

Agenda Item No: 6
Report To: **Audit Committee**
Date: 18 March 2014
Report Title: Presentation of Financial Statements
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Summary: The Council is required to follow statutory guidance for the publication of its accounts. Each year, this guidance is reviewed and updated. This report will look at the impact of these updates on the Council's accounts for 2013/14. In addition, the report reviews on the lessons learnt from accounts process for 2012/13.

The Council has completed a review of its accounting policies that will be used for the production of the statement of accounts

Key Decision: No

Affected Wards: None specifically

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

- **Note the report**
- **Approve the accounting policies for the 2013/14 accounts. (Appendix A)**

Financial Implications: None

Risk Assessment This report covers updates to The Code (Code of Practice on Local Authorities Accounting) – if the council fails to implement the changes correctly there is a risk of audit issues and reputational risk.

Equalities Impact Assessment No

Other Material Implications: None

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Report Title: Presentation of Financial Statements

Purpose of the Report

1. To update members on the progress of the production of the Statement of Accounts 2013/14 (the Statement) and how changes are to be managed and implemented.

Issue to be Decided

2. Members are asked to note the report and 2013/14 Statement of Account changes.

Background

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March by the end of June. These are then audited by the Council's external auditor and an opinion issued by the end of September.
4. This year there are a few changes to the Code (Code of Practice on Local Authorities Accounting) for incorporation into the final accounts for 2013/14.

Audit Wrap Up and Closing Timetable

5. Officers met with the audit team to discuss any issues that had arisen in the closing process for 2012/13 in the autumn and have included the lessons learnt into the closing timetable and approach for 2013/14.
6. Overall officers and auditors were happy with both the audit process and happy with the working relationship. Holding regular update meetings through the audit is important and needs to be maintained for 2013/14 closing period.
7. The 2012/13 Accounts were the first set of statements audited under the new audit arrangements. The Audit Commission appointed Grant Thornton to be our auditors and whilst a number of personnel transferred with the contract there was a different audit approach with a greater reliance on substantive testing rather than controls testing.
8. The Audit Plan for the audit of the 2013/14 accounts is reported elsewhere on the agenda and includes a timeline for the audit cycle.
9. Officers have completed a draft closing timetable that is currently being reviewed by the Accountancy team. The key deadlines are:
 - service revenue accounts and Collection Fund closed by 18 April
 - balance sheet codes closed by 9 May
 - a draft statement by 31 May

10. This is consistent with previous timetables and we have procured an additional resource to support the team through this process as cover for the long term sickness in the team. The timetable is, therefore, considered achievable however the introduction of a new system for business rates accounting presents a new challenge, and the Major Preceptors will be requesting data on Business Rates accounting entries for their accounts by the end of April which will be considerably earlier than in previous years when the data has only been required by central government.

Accounting Changes for 2012/13

11. With exception of Business Rates retention there are no major changes to the Code this year. Updates refer mainly to clarifications in the code in a number of areas where there was previously a degree of uncertainty.
12. the updates cover:
 - Pensions there have been a number of amendments to the accounting standard that deals with Pensions (IAS19), this has led to changes in some of the disclosures. The amendments are not expected to have a material impact on the financial statements.
 - Revaluation of assets – the auditors need to satisfy themselves that there has been no material difference in the fair value of the asset and its balance sheet value. This may affect the council if there is a significant gap between revaluations. This year all assets have been revalued and therefore this change should not affect the accounts this year.
 - Employee benefits
 - Reduction in HRA disclosures
13. These either have no significance for this Council or are not considered material at this stage.
14. A review of the Councils accounting policies has been undertaken and a copy of the proposed policies to be applied for 2013/14 is attached at **appendix A** for approval. There are no major changes to the policies but they have been refined and updated with any duplication has been removed.

Collection Fund Accounting

15. The accounts for 2013/14 marks the commencement of the local retention of business rates. The detail of this scheme has previously been reported in some detail to members as part of the budget setting process, however the accounts will reflect this new system for the first time. The accounting policies have been amended accordingly.
16. The accounting treatment for NNDR will be broadly similar to the approach for council tax with the major preceptors each having to account for their share of business rates income, and associated balance sheet disclosures.

17. To respond to this process officers have attended training events and are about to complete a trial close down of the collection fund to identify any issues before year end.

Audit Recommendations for 2013/14 Accounts

18. The Commission made one recommendations in their Action Plan following the audit of 2012/13:
 - The Council should ensure that related party declaration forms are completed annually by all Councillors.
19. The related party declaration form has already been dispatched to members giving additional time for members to complete the form. We will work with group leaders to ensure that all members are encouraged to complete the return.

Risk Assessment

20. For the 2013/14 Statement of Accounts there are few changes to the format of the statement and material changes to accounting policy. Therefore the risks are considered to be low.

Consultation

21. Members are asked to note the changes to the final accounts process.

Conclusion

22. The accounting updates have been reviewed and amendments have been made to the accounting policies which brings the Council in-line with requirements.

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Draft Accounting Policies

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 2013/14' (the Code) and the 'Service Reporting Code of Practice 2013/14'.

1. Accounting Concepts and Conventions

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of assets and financial instruments.

The Going Concern basis has been selected for the preparation of these 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 this statement of accounts useful to users. The International Accounting Standards Board (IASB) Framework, paragraph 24, sets out the four principal qualitative characteristics of financial statements, which 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 and its Notes, 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. Notwithstanding this policy, some transactions are not accrued because they are of little value and, therefore, are not material to the understanding of these accounts.

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 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, Corporate Democratic Core/Non Distributed Costs. The basis of allocation used for the main costs of management and administration are outlined below:

Cost	Basis of Allocation
Accounting and other services	Budgeted time spent by staff, as predicted by budget managers
Legal 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 accounts at the year-end remain within service expenditure in the Comprehensive Income and Expenditure Statement.

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 Council Tax, on behalf of the major precepting authorities - Kent County Council, Kent Police Authority, and Kent Fire Authority. From April 2013, the Council retains 40% of National Non-Domestic (Business) Rates with 50% is paid into a national pool and 10% shared with major precepting authorities. Parishes are local precepting authorities and their precepts are included in the Demand on the Collection Fund of this Council.

These accounts only show the amount owed to/from taxpayers in respect of Council Tax demanded by this Council. Amounts owing to/from taxpayers for Council Tax for major precepting authorities are shown as net debtors or creditors on the balance sheet. Similarly, the accounts only show the amount

owed to/from ratepayers in respect of Business Rates retained by this Council. Amounts of Business Rates in respect of the net amount of National Non-Domestic (Business) Rates received and paid over to the national pool are shown as a net debtor or creditor.

The amounts shown as Council Tax/Business Rates in the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement represent the amounts due to this Council for the year. Where this includes an adjustment for the surplus/deficit to be taken into account in a future financial year, this adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

6. Charges to Revenue

Services and Support Services are debited with amounts to record the cost of holding non-current assets used in the provision of services. These amounts include the annual provision for depreciation, certain revaluation gains/losses and impairment losses and the amortisation of intangible assets. The amounts are subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account so that they do not impact on the amounts required from local taxation.

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

External interest payable is debited in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement and amounts set aside from revenue for the repayment of external loans are charged to the General Fund Balance in the Movement in Reserves Statement.

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 have a direct impact upon Council Tax. These items are generally grants and expenditure on property not owned by the Council.

Such expenditure is charged to Cost of Services in the Comprehensive Income and Expenditure Statement but subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

8. Government Grants and Contributions

Grants received are accrued and credited to the Comprehensive Income and Expenditure Statement when the income is recognised. Revenue Grants specific to a particular service will be shown against the service expenditure line. General Revenue Grants, in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool, and Capital Grants are credited and disclosed separately in the Taxation and Non-specific Grant Income line in the Comprehensive Income and Expenditure Statement. Capital Grants and Capital Contributions will subsequently be transferred through the Movement in Reserves Statement to the Capital Adjustment Account or the Grants Unapplied Account, if expenditure has not been incurred.

If conditions have not been met, grants will be held as a creditor (Grants received in advance) on the Balance Sheet until conditions are met or grants are repaid.

9. **VAT**

VAT is accounted for separately and is not included in the Comprehensive Income and Expenditure Statement, 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. **Heritage Assets**

Heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. Valuations are determined by the insurance valuation, or where not available the historical cost. Although there are no prescribed minimum periods for review, the assets will be reviewed in line with the insurance policy and material changes will be incorporated into the accounts. A de-minimis level has been set at £10,000 for heritage assets based on the method of valuation above.

11. **Assets Held for Sale (Current Assets)**

These assets have been declared surplus to the Council's operational requirements, are being actively marketed for disposal and have an estimated sale date within twelve months of the balance sheet date. They are 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. Potential 'Right-to-buy' sales are not accounted for until the date of sale as they are not actively marketed in any conventional way.

12. **Intangible 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 is initially measured at cost but will be revalued where the fair value of the asset differs significantly from its carrying value. The depreciable amount is amortised over its useful economic life to the relevant service line in the Comprehensive Income and Expenditure Statement but subsequently reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

13. **Investment Property**

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. Any loss or gain on revaluation is recognised in the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement but is subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

Depreciation is not charged against investment property. (This Council does not hold any property which meets the definition of Investment Property.)

14. Property, plant and equipment

14.1. Recognition

All expenditure on the acquisition, creation, or enhancement of these assets is capitalised on an accruals basis.

14.2. Definition

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 seven sub categories.

- Council Dwellings;
- Other Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Infrastructure Assets;
- Community Assets;
- Surplus Assets;
- Assets under Construction.

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

14.3. Council dwellings

These are held on the balance sheet at fair value but discounted to allow for the Existing Use Value for Social Housing (EUV-SH).

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 1 April. Material changes will be reflected in the Accounts if they arise after the valuation.

14.4. Other Land and Buildings

These are held on the balance sheet at cost with revaluations happening throughout a 5 year period and are subject to straight-line depreciation over the expected life of the asset. . All property and land will be valued at least once within the 5 year cycle.

The valuations are carried out by a qualified surveyor in accordance with the latest guidance issued by RICS on fair value for existing use, unless it is felt the property is of a specialist nature where depreciated replacement cost may be used. Items of plant that are functional to the operation of a building are included in the valuation for that building unless they of a material value and component accounting are applied (see below).

14.5. Vehicles, Plant, Furniture and Equipment

These are recognised in the balance sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.6. Infrastructure Assets

These are recognised in the balance sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.7. 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.

14.8. **Assets under Construction**

This covers assets currently not yet ready for operational purposes. The Council does not depreciate nor revalue assets under construction.

14.9. **Valuations**

Increases in valuations are matched by credits to the Revaluation Reserve to recognise revaluation gains. However, where the increased valuation follows a previous reduction in the carrying value below its historic cost, gains would be credited to the service expenditure in the Comprehensive Income and Expenditure Statement to reverse the loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

On revaluation, accumulated depreciation is written out.

14.10. **Depreciation**

Depreciation on assets with a finite useful life, in line with International Accounting 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 ready for use.
- In accordance with recognised accounting practice, land owned by this Council is not depreciated.

International Financial Reporting Standards (IFRS) require 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. For componentisation to be considered, the Council has set a minimum asset value of £1,000,000 and, then, separate depreciation is only calculated where a component size is at least 10% of the value.

For Council Dwellings, the Code allows authorities to use the Major Repairs Allowance as a proxy for depreciation for a five year period beginning in 2012/13. Council Dwellings are revalued annually. Other HRA land and property are valued as above.

14.11. **Impairment of Non-current Assets**

A review for impairment of a non-current asset, whether carried at historical cost or valuation, is carried out at year-end to ascertain whether events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in the asset's fair value during the period;
- evidence of obsolescence or physical damage to the 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 an 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 Service Expenditure through the Comprehensive Income and Expenditure Statement where the carrying value falls below the historic value of the asset. 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.

If the impairment is identified on an Investment Property, the value is written out to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

14.12. Gains or Losses on Disposal of Fixed Assets

When an asset is disposed of or de-commissioned, the carrying value of the asset and any receipts from the sale, together with the costs of disposal, are shown on the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement which, therefore, bears a net gain or loss on disposal.

Where the receipt is in excess of £10,000, it is appropriated to the Capital Receipts Reserve, via the Movement in Reserves Statement, where it can be used for any approved capital purpose, e.g. for new capital investment. The carrying value of the disposed asset is appropriated to the Capital Adjustment Account from the Movement on Reserves Statement. Costs of disposal are accounted for within the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

On disposal, any revaluation gains for the asset, held in the Revaluation Reserve, are transferred to the Capital Adjustment Account.

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.

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.

15.1. 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 are apportioned between the finance charge (interest) and the reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Council recognises 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 are depreciated; the depreciation policy for leased assets is consistent with the policy for other Property, plant

and equipment. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset is 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 accounting policies in the same way as any other asset.

As lessor, the Council derecognises the asset and show this as a long term debtor. Lease rentals receivable are apportioned between a charge for the acquisition of capital (applied to write down the lease debtor) and finance income – which is credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The Code required this income to be treated as a capital receipt and, therefore, it is reversed out via the movement in Reserves Statement to the Capital Receipts Reserve. For finance leases that existed at 31st March 2010, regulations allow these capital receipts to remain credited to the Comprehensive Income and Expenditure Statement

15.2. Operating Leases

Lease payments under an operating lease are 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 the Council.

15.3. Embedded Leases

These are assets, which 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.

Where this applies, assets are recognised in the balance sheet at the Net Book Value and offset by a Deferred Liability. The lease charge then forms 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. Short term Debtors and Creditors

With exception set out above (policy no 2), 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. Inventories

Stocks are inventories that held at the price paid and 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. Impairment Allowance for Bad and Doubtful Debts

The figure shown in the Statement of Accounts for debtors is adjusted for bad debts. This allowance 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 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 nature of the liability is disclosed together with 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. **Short term and long term 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. When utilised, the payment is charged to Provisions and not to Service Expenditure.

19. **Reserves**

The Council holds Usable and Unusable Reserves. Usable Reserves give the Council discretion to meet expenditure without having a direct impact on Council Tax. In contrast, Unusable Reserves do not give the Council such discretion and are kept to manage the accounting processes for non-current assets, financial instruments and employee benefits.

Usable Reserves are created when the Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. No expenditure is charged directly to a reserve but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement; this is then offset by a reserve appropriation within the Movement in Reserves Statement. The exception is amounts required for the repayment of external loans and for financing capital expenditure from revenue sources. Where this applies, amounts are appropriated from the General Fund Balance in the Movement in Reserves Statement.

The General Fund Balance acts 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. The Capital Receipts Reserve can only be used for certain statutory purposes such as financing capital expenditure.

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

20. **Employee Benefits**

Three categories of employee benefits exist, under IAS 19 and International Public Sector Accounting Standards (IPSAS) 25 Employee Benefits, as detailed below.

20.1. **Benefits payable during employment**

- a) Short-term employee benefits arise during a financial year or are those due to be settled within 12 months of the year-end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year employees render service to the Council.
- b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued.

In 2013/14, no accrual was made for any benefits earned by current employees but payable after the balance sheet as they are considered to be immaterial.

20.2. **Termination benefits including Exit Packages**

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. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where the Council is demonstrably committed to the termination of employment.

20.3. **Post-employment benefits**

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 Code requires the Council to account for this benefit at the time that employees earn their future entitlement. The amount charged to the Comprehensive Income and Expenditure Statement for employees pensions is in accordance with IAS19 Retirement Benefits, subject to the interpretations set out in the Code. This is accounted for in the following ways:

- Pension liabilities, 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 and projected earnings for current employees etc.
- Liabilities are discounted to their value at current prices, using a discount rate of X.X% 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 five components:
 - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service where 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 Statement as part of the Non Distributable Costs.
 - Net interest on the net defined benefit liability (asset) – the change during the period in the net liability (asset) that arises from the passage of time. This is debited/(credited)to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - 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 pension 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 Statement.

Under IAS 19, the Council recognises, as an asset or liability, the surplus/deficit in pension costs calculated in accordance with the standard. This surplus/deficit is the excess/shortfall of the value of assets when compared to the present value of the pension liabilities. Where the contributions paid into the Pension Fund do not match the change in the Council'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 the Pension Reserve together with any Actuarial gains/losses. The difference between the recognised net pension liability and the amounts attributed to this Council in Kent County Pension Fund are shown in the Balance Sheet as Pensions Liability and this is offset by the Pensions Reserve (an adverse balance).

The Local Government Pension Scheme, applicable to this Council, is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets over the average future working life of its employees.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Pension Fund was at 31 March 2013 and changes to contribution rates as a result of that valuation will take effect from 1 April 2014.

21. 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 21 on page 46.

21.1. Financial Liabilities

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

The reconciliation of amounts charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed in the Movement in Reserves Statement by a transfer to or from Unusable Reserves (Financial Instruments Adjustment Account).

21.2. 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.

21.3. Loans and Receivables

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

the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

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

21.4. **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 Financing and Investment Income line of the Comprehensive Income and Expenditure Statement 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 Statement 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 Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. Subsequently, this entry is reversed in the Movement in Reserves Statement and debited/credited to the Available-for-Sale Reserve. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale 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 Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

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

21.5. **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 2014 and should reflect prevailing interest rates as at that date. Full details of this disclosure are included in Note XX on page XX

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 XX on page XX.

The Code's disclosure requirements in relation to credit risk are equally applicable to outstanding debtors. Note XX on page XX 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 – see paragraph 16.3 above.

22. **Cash and Cash Equivalents**

Cash and Cash Equivalents include 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 call accounts. Cash and Cash Equivalents are shown net of any bank overdraft that form part of the Council's cash management.

23. **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 contract 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.

24. **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, however please refer to Note 30 for the winding up of Ashford Future Company.

25. 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 is given within the notes to the accounts.

Prior Year Adjustments arise as a result of a change in accounting policies or to correct a material error. When either of the circumstances applies, the Council will show the extent of the adjustment in a table reconciling the adjusted opening and closing balances and/or comparative amounts shown for a prior period.

26. 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.