

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Not all of the Financial Instruments are carried in the Balance Sheet at fair value. In particular, long term loans, receivables and financial liabilities are not carried at Fair Value.

The Code requires that the Council calculates the Fair Value of these instruments and includes a comparison with the carrying amount. The Fair Value can be assessed by calculating the present value of the cash flows that will take place over the remaining life of the Instruments using the prevailing interest rates as at 31st March 2011.

The rates used depend on the remaining life of the loan and range from 0.65% to 2.28%. No early repayments or impairments are assumed. For Instruments that will mature within 1 year of the Balance Sheet date the carrying amount is assumed to approximate to Fair Value. The Fair Value of trade and other receivables (e.g. debtors) is taken to be the invoiced or billed amount.

Fair Value of Investments carried at amortised cost:

	Amortised Cost £'000	Fair Value £'000
Less than 1 year	13,094	13,187
1 year to 2 years	6,015	6,209
2 years to 5 years	-	-
More than 5 years	-	-
	-	-
Fair Value of Investments held at amortised cost	**19,109**	**19,396**
Unquoted Equity	-	-
Investments held at Fair Value	-	12,288
Total investments at Fair Value	**-**	**31,684**

The Council had one loan with a maturities beyond a year as at 31st March 2011 (nil as at 31st March 2010). This Loan was with the Public Works Loan Board, the principal outstanding was £ 5,951,150 and the Fair Value was calculated at £7,460,750.92

Long-term debtors

The fair value of the assets is lower than the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest below current market rates.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

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

23. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. These include

- 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
- market risk, the possibility that losses may arise due to changes in interest rates and market prices.

The Council's risk management on Financial Instruments focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the resources available to fund services.

Risk management in this area is carried out by a central treasury team (supported by specialist external advisors) under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for risk management, has adopted the CIPFA Treasury Management Code of Practice and has set Treasury Management indicators to control key Financial Instrument risks in accordance with CIPFA’s Prudential Code.

The Council's Investment portfolio as at 31/03/11 was as follows:

Counter Party	Maturity Date	Principal invested	Credit Rating
RBS London	12/05/2011	3,000,000	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Clydesdale Bank	28/03/2012	3,000,000	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Nationwide	16/08/2011	2,000,000	Not Listed
Clydesdale Bank	04/01/2012	2,000,000	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Lloyds TSB	03/09/2011	3,000,000	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Newcastle City Council	20/12/2012	3,000,000	Not Listed
Barclays Bank	15/02/2013	3,000,000	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Natwest Bank	Instant Access	7,052,658	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Santander UK	Instant Access	4,500,000	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
Bank Of Scotland	Instant Access	4,999,999	AA- (Formerly a member of the Bank of England Credit Guarantee Scheme)
MMF	Instant Access	50,000	AAA
European Investment Bank	14/01/2013	5,000,000	AAA
European Investment Bank	15/04/2014	2,000,000	AAA
European Investment Bank	06/06/2012	2,000,000	AAA
European Investment Bank	18/03/2014	2,500,000	AAA

Credit Risk

The Code requires the Council to attempt to quantify the potential maximum exposure to credit risk, based on experience of defaults and uncollectability over recent years. However, due to the lack of empirical evidence on defaults for investments, the Council is unable to quantify its exposure with any degree of accuracy.

Credit risk arises from investments and some of the Council's customers commercial rent and trade debtors excluding Council Tax and Business Rate debts.

Deposits are not made with banks and financial institutions unless they are rated independently with a minimum rating score of AA-. The Council had no exposure to the Icelandic Banking system and has adjusted the criteria for lending money according to the changing circumstances in the Banking Sector. During the year the only institutions which were members of the Bank of England Credit Guarantee scheme or other UK Government Bodies were used to place investments in – the Guarantee scheme closed on the 28 February 2010 but the Bank of England retains the ability to reopen this should the need arise.

The Council has not experienced any losses from default by counterparties in the past in relation to investments. The Council's investments are such that it does not expect any losses from non-performance by any of its counterparties in relation to investments.

The table below compares the percentage of the Council's investment portfolio that was invested at each credit level at the beginning and at the end of the year.

Credit Rating	Percentage of Portfolio 31/03/10	Percentage of Portfolio 31/03/11	Change
AAA or Local Authority Bonds	32%	31%	-1%
AA+ or Aa1	-	-	-
AA or Aa2	-	-	-
AA- or Aa3	68%	69%	1%
A or A+ all Building Societies	-	-	-

The Council does not generally allow credit for commercial rent and trade debtors, however £0.4m of the £1.9m debtors balance is past its due date for payment. The overdue amount can be analysed by age as follows:

31 March 2010 £'000	Overdue Debtor Amount	31 March 2011 £'000
213	Less than 30 Days	292
14	31 days to 90 Days	48
67	91 Days to 364 days	118
141	More than 1 year	155
435	**Total Overdue Debtors**	**613**
337	Provision for Bad Debts	301

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loan Board (PWLB), there is no significant risk that it will be unable to raise funds to meet its commitments. Instead the risk is that the Council will have to re-invest a significant proportion of its investments at a time of unfavourable interest rates.

	Investments £'000
Cash and cash equivalents*	16,553
Less than 1 year	13,000
1 year to 2 years	13,000
2 years to 5 years	4,500
More than 5 years	-
	47,053

*includes cash held on an agency basis

All trade and other payables creditors are due to be paid in less than one year.

Market Risk interest rates/prices/exchange rates

The Council is not exposed to significant risk in terms of its exposure to interest rate movements because the Council has a policy to have at least 60% of its investments in fixed rate instruments.

If interest rates had been 1% higher or lower during the year, this would have resulted in an increase or decrease in interest income of £455,000 and an increase or decrease in payments of £118,000.

The Council has a policy of holding all investments to maturity and is, therefore, insulated from temporary changes in the prices of those investments.

The Council has no Financial Instruments denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

24. Cash and Cash Equivalents

2009/2010 £'000		2010/2011 £'000
13	Cash held by the Authority	12
(9,342)	Bank current accounts	(1,173)
3,423	Bank Call Accounts	5,389
(5,906)	**Total Cash and Cash Equivalents**	**4,228**

25. Debtors

These amounts were due to the Council.

31 March 2010 £'000	31 March 2010 £'000		31 March 2011 £'000	31 March 2011 £'000
	5,371	Government Departments		1,300
	715	Other Local Authorities		0
1,180		Housing Tenants	957	
(971)	209	Less: Provision for Bad Debts	(969)	(12)
6,319		Sundry Debtors	6,146	
(1,560)	4,759	Less: Provision for Bad Debts	(1,867)	4,279
291		Local Taxpayers/ Ratepayers	772	
(117)	174	Less: Provision for Bad Debts	(117)	655
	11,228			**6,222**

Movement in Debtors is mainly due to:

	£'000
Owing to the NNDR pool	(2,426)
Decrease in amount of grant owed for Housing Benefit	(1,135)
Decrease in year end debtors	(424)

26. Creditors

These amounts were due to be paid by the Council at 31 March 2010

31 March 2010 £'000		31 March 2011 £'000
569	Government Departments	4,970
444	Other Local Authorities	20
566	Housing Tenants	431
128	Local Taxpayers/ Ratepayers	130
7,767	Sundry Creditors	8,518
3,922	Developer Contributions	3,633
13,396		**17,702**

Movement in Creditors is mainly due to:

	£'000
Decrease in Growth Area Funding	(9,970)
Liability to NNDR pool	5,347

27. Unusable Reserves

Reserve	Balance 1 April 2010 £'000	Net Move-ment in year £'000	Balance 31 March 2011 £'000	Further Detail of Movement	Purpose of Reserve
Revaluation Reserve	11,915	(990)	10,925	See note (a) below	Store of gains on revaluation of fixed assets not yet realised through sales
Capital Adjustment Account	324,458	(121,227)	203,231	See note (b) below	Store of capital resources set aside to meet past expenditure
Available-for - Sale Financial Instruments Reserve	532	(119)	413	See note (c) below	Store of gains on revaluation of investments not yet realised through sales
Financial Instruments Adjustment Account	(12)	12	-	See note (d) below	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments
Pensions Reserve	(66,656)	31,624	(35,032)	See Note 30 to the Core Financial Statements	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet
Deferred Capital Receipts	468	26	494		

Reserve	Balance 1 April 2010 £'000	Net Move-ment in year £'000	Balance 31 March 2011 £'000	Further Detail of Movement	Purpose of Reserve
Accumulated absences reserve	(106)	-	(106)		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, eg annual leave entitlement carried forward
Collection Fund	(24)	29	5		
Total Unusable Reserves	**270,575**	**(90,645)**	**179,930**		

a. Movement on Revaluation Reserve		
2009/10 £'000		**2010/11 £'000**
7,844	Revaluation Gains (Including Available for Sale Assets)	457
0	Revaluation Loss Reversals	(1,040)
(223)	Adjustment for Council Dwelling Disposals 2008/09	0
(4)	Less Value of Disposals	(102)
(250)	Less Historic Cost Depreciation	(305)
7,367		**(990)**

b.	Movement on Capital Adjustment Account	
2009/10 £'000		**2010/11 £'000**
90	Adjustments for previous year disposals/other	0
	Financing Capital Expenditure:	
1,689	Capital Receipts Reserve	2,100
4,400	Major Repairs Reserve	4,189
56	Revenue Reserves	92
(4,803)	Less Depreciation	(5,209)
(29)	Less Amortisation	(39)
(2,545)	Less Revenue Expenditure Funded From Capital Under Statue	(4,214)
2.918	Grants Applied	5,031
250	Historic cost depreciation	305
(3,877)	Less Net Book Value of disposals	(16,813)
0	Revaluation Reserve Write out for Disposals	102
3,447	Impairments	(106,934)
227	Minimum Revenue Provision	164
1,823		**(121,227)**

c.	Movement on Available for Sale Financial Instruments Reserve	
2009/10 £'000		**2010/11 £'000**
83	Adjustment for Fair Value Bonds	(119)
83		**(119)**

d.	Movement on Financial Instruments Adjustment Account	
2009/10 £'000		**2010/11 £'000**
16	Less Write off of Premiums and Discounts	12
16		**12**

e.	Movement on Deferred Credits	
2009/10 £'000		**2010/11 £'000**
(14)	Repayments received	26
4	Less revaluation of assets	-
(10)		**26**

28. Leases

The Code requires that all leases are reviewed and it determined whether they are either finance or operating leases.

- If a finance lease is determined, the asset/liability is shown on the balance sheet with the annual leasing payments being split between repayment, interest and service elements.
- If an operating lease is determined, the income/payments are shown in the Comprehensive Income and Expenditure Statement.

Authority as a Lessee

Finance Leases

The Council has leased the fourth floor of the Edinburgh Road Car Park. The lease is for the majority of the assets' predicted life span and therefore has been classified as a finance lease. The following balance is included on the balance sheet.

2009/10 £'000		2010/11 £'000
120	Other Land and Buildings	120
120	**Total**	**120**

The Authority is committed to making the following lease, which has a remaining life of 46 years.

	Lease Payment £'000	Service Cost £'000	Interest Cost £'000	Repayment of Principal £'000
Within 1 Year	16	-	16	-
2 – 5 Years	64	-	64	-
Later than 5 Years	664	5	539	120
	744	5	619	120

Operating Leases

The authority has contracts for lease cars and has categorised these leases as operating leases. The Authority was committed as at 31 March 2011 to making lease payments as per the following table:

2009/10 £'000		2010/11 £'000
116	Within 1 Year	189
107	2-5 Years	312
-	Later than five years	-

Authority as a Lessor

Finance Leases

The Authority has leased the Ashford Indoor Bowls Centre to the Ashford Indoor Bowls Centre ltd; the lease is for the majority of the assets life and therefore is to be treated as a finance lease. The remaining life of this lease is 43 years. The table below shows the income due on this lease:

	Principal receivable £'000	Interest £'000	Total £'000
Within 1 year	16	26	42
2 – 5 Years	69	99	168
Later than 5 Years	1,074	522	1,596
	1,159	**647**	**1,806**

Operating Leases

The Authority leases out property under operating leases for the different purposes. These include, sports facilities, shops, community assets. The income from these leases, calculated at current levels, is detailed in the table below:

2009/10 £'000		2010/11 £'000
183	Within 1 Year	158
522	2 – 5 Years	377
204	Later than 5 Years	191

The Council owns and rents out a number of industrial units on short term leases. The Income receivable for leases relating to industrial units is detailed below:

2009/10 £'000		2010/11 £'000
132	Within 1 Year	157
65	2 – 5 Years	105
-	Later than 5 Years	-

29. PFI and Similar Contracts

Stanhope PFI

On the 13 April 2007 the Council entered into a design, build, finance, and operate contract with the Chrysalis Consortium (the Contractor) for the provision of the regeneration of the Stanhope Estate and housing management services for the duration of the contract. The contract is for 30 years.

The total value of the contract is £140m, which includes a construction cost of £27m. Details of the PFI assets held on the balance sheet are included in note 17.

Under the terms of the Contract the Council is required to make the following payments to the Contractor:

- An annual unitary charge net of deductions for performance.
- Capital contributions to Infrastructure costs.
- Pass through costs e.g. Disabled Facilities Grants.

These payments will be met from:

- The Council's existing revenue budget for the services, rental income and housing subsidy.
- PFI Special Grant from Central Government.

The payments to the Provider will be subject to indexation RPIX, and may also vary by virtue of certain provisions within the contract. These primarily relate to:

- Performance and availability deductions
- changes in law which affect the costs of the service

- variations to the contract which are approved by the Council
- benchmarking of non-property related costs at agreed intervals

Analysis of Forecast Unitary Charge

	Repayment of Liability £'000	Interest Cost £'000	Service Cost £'000	Total £'000
Within 1 Year	(49)	993	3,085	4,029
2-5 years	392	3,970	12,340	16,702
6-10 years	2,095	4,786	15,425	22,306
11-15 Years	4,400	4,264	15,425	24,089
16-20 Years	7,389	3,292	15,425	26,106
21-25 Years	11,225	1,737	15,425	28,387
26-30 Years	2,794	98	3,867	6,759
	28,246	**19,140**	**80,992**	**128,378**

The PFI contract transfers risks from the Council to the contractor, as the Council retains ownership of the assets the risk to the Council in event of a contractor default is low. The Council monitors performance of the contractor against a range of Key Performance Indicators and can deduct money from the unitary payment in the event that these measures are not achieved. A ratchet mechanism in the contract allows penalties to increase in the event of continued performance issues.

Extra Care Housing PFI

During 2007/08 the Council entered into a partnership arrangement with Kent County Council and nine other district councils within Kent to provide new homes for vulnerable people. The overall scheme is being funded by Public Finance Initiative credits over a thirty year period. In the event of the scheme ceasing the Council will be liable for:-

1. Contractor default, £4.275m in year 10, £4.125m in year 20
2. Force Majeure, £4.950m in year 10, £3.675m in year 20

Other Service Contracts

The Council has entered into contracts for refuse collection and street cleansing which include elements that under International Financial Reporting Standards are considered to be Finance Leases. These leases, included within the contracts, for vehicles and equipment that is solely used on the Councils contract. Under the new Code these assets are included within the authority's balance sheet:

2009/10 £'000		2010/11 £'000
603	Property, Plant and Equipment	412
603	**Total**	**412**

The Authority is committed to making the following payments under the terms of the contracts:

	Lease Payment £'000	Service Cost £'000	Interest Cost £'000	Repayment of Principle £'000
Within 1 Year	3,830	3,608	21	201
2 – 5 Years	3,944	3,722	11	211
Later than 5 Years	-	-	-	-
	7,774	7,330	32	412

Both contracts are due to end in March 2013.

30. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other 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 need to be disclosed at the time that employees earn their future entitlement.

The Local Government Pension Scheme, administered locally by Kent County Council, is a funded defined benefit final salary scheme. This means that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the Net Cost of Services, when employees earn these, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year.

2009/10 £'000	Local Government Pension Scheme	2010/11 £'000
	Income and Expenditure Account	
	Net Cost of Services:	
1,006	current service cost	2,340
-	past service costs	(9,332)
1,029	Curtailments and Settlements	78
-	Net Operating Expenditure	-
5,481	interest cost	5,984
(2,644)	expected return on scheme assets	(4,079)
4,872	**Net Charge to the Income and Expenditure Account**	**(5,009)**
14,540	**Actual Return on Scheme Assets**	**5,016**

2009/10 £'000	Movement in Reserves Statement:	2010/11 £'000
(4,872)	Reversal of net charges made for retirement benefits in accordance with IAS 19	5,009
2,872	**Employers' contributions payable to scheme**	**3,099**

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

2009/10 £'000	Funded liabilities: Local Government Pension Scheme	2010/11 £'000
80,800	**1 April**	**119,912**
1,006	Current service cost	2,340
5,481	Interest cost	5,984
651	Contributions by scheme participants	649
37,341	Actuarial gains and losses	(16,811)
-	Past service costs	(9,332)
348	Settlements and Curtailments	78
(1,292)	Liabilities extinguished on settlement	-
(261)	Unfunded Benefits Paid	(257)
(4,162)	Benefits paid	(4,163)
119,912	**Accounting Value of Liabilities as at 31 March**	**98,400**

Reconciliation of fair value of the scheme assets:

2009/10 £'000	Local Government Pension Scheme	2010/11 £'000
42,410	**1 April**	**54,077**
2,644	Expected rate of return	4,079
2,872	Employer contributions	3,099
651	Contributions by scheme participants	649
11,896	Actuarial gains and losses	6,564
-	Unfunded Benefits Paid	-
(1,973)	Payment/(receipt) of bulk transfer values	-
(4,423)	Benefits paid	(4,420)
54,077	**Accounting value of scheme assets as at 31 March**	**64,048**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Balance Sheet Disclosure

Balance Sheet as at:	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Present Value of Funded Obligation	95,401	116,484	77,410
Less Fair Value of Scheme assets (bid Value)	(64,048)	(54,077)	(42,410)
Net Liability	**31,353**	**62,407**	**35,000**
Present Value of Unfunded Obligation	2,999	3,428	3,390
Unrecognised Past Service Cost	-	-	-
Net Liability in Balance Sheet	**34,352**	**65,835**	**38,390**
Pension Strain	**679**	**821**	**491**
Net Pension Reserve Balance	**35,031**	**66,656**	**38,881**

Scheme history

	2010/11 £'000,s	2009/10 £'000,s	2008/09 £'000	2007/08 £'000	2006/07 £'000
Fair value of assets	64,048	54,077	42,410	52,720	58,000
Present value of liabilities:	(98,400)	(119,912)	(80,800)	(83,220)	(94,680)
Surplus/(deficit) in the scheme:	**(34,352)**	**(65,835)**	**(38,390)**	**(30,500)**	**(36,680)**
Experience adjustments on scheme liabilities	4,040	605	70	1,970	220
Percentage of Liabilities	4.1%	0.5%	0.1%	2.4%	0.2%
Experience adjustments on scheme assets	6,564	11,896	(14,020)	(9,490)	(370)
Percentage of Assets	10.2%	22.0%	(33.1)%	(18.0)%	(0.6)%

The liability shows the underlying commitment that the Council has in the long run to pay retirement benefits. Although the liability has a negative impact on the Council 's equity position, statutory arrangements for the funding of the deficit mean that the financial position of the Council remains healthy.

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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 dependent on assumptions about mortality rates, salary levels etc. The Pension Fund's liabilities were assessed by Barnett Waddingham, an independent firm of actuaries; the last full valuation of the scheme was as at 31 March 2010.

The principal assumptions used by the actuary were:

2009/10	Funded liabilities: Local Government Pension Scheme	2010/11
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity Investments	7.4%
4.5%	Gilts	4.4%
5.5%	Other Bonds	5.5%
5.5%	Property	5.4%
3.0%	Cash	3.0%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.5 Years	Men	19.8 Years
24.4 Years	Women	23.9 Years
	Longevity at 65 for future pensioners:	
22.6 Years	Men	21.9 Years
25.5 Years	Women	25.8 Years
3.9%	Price Increases (RPI)	3.5%
N/A	Price Increases (CPI)	2.7%
5.4%	Salary Increases	5.0%
3.9%	Pension Increases	2.7%
5.5%	Discount Rate	5.5%
50.0%	Proportion of employees opting to take a commuted lump sum	50.0%

The Pension Fund's assets consist of the following categories, by proportion of the total assets held:

31 March 2010 £'000		31 March 2011 £'000
40,017	Equity investments	48,677
541	Gilts	640
7,571	Bonds	7,686
3,785	Property	5,764
2,163	Cash	1,281
54,077	**Total**	**64,048**

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2010/11 £'000	2009/10 £'000	2008/09 As restated £'000	2007/08 As restated £'000	2006/07 £'000
Actuarial Gains/ (Losses)	23,375	(25,445)	(6,810)	6,260	5,430
Cumulative Actuarial Gains and (Losses)	(15,431)	(38,806)	(13,361)	(6,551)	(12,811)

Projected Pension Expense for the Year to 31 March 2012

	£'000
Service Cost	1,830
Interest Cost	5,366
Return on Assets	(4,380)
Total	**2,816**
Employer Contributions	2,604

31. Related Parties

Under the Accounting Standard FRS8 Related Party Transactions the Council must declare any Related Party Transactions between the Council and elected Members, Senior Officers of the Council or any of their close relatives (For 2010/11 4 Councillors did not submit a return). During 2010/11, there were no such works or services (2009/10 £nil).

There is a standing item on each Committee agenda requiring Members to declare any interest in any item to be discussed. The Democratic Services Manager keeps a record of all declarations made at meetings and a Register of Members' Interests, which is available for public inspection.

32. Interest in Companies

The Council is a 25% founding partner in the Ashford Future Company. This Company, limited by guarantee, has been established to deliver the Government's growth agenda for Ashford. Following the ending of the Governments Growth Area Funding, the Council and it's partners have taken the decision to wind down the company. This is currently being undertaken with the company expected to become dormant at the end of June 2011.

The Council holds a long standing 10% minority stake in Orbital Park Ltd with the majority share being owned by Eurotunnel Ltd. The Company managed the development of Orbital Park in Ashford which is now largely complete and the company is currently being wound down.

33. Contingent Liabilities

The Council's insurers were Municipal Mutual Insurance Limited (MMI) until the company ceased to provide new cover in 1994. A Scheme of Arrangement was set up with the aim of funding any claims that were outstanding at that time. The scheme allows for a claw back of payments already made under the scheme if the outstanding claims cannot be fully funded by the company. The maximum possible claw back for the Council is set at £446,180. MMI's Directors have stated that they still foresee a fully solvent run-off of the Company's business. No provision has been made in the Statement of Accounts for any claw back of payments already made to the Council.

The Council has entered into an agreement with KCC relating to the provision of a Recuperative Care Centre at Farrow Court, Ashford. If the property ceases to be used for this purpose at any time during the 35-year life of the Agreement the Council will be liable to pay a proportion of the construction costs. The maximum possible liability is presently £320,000 and will reduce during the period of the Agreement. There is no reason to believe that these circumstances will arise, and no provision has been made in the Statement of Accounts for any future payments under this Agreement.

The Council is accepting the risk for the Sheltered Housing PFI jointly procured with KCC. The risk to the Council in the event of early termination of the contract is circa £4m. See Note 29 page 81 for further disclosures.

The Council has accepted a contractual obligation to ensure compliance with a planning condition for the provision of parking for the County Square extension. Failure to meet this obligation may result in planning enforcement action and subsequently in a legal claim against the Council. The Council is working to provide a park and ride car park to meet this obligation on a permanent basis and delivered an interim solution on the Dover Place site as well as other extra parking capacity in the town.

The Council is acting as a guarantor for the Pension Liabilities of Ashford Leisure Trust to permit its entry into the Kent County Council Superannuation

Fund. In the event that the Trust fails to meet its obligations to the Fund the Council will be called upon to cover these liabilities. This cannot be quantified, as these will depend on the strength of the Fund at the time and the actuarial assumptions for the valuation of future liabilities.

The Council has agreed to indemnify Ashford Leisure Trust for any statutory redundancy costs from the cessation of the current temporary operational arrangements for the management of the Julie Rose Stadium. The amounts cannot currently be quantified.

The Council is acting as a guarantor for the Pension Liabilities of Ashford's Future Company Ltd to enable its entry into the Kent County Council Superannuation Fund. In the event that the Company fails to meet its obligations to the Fund the Council will be called upon to cover these liabilities. The Council has the benefit of partial indemnities from three other parties to share in this risk. The Company is in the process of being wound down and the pension fund has indicated that as at 31/03/2011 the pension fund for the Company is fully funded and therefore no further liability is expected. The Company will cease to be an active member of the Pension scheme on 18 July 2011.

The Council is acting as a guarantor for redundancy payments for Staff employed by Ashford's Future Company ltd in the event that the company cannot meet its obligations in this respect. The Council has the benefit of partial indemnities from the three Ashford Future Founding partners to share in the risk. The Company's winding down programme shows that costs will be covered from either retained profit or Interest that has been generated on Growth Area Funding balances which is held for the benefit of the partnership. If these balances are not sufficient then there may be a call on the Council to fund these payments. The process of winding down the company is due to be completed by the end of June 2011.

The Council has entered into two agreements with Kent County Council and SEEDA which include provision for the repayment of Regional Infrastructure Funding (RIF) used to pay for works to the Drovers Roundabout and the M20 junction 9 footbridge. RIF funding has been awarded to Kent County Council for the schemes by SEEDA. A condition of the agreement is that, in the future, money collected from developers in respect of these works through the planning process by Ashford Borough Council will be paid to SEEDA. It is uncertain how much will be collected or when payments will be received or made. However the Councils liability is limited to the total amount received in each case.

34. Contingent Assets

A number of Councils are in the process of legal action against HM Revenue and Customs to recover VAT on car parking income. The Council has two protective claims for VAT in regards to off street parking income, totalling £2,210,663; the case is currently subject to an appeal by HM Revenue and Customs.

The Council has submitted a further claim to HM Revenue and Customs for VAT in regards to off street parking income, covering the period April 1974-March 1996, this totals £1,174,340. The case is currently subject to an appeal by HM Revenue and Customs.

The Council is seeking to recover certain additional costs incurred on the Stour Centre refurbishment project but it is not possible to estimate the likely outcome at this stage. The value of this claim includes the cost of repairing the leisure pool tiles and the lost income relating to the pool closure.

35. Events After the Balance Sheet Date

Included within the Statements is an accrual for the settlement of outstanding concessionary fares claims made by the bus operator. The members of the Kent Scheme had triggered a process of judicial review and were seeking a reduction in this figure. To avoid this legal process the bus company is activly negotiating with the scheme and there is an expectation that the amount paid will be lower than the amount accrued for in the accounts (This estimated to be as much as £160,000). The accrual will be amended once a final settlement figure has been agreed.

36. Cash Flow Statement - Operating Activities

2009/10 £'000		2010/11 £'000
401	Interest paid	1,113
(765)	Interest received	(1,342)
-	Dividends received	-

37. Cash Flow Statement - Investing Activities

2009/10 £'000		2010/11 £'000
9,438	Purchase of property, plant and equipment, investment property and intangible assets	12,199
20,286	Purchase of short-term and long-term investments	33,500
(3,568)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,323)
(19,331)	Proceeds from shot-term and long-term investments	(28,000)
(2,255)	Other receipts from investing activities	(7,312)
4,570	**Net cash flows from investing activities**	**8,064**

38. Cash Flow Statement - Financing Activities

2009/10 £'000		2010/11 £'000
(12,000)	Cash receipts of short and long-term borrowing	(21,251)
1,467	Adjustments to financing activities	(7,912)
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	191
7,000	Repayments of short and long-term borrowing	14,000
0	Other payments for financing activities	122
(3,583)	**Net cash flows from financing activities**	**(14,850)**

39. Cash Flow Statement - Makeup of Cash and Cash Equivalents

2009/10 £'000		2010/11 £'000
9,329	Cash and Bank Balances	12,392
(3,423)	Cash Investments - regarded as cash equivalents*	(16,620)
-	Bank Overdraft	-
5,906		**(4,228)**

* This item includes a £11.2m adjustment (2009/10 £10.0m) for Growth Area funding held by the Council as an agent and therefore excluded from our accounts.

Supplementary Single Entity Statements
Housing Revenue Account

The Housing Revenue Account (HRA) is a record of the revenue expenditure and income relating to Ashford Borough Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants; the HRA is a statutory account, ringfenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

2009/2010 Restated £'000	HRA Income and Expenditure Account	2010/2011 £'000
	Expenditure	
3,010	Repairs and maintenance	2,972
4,740	Supervision and management	4,636
47	Rents, rates, taxes and other charges	43
3,691	PFI Contractor	2,970
6,857	Negative HRA Subsidy payable	6,998
4,068	Depreciation and impairment of non current assets	5,006
(26,374)	Exceptional Item – (Revaluation Gain)/Impairment of HRA assets	107,636
21	Debt management costs	44
210	Movement in the allowance for bad debts	-
(3,730)	**Total Expenditure**	**130,305**
	Income	
(18,798)	Dwelling rents	(18,868)
(556)	Non-dwelling rents	(526)
(555)	Charges for services and facilities	(568)
(347)	Contributions towards expenditure	(333)
(3,000)	PFI Subsidy receivable	(3,000)
(23,256)	**Total Income**	**(23,295)**
(26,986)	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**	**107,010**
521	HRA services' share of Corporate and Democratic Core	486
251	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	289
(26,214)	**Net (Income)/Cost for HRA Services**	**107,785**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	
(226)	(Gain)/Loss on sale of HRA non-current assets	14,779
51	Interest payable and similar charges	1,025
(138)	Interest and investment income	(65)
416	Pensions interest cost and expected return on pensions assets	279
(26,111)	**(Surplus) or deficit for the year on HRA services**	**123,803**

Movement on the Housing Revenue Account Statement

2009/2010 Restated £'000		2010/2011 £'000
(1,233)	Balance on the HRA at the end of the previous year	**(1,670)**
(26,111)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement	123,803
25,674	Adjustments between accounting basis under statute	(124,284)
(437)	Net (increase)/decrease in year on the HRA	(481)
(1,670)	**Balance on the HRA at the end of the current year**	**(2,151)**

Note on Statement of Movement on the Housing Revenue Account Balance

2009/10 Restated £'000		2010/2011 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year	
16	Difference between interest payable and similar charges (including amortisation of premiums and discounts)	(44)
25,873	Difference between any other item of income and expenditure determined in accordance with the code	(109,103)
226	(Gain) or loss on sale of HRA non-current assets	(14,779)
-	Capital expenditure funded by the HRA	36
(181)	HRA Share of contributions to or from the pension reserve	(205)
(261)	Transfer to/(from) the Major Repairs Reserve	(189)
25,674		**(124,284)**

Notes to the Housing Revenue Account

1. Number and type of Housing Stock, Balance Sheet Opening and Closing Values

The breakdown of the numbers and types of HRA dwellings at 31 March 2011 is given in the table below:

31 March 2010 Units	Dwellings By Type	31 March 2011 Units
3,540	Houses/Bungalows	3,537
1,474	Flats/Bedsits/Maisonettes	1,472
-	New Development Dwellings	20
5,014	**Total Number of Dwellings**	**5,029**
337	Properties Managed under the Stanhope PFI	337
4,677	**Revised Total Number of Dwellings**	**4,692**

The opening and closing Balance Sheet values of HRA assets are shown below:

1 April 2010 £'000		31 March 2011 £'000
325,986	Operational assets - dwellings, land and buildings	202,309
-	Non-operational assets	303
325,986		**202,612**

2. Vacant Possession Value of Dwellings

The vacant possession value of dwellings within the Council's HRA as at 1 April 2010 was £619,337,000 (£631,568,940 as at the 1 April 2009), a number of Stanhope PFI properties have been disposed. The difference between this and the Balance Sheet value shows the economic cost to Government of providing council housing at less than open market rents.

This valuation exercise was completed by an external valuer (Savills)

3. Major Repairs Reserve

2009/10 £'000		2010/11 £'000
5,847	Balance on 1 April	4,753
3,567	Depreciation	3,540
(261)	Transfer to/(from) Major Repairs Reserve	(191)
(4,400)	Less: Use of Reserve for HRA Capital Expenditure	(4,189)
4,753	**Balance at 31 March**	**3,913**

4. Summary of Capital Expenditure and Financing

2009/10 £'000		2010/11 £'000
4,400	Expenditure on Dwellings	4,189
-	Expenditure on new developments	3,297
-	Expenditure on PFI	495
-	Expenditure on pilot PV panels project	36
4,400		**8,017**
	Financed By:	
-	Capital Receipts	-
4,400	Major Repairs Reserve	4,189
-	External Contribution (Housing Communities Agency)	1,520
-	Borrowing	1,777
-	Revenue Contribution	531
4,400		**8,017**

5. Capital Receipts from Disposal of Assets

2009/10 £'000		2010/11 £'000
996	Receipts from Right to Buy Sales	306
1,439	Receipts from Housing Land	1,721
(62)	Costs of disposal	(53)
2,373	**Total Capital Receipts less deductions**	**1,974**

6. Depreciation

The Housing Revenue Account for the year includes charges for depreciation of £3,550,847 (2009/10, £3,566,957), summarised below,

2009/10 £'000		2010/11 £'000
3,306	Council Dwellings	3,349
261	Council Garages	190
-	PV Panels	1
-	New Development	11
3,567		**3,551**

The Council uses the Major Repairs Allowance as a proxy for depreciation for Council Dwellings.

7. HRA Subsidy

The HRA subsidy for the year is made up as follows:

2009/10 £'000		2010/11 £'000
2,320	Allowance for Management	2,344
5,510	Allowance for Maintenance	5,505
3,306	Allowance for Major Repairs	3,349
89	Charges for Capital	73
(18,072)	Rent	(18,269)
(4)	Interest on Receipts	(1)
(6)	Adjustment for previous years	1
(6,857)	**Subsidy as per Income and Expenditure Account**	**(6,998)**
3,000	PFI Subsidy	3,000
(3,857)	**Negative Subsidy payable to Central Government**	**(3,998)**

8. Pensions

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge we are required to make against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the Housing Revenue Account Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the Housing Revenue Account Balance.

2009/10 £'000		2010/11 £'000
	Income and Expenditure Account	
-	Net Cost of Services	-
148	Current Service Cost	343
-	Past Service Cost	-
-	Net Operating Expenditure	-
803	Interest cost	876
(388)	Expected return on assets	(597)
563	Net Charge to the Income and Expenditure Account	622
	Statement of Movement in the Housing Revenue Account Balance	
(563)	Reversal of net charges made for retirement benefits in accordance with IAS19	(622)
382	Actual amount charged against the Housing Revenue Account for pensions in the year.	**416**

9. Rent Arrears

During the year 2010/11 arrears totalling £2,160 (£9,221 - 2009/10) were written off to the bad debts provision held outside the HRA as they were considered to be uncollectable. No contribution (£215,461 – 2009/10) has been made to the provision in the year.

The balance on the provision at 31 March 2011 was £968,914 (£971,074 at 31 March 2010).

31 March 2010		31 March 2011
933,121	Gross Arrears	956,925
(214,453)	Less Pre-Payments	(267,189)
718,668	**Net Position**	**689,736**

10. Exceptional Item (Impairment)

In 2010/11 impairments of £110,002,105 (£64,564 – 2009/10) were charged to the Housing Revenue Account. £80,270,840 is as a result of the regional variation in Existing Use Value – Social Housing (EUV-SH) from 45% to 32%, other Authorities will have similar impairments. EUV-SH has also been used to value the new developments, which has resulted in an impairment of £1,455,004; the remaining £28,276,261 impairment is due to a general fall in value.

11. Directions by the Secretary of State

Ashford Borough Council has agreed with the Secretary of State, under section 80B of the Local Government and Housing Act 1989, to exclude the ‘New Build’ schemes from the Housing Revenue Account Subsidy System. This decision does not affect the way in which the properties have been treated in the accounts, but it does impact the level of subsidy and Major Repairs Allowance paid to/from the Government.

Collection Fund

2009/10 £'000	Income and Expenditure Account	2010/11 £'000	2010/11 £'000
	Income		
(38,411)	Income from Business Taxpayers	(40,141)	
(54,929)	Council Tax	(56,735)	
(7,050)	Council Tax Benefits	(7,460)	
(100,390)			(104,337)
	Expenditure		
	Precepts and Demands		
45,881	Kent County Council	47,037	
6,020	Kent Police Authority	6,226	
2,953	Kent and Medway Fire Authority	3,050	
6,769	Ashford Borough Council inc Parish Precepts	7,075	63,389
	Business Rates		
37,680	Payment to National Pool	38,769	
181	Costs of Collection	172	38,941
	Bad and Doubtful Debts		
179	Write-offs	648	
567	Provisions	746	1,395
	Contributions		
	Surplus Distribution/(Contributions to Deficit)		
(268)	- Kent County Council	246	
(34)	- Kent Police	32	
(17)	- Kent Fire	16	
(35)	- Ashford Borough Council	32	326
99,876			104,051
(514)	**Deficit/ (Surplus) in Year**		**(286)**
750	Balance as at 1st April 2010		237
236	**Balance as at 31 March 2011**		**(49)**
	Apportionment to Major Preceptors		
(177)	- Kent County Council		37
(24)	- Kent Police		5
(11)	- Kent Fire		2
24	**Ashford Borough Council Share of (surplus)/deficit**		**(5)**

Notes to the Collection Fund

1. NNDR Rateable Value

Under the arrangements for Uniform Business Rates, the Council collects Non-Domestic Rates for its area, which is based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool; the NNDR pool managed by Central Government, which in turn pays back to authorities their share of the pool, based on a standard amount per head of local population.

Total non-Domestic Rateable Value:	**£**
1 April 2010	95,404,520
31 March 2011	112,771,541
Increase/ decrease for year	**17,367,021**

The Uniform Rate in the pound set by Government in 2010/11 was: -	
For rateable values below £15,000	40.7p
For rateable values £15,000 and above	41.4p

The increase in rateable values was mainly due to the value of the County Square Development.

2. Council Tax Base

The calculation of Council Tax requirements uses the number of Band D equivalents as the tax base. It is a figure that is usually quoted as the Council Tax in any area.

The Council Tax Base produces a collectable amount of approximately £62.6m. However, changes to the banding of properties, numbers of new properties, exemptions/reliefs and discounts granted altered the amount during the year to £63.2m.

Band	Number of properties net of discounts and reliefs	Multiplier	Band D Equivalent £	Tax in 2009/10 £	Tax in 2010/11 £	Yield £'000
A	2,957	6/9	1,971	908.17	930.05	2,750
B	9,997	7/9	7,775	1,059.53	1,085.06	10,847
C	10,709	8/9	9,520	1,210.89	1,240.07	13,280
D	7,137	1	7,137	1,362.25	1,395.08	9,957
E	5,838	11/9	7,136	1,664.97	1,705.10	9,955
F	4,666	13/9	6,740	1,967.69	2,015.12	9,403
G	2,815	15/9	4,691	2,270.42	2,325.13	6,545
H	161	2	322	2,724.50	2,790.16	450
Adjustments for unbanded and new properties and uncollectables			(400)			(559)
Local tax base including parishes and expected yield			**44,893**			62,629

3. Precepts

The following Authorities made a significant precept or demand on the Collection Fund:

Authority	Precept £'000	Distribution of prior years surplus £'000	Total £'000
Ashford Borough Council*	7,075	32	7,107
Kent County Council	47,037	246	47,283
Kent Police	6,226	32	6,258
Kent Fire and Rescue	3,050	16	3,066
Total	**63,388**	**326**	**63,714**

*This includes parish precepts
39 Parish Councils precept on Ashford Borough Council. The most significant of which are:

Parish	Precept £'000
Tenterden Town Council	180
Kingsnorth	60
Biddenden	46
Wye with Hinxhill	40
Charing	41

Glossary

Agency Services – services which are performed for another Authority or public body, where the principal the Authority responsible for the service reimburses the agent the Authority doing the work for the cost of the work carried out.

Amortised – the deduction of capital expenses over a specific period of time. Similar to depreciation, it is a method of measuring the consumption of the value of long-term assets like equipment or buildings.

Appointed Auditors – external auditors of Local Authorities appointed by the Audit Commission. In Ashford's case, this function is carried out by the Commission's own audit staff.

Audit Commission – an independent body, established under the Local Government Finance Act 1982. The Audit Commission is responsible for appointing external auditors to Local Authorities and setting standards for those auditors, carrying out national studies to promote economy, efficiency and effectiveness in the provision of Local Authority services and defining comparative indicators of Local Authority performance that are published annually.

Budget – a statement defining the Council's policies for a year in terms of finance.

Budget Requirement – the estimated revenue expenditure on General Fund services that needs to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding reserves.

Capital Expenditure – spending on the acquisition, construction, enhancement or replacement of tangible assets such as land, buildings or major items of equipment, which will be used to provide services for a number of years.

Capital Financing – funds used to pay for capital expenditure.

Capital Receipts – the proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure within the rules set down by the Government, but they cannot be used to finance revenue expenditure.

CIPFA – The Chartered Institute of Public Finance and Accountancy is the leading professional accountancy body for public services in the UK. CIPFA has responsibility for setting good practice accounting standards for Local Government.

Collection Fund – a statutory fund maintained by a Billing Authority, which is used to record local taxes and non-domestic rates collected by the Authority, along with payments to precepting authorities, the national pool of non-domestic rates and its own general fund.

Componentisation – An accounting term that covers the practice of splitting an asset into its component parts (e.g. Walls, Roof, Lift, Boiler) to determine the appropriate value and depreciation basis for each component.

Contingent Liability – a potential liability at the Balance Sheet date. If the liability cannot be estimated reasonably accurately, it must be disclosed as a note to the Statement of Accounts.

Council Tax – the main source of local taxation to Local Authorities. Council Tax is levied on all domestic households within the Council's area.

Council Tax Benefit – assistance provided to adults on low incomes to help them pay their Council Tax bill. The cost of Council Tax benefit is wholly met by government grant.

Creditors – money owed by the Council to others.

Debtors – money owed to the Council by others.

Force Majeure – is a common clause in contracts which essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, such as war, strike, riot, crime, act of nature e.g. flooding, earthquake, volcano, prevents one or both parties from fulfilling their obligations under the contract.

General Fund – the main revenue fund of the Authority. Day-to-day spending on services is met from the fund. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account.

Gross Expenditure – the total cost of providing the Council's services before taking into account income from Government grants and fees and charges for services.

Housing Benefit – the allowance to persons on low income or unable to meet, in whole or part, their rent. Benefit paid to the Authority's own tenant is known as **rent rebate** and that paid to private sector tenants as **rent allowance**.

Housing Revenue Account HRA – account which sets out the expenditure and income arising from the provision of housing. The HRA is funded by specific housing grants and rents payable by the Council's tenants.

HRA Subsidy – A sum, calculated notionally by Government (based on income from rents, investments and notional expenditure) that results in a payment to/from the local authority.

Impairment – An accounting term that covers the loss in value of an asset either through consumption of its economic life or an change in its usefulness. For example fire damage.

Internal AUDIT – a specialist section of the Council that examines, evaluates and reports on the adequacy of internal control systems and the proper, economic, efficient and effective use of resources.

International Financial Reporting Standards – The accounting standards that have been produced and adopted to govern accounting and move to a globally similar basis.

LABGI – Local Area Business Growth Incentive Scheme. This grant is awarded by Government to councils who grow Rateable value of the businesses in their area.

MRP – Minimum Revenue Provision. This is the calculation that Councils make for the repayment of debt.

National Non-Domestic Rate NNDR – a levy on businesses, based on a national rate in the pound set by the Government multiplied by the 'rateable value' of the premises they occupy. NNDR is collected by Billing Authorities on behalf of Central Government and then redistributed among all Local Authorities and police authorities on the basis of population.

Net Expenditure – gross expenditure minus specific service income, but before deduction of Revenue Support Grant.

Outturn – actual income and expenditure in a financial year.

Partial Exemption– a VAT term which ensures that a Local Authority does not recover VAT on Inputs that relate to the generation of exempt income more than the 5% of the total VAT recovered.

Pension Fund – an employees' pension fund maintained by an Authority, or group of Authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing Authority, the employee and investment income. Ashford participates in a pension fund that covers all Kent Authorities.

Precept – the levy made by precepting authorities on Billing Authorities, requiring the latter to collect income from Council taxpayers on their behalf. County councils, police authorities, fire and rescue authorities and Parish Councils are precepting authorities.

Private Finance Initiative PFI – a Central Government initiative which aims to increase the levels of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

Provisions – amounts set aside for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. The value of the Provision must be the best estimate of the likely liability or loss.

Reserves – amounts set aside to meet general, rather than specific future expenditure. These include "other reserves" to be spent on specific services or functions and "general reserves" or 'balances' which every Authority must maintain as a matter of prudence. Sums may be put into or taken from reserves at the Council's discretion.

Revenue Expenditure – the day-to-day running costs of providing services.

Revenue Expenditure Funded from Capital Under Statute – expenditure that does not result in the creation of a fixed asset but is classified as capital expenditure for Capital Control purposes.

Revenue Support Grant RSG – a grant paid by Central Government to aid Local Authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

Specific Grants – grants from Central Government which may only be used for a specific purpose.

Treasury Management – management of the Council's cash balances on a daily basis, to obtain the best return while maintaining an acceptable level of risk

UK GAAP – United Kingdome Generally Accepted Accounting Practice – this was the set of accounting rules that were developed for the United Kingdom. This has largely been replaced by International Financial Reporting Standards.

Appendix Restatement of 2009/10 and 2008/09 Accounts

Restatement of 2009/10 Comparators	Final Accounts	Re-classified Leases	Em-bedded Leases	Annual Leave Accrual	Deferred Capital Grants Adjust	Pension Strain Adjust	Total
Comprehensive Income & Expenditure Account							
Central Services to the Public	609			(2)			607
Cultural, Environmental & Planning	26,476	(551)		(10)	3,846		29,761
Highways	1,127			(1)			1,126
Local Authority Housing (HRA)	(612)			0			(612)
Exceptional Item - HRA stock impairment	(26,374)			0			(26,374)
Housing	2,387			(1)	2,344		4,730
Corporate & Democratic Core	2,399			(6)			2,393
Non-distributable Costs	1,981			0		330	2,311
Cost of Services	**7,993**	**(551)**	**0**	**(20)**	**6,190**	**330**	**13,942**
Other Operating Expenditure	2,111						2,111
Financing & Investing Income	2,129						2,129
Government Grants	(16,026)				(2,918)		(18,944)
Surplus/Deficit for year	**(3,793)**	**(551)**	**0**	**(20)**	**3,272**	**330**	**(729)**
Statement of Movement in General Fund Balance (as displayed under SORP2009)							
Opening Balance	**(2,951)**						**(2,951)**
Amortisations	(28)						(28)
Depreciation etc	1,583	551	-182				1,952
Deferred Contributions	6,191				(3,272)		2,918
Write down Deferred charges	(2,545)						(2,545)
Gain/Loss on disposal of Fixed Assets	(470)						(470)
FRS 17 Adjustment	(2,000)					-330	(2,330)
Financing Capital Expenditure	56						56
RTB Receipts	(673						(673)
HRA	437						437
Transfer to the Collection Fund Adjustment Account	50						50
Transfer to/from A/L Accrual Account	0			20			20
Voluntary MRP	45		182				227
Earmarked Reserves	662						662
Total Movement	**3,308**	**551**	**0**	**20**	**(3,272)**	**-330**	**279**

Restatement of 2009/10 Comparators	Final Accounts	Previous Year Movements	Re-classified Assets	Re-classified Leases	Em-bedded Leases	Annual Leave Accrual	Cash & Cash Equiva-lents	Deferred Capital Grants Adjust	Pension Strain Adjust	Agent v Principal Adjust	Total
Balance Sheet											
Property Plant & Equipment	368,655	(428)	203	551	(182)						368,799
Intangible Fixed Assets	76	0									76
Investment Properties	0	0									0
Long-term Investments	12,773	0									12,773
Long-term Debtors	498	1,176		(16)							1,658
Total Long Term Assets	**382,002**	**748**	**203**	**535**	**(182)**	**0**	**0**	**0**	**0**	**0**	**383,306**
Short Term Investments	16,765	(4,580)					1,157				13,342
Inventories	29	0									29
Short Term Debtors	11,213	15									11,228
Cash & Cash Equivalents	641	4,580					(1,157)			(9,970)	(5,906)
Assets for Sale	0	252	(203)								49
Current Assets	**28,648**	**267**	**(203)**	**0**	**0**	**0**	**0**	**0**	**0**	**(9,970)**	**18,742**
Short Term Borrowing	(9,014)	0									(9,014)
Short Term Creditors	(23,041)	(126)				20				9,970	(13,177)
Capital Grants Receipts in Advance	(3,456)	6,624						(3,387)			(219)
Current Liabilities	**(35,511)**	**6,498**	**0**	**0**	**0**	**20**	**0**	**(3,387)**	**0**	**9,970**	**(22,410)**
Provisions	(179)	0									(179)
Pension Liability	(65,835)	0									(65,835)
Pension Strain	0	(491)							(330)		(821)
PFI LT Liability	(27,698)	0									(27,698)
Long Term Borrowing	0	0									0
Finance Lease Liability	0	(905)			182						(723)
Long Term Liabilities	**(93,712)**	**(1,396)**	**0**	**0**	**182**	**0**	**0**	**0**	**(330)**	**0**	**(95,256)**
TOTAL ASSETS LESS LIABILITIES	**281,427**	**6,117**	**0**	**535**	**0**	**20**	**0**	**(3,387)**	**(330)**	**0**	**284,382**
Usable Reserves	(13,807)	0	0	0	0	0	0	0	0	0	(13,807)
Unusable Reserves	(267,620)	(6,117)	0	(535)	0	(20)	0	3,387	330	0	(270,575)
TOTAL EQUITY	**(281,427)**	**(6,117)**	**0**	**(535)**	**0**	**(20)**	**0**	**3,387**	**330**	**0**	**(284,382)**

Restatement of 2008/09 Comparators	Final Accounts restated for SORP 2009	Re-classified Assets	Re-classified Leases (Lessor)	Re-classified Leases (Lessee)	Em-bedded Leases	Annual Leave Accrual	Cash & Cash Equiva-lents	Deferred Capital Grants Adjust	Pension Strain Adjust	Agent v Principal Adjust	Total
Balance Sheet											
Property, Plant & Equipment	352,383	(252)	(1,081)	120	785						351,955
Intangible Fixed Assets	80										80
Long-term Investments	15,899										15,899
Long-term Debtors	486		1,176								1,662
Long Term Assets	**368,848**	**(252)**	**95**	**120**	**785**	**0**	**0**	**0**	**0**	**0**	**369,596**
Short Term Investments	13,461						(4,580)				8,881
Inventories	25										25
Short Term Debtors	6,563		15								6,578
Cash & Cash Equivalents	214						4,580			(10,817)	(6,023)
Assets for Sale	0	252									252
Current Assets	**20,263**	**252**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**(10,817)**	**9,713**
Short Term Borrowing	(4,158)										(4,158)
Short term Creditors	(24,165)					(126)				10,817	(13,474)
Capital grants received in advance	(7,506)							6,624			(882)
Current Liabilities	**(35,829)**	**0**	**0**	**0**	**0**	**(126)**	**0**	**6,624**	**0**	**10,817**	**(18,514)**
Provisions	(169)										(169)
Pension Liability	(38,390)										(38,390)
Pension Strain	0								(491)		(491)
PFI Long Term Liability	(19,494)										(19,494)
Long Term Borrowing	0										0
Finance Lease LT Liability	0			(120)	(785)						(905)
Long Term Liabilities	**(58,053)**	**0**	**0**	**(120)**	**(785)**	**0**	**0**	**0**	**(491)**	**0**	**(59,449)**
TOTAL ASSETS LESS LIABILITIES	**295,229**	**0**	**110**	**0**	**0**	**(126)**	**0**	**6,624**	**(491)**	**0**	**301,346**
Usable Reserves	(12,345)										(12,345)
Unusable Reserves	(282,884)		(110)			126		(6,624)	491		(289,001)
TOTAL EQUITY	**(295,229)**		**(110)**			**126**		**(6,624)**	**491**		**(301,346)**

Agenda Item No:	5
Report To: Audit	Audit Committee
Date:	28 September 2011
Report Title:	Internal Audit Strategic Plan
Report Author:	Head of Audit Partnership

ASHFORD
BOROUGH COUNCIL

Summary:	The report sets out the three-year Internal Audit Plan and asks that the Audit Committee consider and approve the Plan.

Key Decision:	NO
Affected Wards:	N/A
Recommendations:	**The Audit Committee is asked to:-** **Approve the three-year strategic Internal Audit plan (shown at Appendix 1)**
Policy Overview:	Not applicable
Financial Implications:	None directly
Risk Assessment	Yes
Equalities Impact Assessment	No
Other Material Implications:	Legal: The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control.
Background Papers:	None
Contacts:	Brian.Parsons@ashford.gov.uk – Tel: (01233) 330442

Report Title: Internal Audit Strategic Plan

Purpose of the Report

1. The report sets out the three-year Internal Audit Plan and asks that the Audit Committee consider and approve the Plan.

Issue to be Decided

2. A risk based, three-year strategic internal audit plan has been produced to meet the requirements of the Accounts and Audit Regulations 2011.

3. The Audit Committee is asked to consider and approve the Plan.

Background

4. The four-way Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells has now been in place for almost 18 months (since 1 April 2010). The partnership is considered to be successful.

5. One of the business objectives of the partnership was to coordinate audit work, where possible, in order to achieve efficiencies. This has culminated in the creation of individual three-year strategic audit plans for each partner Council. Reports will be presented to each of the four respective Audit Committees this month, asking that the respective plans are approved.

6. The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' are defined as being those which are set out in the Code of Practice for Internal Audit in Local Government in the UK – published in 2006 by CIPFA.

7. The Code of Practice requires the Head of Internal Audit to prepare a risk-based plan to implement the audit strategy.

8. In preparing the plan the Head of Internal Audit is required to take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes. Where the outputs from those processes are not judged to be sufficiently reliable, the Head of Internal Audit must undertake his own risk assessment. The Head of Internal Audit has to consult stakeholders on the draft plan and revise the plan if appropriate.

9. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.

10. Once the planned work has been determined, it has to be compared to resource availability. Where there is an imbalance between the two, the audit

committee needs to be informed of proposed solutions. The audit committee must then approve, but not direct, the internal audit plan.

11. The Code states that the Head of Internal Audit is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the audit committee.

Preparation of the Plan

12. The majority of the work of Internal Audit is identified in the three-year strategic audit plan which has been prepared to take full account of organisational objectives and priorities.

13. The strategic plan is prepared using a risk based approach to potential subjects for audit which are identified through a range of sources.

14. The plan gives specific consideration to:
    - the arrangements for the prevention of fraud and corruption
    - corporate governance
    - compliance with legislation/changes in legislation
    - compliance with codes of conduct
    - compliance with constitutional rules (e.g. Financial Rules, Contract Rules)
    - the ‘national agenda’, for example, shared services, transparency, localism and big society
    - coordinating work, or at least as much as is practical, with the external auditors to ensure that best use is made of audit resources

15. The plan seeks to:
    - provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness
    - give adequate coverage to allow the external auditors to place reliance on the work of Internal Audit
    - allow objective examination, evaluation and reporting on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The Plan

16. The draft strategic audit plan is set out at Appendix 1.

17. The Plan shows the audit work that is planned for the years 2011/12, 2012/13 and 2013/14.

18. The Plan has been prepared on a risk basis. This has involved scoring each of the potential audit subjects in terms of materiality, inherent risk and control risk, taking into account changes to systems, revised management arrangements, and past history.

19. The risk approach allows all potential audits to be ranked according to a scoring matrix and then a ‘cut off point’ to be used to match the potential

audits to the available auditor resources. In deciding which subjects appear 'above the line' consideration also has to be given to the need to review areas of governance; these do not score particularly highly in the risk assessment because they have no direct financial cost but are nonetheless extremely important to the proper operation of the Council. In addition, in the final assessment of 'what is in and what is out', common sense and experience are applied.

20. Although it is not possible to audit all activities of the Council with the resources that are available, the areas that will not be audited are considered to have a lower level of risk.

21. The numbers shown in the various columns are the numbers of audit days which are anticipated to be necessary to complete the individual audit projects. The time allocation allows a reasonably detailed audit and covers all of the elements of the audit process, from the creation of the initial Brief to the completion of the follow-up. The time allocation is used as planning guide, whereby the time allocation should not generally be exceeded and opportunities will be taken to complete the audit work more quickly where this is possible.

22. The actual time spent on the audit depends on the complexity of the subject, the scope of the work, the quality of the systems and documents that will be examined, the helpfulness of the staff that we need to work with and the issues that arise during the audit. In general terms it takes longer to audit a subject where poor controls are in place.

23. The 'available audit days' is identified though a resource assessment. The chargeable day target is set at 85% of available days. This provides a challenging but achievable target for the operational auditors and means that they must robustly focus their work on the projects that are allocated to them from the Internal Audit Plan. Each auditor is expected to complete twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.

24. Not only is it important to ensure that output meets the target set in the Plan, it is also vital that the principal output, the audit report, is of good and consistent quality, produced on a timely basis and of value to the client. The achievement of the right balance of quantity and quality is a significant aspect of the work of the Audit Manager and ultimately the Head of Audit Partnership.

25. The resources available to Internal Audit consist of two full time operational auditors, supported operationally by an Audit Manager for two days of the week, and strategically by the Head of Audit Partnership.

26. The Plan is flexible in the sense that a new audit topic can be added in the future, subject to the deletion of one of the planned audits. It is anticipated that this will occur on a reasonably frequent basis over the period of the Plan.

27. The majority of the time of the Ashford auditors will be spent on Ashford audit projects; however they will also work on other partnership sites where it is efficient to do so. This will be reciprocated on a quid pro quo basis.

28. The Internal Audit Plan for Ashford is sovereign. However, where possible it has been aligned with the Audit Plans for Maidstone, Swale and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.

29. The plan sets out the audit work that will be carried out in relation to the key financial systems; Benefits, Council Tax, NNDR, General Ledger, Creditor Payment, Debts Receivable and Payroll. The financial materiality of these systems and the expectations of the external auditors dictate that these systems are reviewed annually.

30. The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little of no financial risk but are subject to regulatory, legal, technological or reputation risk.

31. The frequency of audit is based on the risks identified but also on the judgement of the Head of Audit. The financial systems are reviewed annually whereas some other areas are reviewed only once in three years.

32. The planned audit projects shown for 2011/12 to 2013/14 are achievable with the current level of audit resources.

Risk Assessment

33. The Internal Audit Plan sets out a series of projects to examine the adequacy of the controls that the Council has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.

Equalities Impact Assessment

34. None

Other Options Considered

35. There is a requirement under the Code of Practice that the Head of Internal Audit should prepare a risk-based plan to implement the audit strategy. There are no alternative options.

Consultation

36. The Plan has been provided to Management Team for comments.

37. Following the approval of the Plan by the Audit Committee, the Audit Manager will arrange to meet with the respective Head of Service to discuss the plan of audit work relative to their area of responsibility. These discussions may lead to amendments to the plan.

38. Before any actual audit work commences, the respective Head of Service is consulted on the timing, scope and objectives of the audit.

Implications Assessment

39. The Internal Audit plan has been prepared to take account of the corporate plan priorities, together with the systems in place to deliver the priorities and manage the risks to their delivery.

40. The Accounts and Audit Regulations 2011 place a statutory duty on the Council to ‘undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control’. The ‘proper practices’ are defined as being those which are set out in the Code of Practice for Internal Audit in Local Government in the UK – published in 2006 by CIPFA.

Handling

41. The Plan, when approved, will dictate the majority of the work of the Internal Audit Team over the next two and a half years. The auditors will be allocated audit projects in line with the agreed plan

Conclusion

42. The Accounts and Audit regulations 2011 place a statutory duty on the Council to ‘undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the proper practices in relation to internal control’.

43. The Head of Audit Partnership is satisfied that completion of the attached three-year audit plan will meet the statutory duty and will allow the risks to the achievement of the majority of the Council’s operational and strategic objectives to be reviewed over the term of the plan.

Portfolio Holder’s Views

44.

45.

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Mid Kent Audit Partnership
2011 to 2014 Audit Plan - Ashford

Audit	Audit Interval	Allocated Man-Days		
		2011/12	2012/13	2013/14
CULTURAL & PROJECT SERVICES				
PARKS & OPEN SPACES -GM CONTRACT	2		14	
JULIE ROSE STADIUM	3			12
YOUTH & LEISURE DEVELOPMENT	3		12	
PLANNING & DEVELOPMENT				
PLANNING & DEVELOPMENT	3		12	
BUILDING CONTROL	3			12
LAND CHARGES	3	12		
SECTION 106 AGREEMENTS	3		15	
ENVIRONMENTAL SERVICES				
CAR PARK INCOME/PERMITS/CASH	2		12	
DECRIMINALISATION - PARKING ENFORCEMENT	2	12		12
WASTE MANGEMENT CONTRACT	2		16	
RECYCLING INITIATIVES	2	12		14
STREET CLEANSING	3			12
ABANDONED VEHICLES	3			10
ENVIRONMENTAL PROTECTION	3		10	
FOOD SAFETY & INSPECTIONS	3	12		
HEALTH & SAFETY	3		10	
LICENSING	3	12		
PEST CONTROL	3			12
CCTV - MONITORING/TELCAN	2		12	
STREET MARKETS	3			12
LEGAL & DEMOCRATIC SERVICES				
ELECTIONS	3	12		
REGISTER OF ELECTORS	3			10
MEMBERS ALLOWANCES/EXPENSES	3		12	
GIFTS & HOSPITALITY/REGISTERS OF INTERESTS	3	10		
FINANCE				
NON DOMESTIC RATES	1	10	9	10
COUNCIL TAX	1	10	9	10
HOUSING BENEFITS	1	15	15	15
TREASURY MANAGEMENT	2	10		12
PROCUREMENT	2		12	
VAT	3		12	
PRE POST TENDER PROCEDURES	3			15
CONTRACTS & FINANCIAL PROCEDURE RULES	2	14		16
BANK RECONCILIATION	3	10		
BANKING ARRANGEMENTS	3		10	
CAR LEASING/CASH ALTERNATIVE/CAR LOANS	3			15
CAR MILEAGE/EXPENSES	3		12	

Mid Kent Audit Partnership
2011 to 2014 Audit Plan - Ashford

Audit	Audit Interval	Allocated Man-Days		
		2011/12	2012/13	2013/14
SUNDRY DEBTORS	1	10	10	11
CREDITORS	1	10	10	11
GENERAL LEDGER	1	14	12	14
PAYROLL	1	12	12	12
COLLECTION FUND	3			14
INSURANCE	3	12		
HOUSING				
HOME IMPROVEMENT GRANTS	3	14		
GYPSY SITES	3	10		
PFI	3		15	
HOUSING MAINTENANCE & REPAIRS	2		15	
RENT ACCOUNTING	1		15	15
DEPOSIT LOANS/BONDS	3		10	
ALLOCATIONS/WAITING LISTS	3	15		
PROPERTY & FACILITIES & COMMERCIAL	3			16
ICT & CUSTOMER SERVICES				
ICT	1	15	15	15
PRINTING	3			12
FREEDOM OF INFORMATION/TRANSPARENCY	3	14		
DATA PROTECTION	3	14		
BUSINESS CONTINUITY	3		12	
GATEWAY	2	12		14
CORPORATE				
PROJECT MANAGEMENT	2	15		15
NFI	2	10	10	
TRUSTS/PARTNERSHIPS	1	15	15	15
INTEREGG	1	15		
TOTAL ALLOCATED MAN-DAYS		**358**	**355**	**363**

Key to Audit Interval

1 = Annually 2 = Once every other year 3 = Once every three years

Agenda Item No:	6
Report To:	Audit Committee
Date:	28 September 2011
Report Title:	Approach and Strategy for Taking Forward Risk Management at Ashford
Report Author:	Brian Parsons - Head of Audit Partnership

Summary:	The Council needs to put improved risk management arrangements in place. The report proposes that the responsibility for progressing the risk arrangements is allocated to the Head of Audit Partnership. A way forward is proposed. The Committee is asked to endorse the proposed approach.

Key Decision:	NO
Affected Wards:	N/A
Recommendations	**The Audit Committee is asked to:-** **Endorse the proposed arrangements for risk management.**
Financial Implications:	None directly
Equalities Impact Assessment	No
Other Material Implications:	An effective risk management process is a vital element of the Council's governance arrangements.
Contacts:	Brian.Parsons@ashford.gov.uk – Tel: (01233 330442)

Report Title: Approach and Strategy for Taking Forward Risk Management at Ashford

Purpose of the Report

1. The report sets out a number of proposals for the future provision of the Council's risk management arrangements.

Issue to be Decided

2. The Council needs to put improved risk management arrangements in place.

3. The report proposes that the responsibility for progressing the arrangements are allocated to the Head of Audit Partnership, who has proposed a way forward. The Committee is asked to endorse the proposed approach.

Background

Annual Governance Statement

4. Members will recall that they considered and approved the Council's Annual Governance Statement (2010/11) at the meeting of the committee on 27 June 2011.

5. The report accompanying the statement concludes that 'Governance arrangements continue to be strong and are under regular review. 2010/2011 saw some fundamental development, particularly the review of priorities for the council, the 'taking stock' of growth plans, and the emerging plans for a new approach to localism. It is considered the governance framework remains effective and responsive to change and adaptation as circumstances dictate.'

6. The statement identifies only two significant areas of governance as warranting further attention. The first concerns the development of new approaches to partnership working and arrangements to put in practice the council's approach to localism. The second concerns the need to refresh risk management.

7. Although there is a need to improve the Council's overall risk management arrangements, it is important to acknowledge that there are already pockets of good practice within the organisation; for example some of the projects originating from the Housing section demonstrate a sound risk management approach.

Previous Arrangements

8. The arrangements for risk management were managed by the Policy and Performance Team until 2010. The team has since been disbanded.

9. The four-way Internal Audit Partnership with Maidstone, Swale and Tunbridge Wells came into existence on 1 April 2010.

10. For the other three Councils, it was intended that the partnership would provide the home for business risk management. This was, to some extent, a continuation of the pre-partnership arrangements where the respective Head of Audit had responsibility for risk management; however at Ashford it was unclear initially whether the arrangements for risk management would remain with Policy and Performance.

11. The changes to the corporate structure at Ashford during 2010 led the Deputy Chief Executive to ask the Head of Audit Partnership to take on the responsibility for risk management. There was no additional resource provided for this work. For the audit partnership, in terms of priorities, it was necessary to get the partnership up and running before consideration could be given to the arrangements that need to be put in place for risk management.

12. The final agreement on the partnerships costs in September 2010 meant that the option to appoint a ‘risk officer’ to work within the partnership was no longer possible.

13. This report makes a number of proposals in terms of how the risk management arrangements can be provided in future through the Mid Kent Audit Partnership.

14. The limited resources which are available to the Head of Audit Partnership for risk management work dictate that maximum use is made of the relationship with the Council’s insurers, Zurich, and that the arrangements are delivered in accordance with the strategic objective to provide the ’best services resources allow’.

15. This will affect the speed at which some aspects of risk management can be progressed. However, in some ways this is beneficial as it will allow risk management arrangements to be introduced over a period and to become properly embedded.

Role of the Audit Committee in relation to risk management.

16. The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority’s financial and non-financial performance to the extent that it affects the Authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process (Minute No. 408/12/06 refers)

17. In accordance with its terms of reference, the Committee must consider/monitor or advise the Council as appropriate on the effective development and operation of financial management, risk management and those elements of corporate governance within the remit of the Audit Committee.

A definition of risk management

18. Risk can be defined as ‘the chance of something happening that will have an impact on objectives’. Risk management is the ‘the term applied to a logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities’. Put more simply, risk management is a means of reducing the barriers to achieving successful outcomes.

Responsibility for risk management

19. The responsibility for ensuring the there are adequate arrangements within the Council for risk management rests with Management Team and Cabinet.

20. The proposed role for the Head of Audit Partnership within the arrangements is to facilitate the risk management process, promote risk management within the organisation and report periodically on the adequacy of the arrangements.

Zurich Management Services

21. Under the terms of the Council’s insurance contract with Zurich, the company provide an annual allowance for risk management work. The work can take several forms, for example the business risk management process which is the subject of this report, or an operational risk reduction programme, such as a review of Water and Open Spaces, which will be carried out by Zurich shortly to identify health and safety risks leading to a reduction in the risks and an accompanying reduction in claims.

22. The annual allowance from Zurich is £10,000. The Council currently has £15,000 in the risk management budget, with a further £10,000 to come at the date of renewal, 1 October 2011. It is considered that this budget is sufficient to allow work to be done on business risk management as well as to continue with the risk reduction programme. The allowance must be ‘spent’ on Zurich’s products.

The way forward

23. It is proposed that the Head of Audit Partnership takes responsibility for moving the Council’s business risk management arrangements forward. This will include:

- Review and update of the Risk Strategy
- Creation of a Strategic Risk Register (including the identification of the risks to the delivery of the five year Business Plan)

- Promotion of operational (service) risk registers for inclusion in service plans.
- Promotion of project risk arrangements
- Training for senior managers, unit managers and Members
- Raising awareness of risk management as a key management competency
- Creating a 'risk management toolkit' to be placed on the Intranet
- Annual report to Audit Committee on risk management
- Regular liaison between the Head of Audit Partnership and the Council's Insurance Officer to ensure that the best use is made of the risk management budget.
- The use of the risk registers to assist the audit planning process.

24. The approach taken to risk management will be positive and will use the risk management process as a means of improving the decision making and forward planning processes, but without creating a risk management 'industry'. The approach will be simple and practical.

Risk Assessment

25. Risk is the subject of the report.

Equalities Impact Assessment

26. Not applicable

Other Options Considered

27. The Committee could decide that it is not necessary to improve the current risk management arrangements; however this would leave a significant weakness in governance.

28. The Committee could decide not to allocate the responsibility for progressing the risk management arrangements to the Head of Audit Partnership.

Consultation

29. There will be consultation with management as the process is developed.

Implications Assessment

30. An effective risk management process is a vital element of the Council's governance arrangements.

Conclusion

31. The existing risk management arrangements are in need of improvement in order to make them effective and meaningful.

32. The resources available to move risk management forward are quite limited and the process needs to move forward at a practical pace, which allows risk management to become embedded within the organisation.

33. It is proposed that the Head of Audit Partnership will have formal responsibility for progressing risk management within the organisation.

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ASHFORD BOROUGH COUNCIL

Agenda Item No:	7
Report To:	**AUDIT COMMITTEE**
Date:	**28 SEPTEMBER 2011**
Report Title:	**2010-2011 Annual Governance Statement – progress on remedying highlighted significant areas of governance**
Report Author:	**Paul Naylor, Deputy Chief Executive**

Summary: Each year the council must formally review the effectiveness of its governance arrangements and prepare an Annual Governance Statement. The Statement should highlight any material governance issues that need review. The 2010-2011 Annual Governance Statement was approved by this Committee on behalf of the Full Council at the meeting on 27 June. The Statement comprehensively explained and reviewed the council's arrangements, which were found to be generally of high standard, effective and sound. There were two important areas for review. These were: the need to refresh the council's risk management arrangements and the need to review governance principles for partnership working in the light of the developing localism theme. This brief report explains the progress and plans to cover these two areas.

Key Decision: Not applicable

Affected Wards: None specifically

Recommendations: The Audit Committee is asked to note the progress to date on reviewing the governance exceptions highlighted in the 2010-2011 Annual Governance Statement, and specifically to:

a) Agree that the Committee is regularly informed of progress with the review of the council's risk management approach

b) Consider nominating a member(s) to liaise with officers on the development of partnership governance principles over the autumn period.

Financial Implications: None

Risk Assessment The council must demonstrate adequate progress on reviewing any significant governance issues so as to manage risk and in order that it may demonstrate compliance with the Accounts and Audit Regulations.

Background Papers: 2010-2011 Annual Governance Statement

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Agenda Item No. 7

Report Title: 2010-2011 Annual Governance Statement – progress on remedying highlighted significant areas of governance

Purpose of the Report

1. This report explains progress with the review of two areas of significant governance highlighted by the 2010-2011 Annual Governance Statement.

Issue to be Decided

2. Members are asked to note the progress made and the plans to review the council's approach to risk management, and the principles of governance for partnership working in the new climate of localism.

Significant areas of governance requiring review

3. The following table notes the two areas requiring review and the current status of progress and plans.

Governance issue	Progress and plans
1. Risk management	This Committee agreed the Head of Audit Partnership's recommendation that a full refresh of the council's approach to risk management should be carried out in 2011. This work has started and elsewhere on this agenda is a full report from the Head of the Audit Partnership setting out his recommendations for this review. This follows on from the risk management briefing to Members held on 6 September 2011. Therefore, this issue is well in hand and will have the committee's full input. The Committee will want to ensure that the recommended approach is implemented in a reasonable timescale and that it is regularly appraised of progress.
2. Governance principles for partnership working	In 2008 the council adopted a 'partnership framework' that set out principles and guidance on governance matters for partnership working. In 2009 the Audit Commission carried out a general review of our partnership arrangements and found much strength, as partnership working is a longstanding feature of the council's work and generally has led to successful outcomes. The Audit Commission recommended, however, that the council needed to develop arrangements so that it

	could be entirely satisfied about the effectiveness and success of its various partnership initiatives; a recommendation was also made concerning communicating more widely the aims and progress of partnerships. There then followed both internal and external audit reviews of the Ashford's Future Partnership, the outcomes of which were subsequently overtaken by national economic influences and a change in approach following the change of government. As members know the Ashford Future Company is being wound down (it no longer employs any staff) and the Ashford Future Partnership Board has been closed. The development of the Ashford Locality Board and potentially new arrangements for working with local communities are the new areas of focus for our partnership effort. An initial draft of suggested principles is **annexed** to this report. They seek to be proportionate and practical to the particular partnership context and the associated opportunities and risks. As this Committee does not meet again until early December, and as over the autumn period our partnership arrangements and policies will develop, it is suggested the committee may wish to consider nominating a member(s) to liaise with officers on this topic over the autumn.

Contact: Paul Naylor, Deputy Chief Executive

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Annex

Initial Draft of Partnership Governance Principles

Definition of partnership

A formal arrangement, sometimes by legal agreement (but not necessarily needed), between two or more parties that have agreed to work together in the pursuit of a common objective(s).

Main Governance Principles

Any partnership we establish or take part in must adhere to a set of basic principles to ensure:

i) the probity, effectiveness and efficiency of the arrangement itself
ii) alignment of priorities with available resources
iii) the Council is acting legitimately and in the best interests of local residents at all times
iv) that governance is proportionate and appropriate to individual partnership circumstances

Suggested governance principles (initial draft)

Principles	**Governance principles into practice**
A shared vision	A stated common purpose prioritised above individual organisational interests and expressed in written terms of reference, partnership or legal agreement as appropriate
Joint ownership	Clearly delineated tasks; allowing contribution and challenge
Shared control	Agreed lines of responsibility and reporting, including project management – terms of engagement
Reciprocal accountability	Agreed decision-making and performance monitoring arrangements – properly constituted, named lead officer, MT sponsor? Portfolio holder?
Sustained commitment	Stability and continuity of attendance
Flexibility and versatility	Positive approach to risk management which allows innovation; willingness to adapt to changing circumstances
Effective communications	Clear routes for public consultation and participation; timely and open sharing of information, respect for the perspectives and resources of partners
Streamlined administration	Harmonising/relaxing rules and regulations where possible in the interest of delivering the purpose
Co-ordination of resources & effort	Commitment to pooled budgets, integrated teams, reducing duplication, mobilising additional support
Effective delivery	Measures of success, focus on delivery and results; problem solving
Effective follow-up	Process for reviewing and evaluating performance linked to Business Plan

Agenda Item No. 8

Audit Committee - Future Meetings

Date 6/12/2011			
Publish by 28/11/11		**Pre Comm – if requested by Ch/VCh**	
Reports to Management Team by 24th November		**Council 15/12/11**	
1	Minimal/Limited Audits	BP	
2	Annual Governance Statement – Progress on Remedying Exceptions	PN	
3	Corporate Performance Report	NC	
4	Annual Audit Letter 2010/11	AComm (cover by PN)	
5	Report Tracker & Future Meetings	DS	

Date 07/02/2012			
Publish by 30/01/12		**Pre Comm – if requested by Ch/VCh**	
Reports to Management Team by 26th January		**Council 16/02/12**	
1	Minimal/Limited Audits	BP	
2	Audit Commission's Proposed Audit Plan for the 2011/2012 Audit	AComm	
3	Annual Governance Statement – Progress on Remedying Exceptions	PN	
4	Corporate Performance Report	NC	
5	Report Tracker for Future Meetings	DS	

Date 06/06/2012			
Publish by 25/05/12		**Pre Comm – if requested by Ch/VCh**	
Reports to Management Team by 24th May		**Council 19/07/12**	
1	Minimal/Limited Audits	BP	
2	Internal Audit Annual Report 2011/12 (including update on first year of the Partnership)	BP	
3	Annual Review of the Effectiveness of the Systems of Internal Audit	BP	
4	Approval of Annual Governance Statement	PN	
5	Report Tracker for Future Meetings	DS	

Date 19/06/2012		**PH Cllr Wood**	
Publish by 11/06/12		**Pre Comm – if requested by Ch/VCh**	
Reports to Management Team by 7th June		**Council 19/07/12**	
1	Minimal/Limited Audits	BP	
2	Benefit Fraud Annual Report 2011/12	Jo Fox	
3	Annual Report of the Audit Committee 2011/12	BP/IC	
4	Internal Audit Operational Plan 2012/13	BP	
5	Corporate Performance Report	NC	
6	Annual Audit Fee Letter 2011/12	AComm (cover by PN)	
7	Compliance with International Standards for Auditing – Letter of Assurance	AComm (cover by BP)	
8	Report Tracker for Future Meetings	DS	

Date 28/09/2011			
Publish by 20/09/11		**Pre Comm – if requested by Ch/VCh**	
Reports to Management Team by 15th September		**Council 19/10/11**	
1	Minimal/Limited Audits	BP	
2	Statement of Accounts 2011/12 and the District Auditor's Annual Governance Report	AComm (cover by PN/BL)	
3	Internal Audit Strategic Plan	BP	
4	Annual Governance Statement – Progress on Remedying Exceptions	PN	
5	Corporate Performance Report	NC	
6	Report Tracker for Future Meetings	DS	

20/9/2011