Agenda Item No:	6
Report To:	Audit Committee
Date of Meeting:	16 March 2021
Report Title:	Presentation of Financial Statements
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Portfolio Holder **Portfolio Holder for:**	Cllr. Bell Finance & ICT

Summary:

The Council is required to follow statutory guidance for the publication of its published accounts and each year this guidance is reviewed and updated. This report will look at the impact of these updates on the Council's accounts for 2020/21. In addition, the report reviews the lessons learnt from the accounts process in 2019/20.

The 2020/21 financial year has been dominated by the Covid19 pandemic and the Governments response which has included this Council has administered a number of grants and reliefs that will flow through the 2020/21 statement.

The other significant development this financial year is the EU exit and Ashford Borough Council providing Border Control responsibilities from April 2021 at the Ashford Port Health operation. The Council has received significant funding to set up to run this facility partially from April 2021 and fully from July 2021.

The Council has completed a review of its accounting policies that will be used for the publication of the statement of accounts; they are presented in **Appendix A**.

The accounts will be prepared on a 'going concern' basis.

Key Decision:	No
Significantly Affected Wards:	None specifically
Recommendations:	**The Committee is recommended to:-**

I. **Note the report**
II. **Approve the accounting policies for the 2020/21 accounts in Appendix A**

Financial Implications:	None
Legal Implications	The Council is required to produce an annual set of accounts
Equalities Impact Assessment	Not Required
Other Material Implications:	None
Exempt from Publication:	**NO**
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Report Title: Presentation of Financial Statements

1. This report is to update members on the progress of the production of the Statement of Accounts 2020/21 (the Statement) and how changes are to be managed and implemented.

2. Members are asked to note the report and approve the 2020/21 Accounting Policies.

Introduction and Background

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March. These are then audited by the Council's external auditor and an opinion issued by the end of September.

4. The timetable for closedown has been finalised for the financial year ending the 31 March 2021 with an estimated production date of 28 May 2021. Grant Thornton will then audit the Accounts for a period of around 3 weeks between mid June and early September with an opinion issued by 30 September 2021.

5. This year there are no significant changes to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) however, there are a few minor changes for consideration mainly around the estimations within the accounts. There has also been a postponement of the IFRS16 lease changes until 2021/22 financial accounting period.

2020/21 Statement of Accounts Audit

6. The audit timescales has changed for the 2020/21 accounts; previous years the deadline set for signoff was 31 July after the financial year-end, this has now been moved to 30 September. This will release some of the pressure on the Audit teams as the timescales were very aggressive. The Council is still aiming for end of May deadline.

7. The Grant Thornton audit team retains the Audit Manager Trevor Greenlee and Principle Auditor, Ke Ma, both having experience of auditing Ashford Borough Council. This team is headed up by Audit Lead; Darren Wells (Director).

8. Internally the accounts closedown process will be co-ordinated by the Accountancy Manager, Lee Foreman, with the Head of Finance & IT overseeing the process.

9. Last year the closing deadline was extended due to the Covid Pandemic, with the accounts final sign off at Audit Committee on the 30 November 2020. Grant Thornton issued an unqualified audit opinion on 21 January 2021

10. The target is to have a completed final draft by 28 May, key deadlines below:
    a. Service Accounts and Collection Fund to be closed by 16 April
    b. Balance Sheet Codes to be closed by 11 May
    c. Draft Statement by 28 May

Changes to the Code

11. There are no significant changes to the code for 2020/21 however, there has been a few updates for consideration that the team need to review:

    a. Significant judgements in applying accounting policies and estimates (such as more robust evidence of challenge)

b. Withdrawal from the EU (how this will impact on the Council)

12. The impact of these are being considered and any significant changes will be reported through to the Audit Committee later in the year.

Going Concern Principle

13. The Council has set a budget for 2021/22 and has a Medium Term Financial Plan that demonstrates that the Council is a 'going concern' and will operate for the foreseeable future. As such the accounts will be prepared on this basis.

Looking ahead Accounting Changes

14. The introduction of further changes to the accounting standards that manage the accounting for Financial Instruments and Leases was going to be introduced for 2020/21 however this has now been postponed to the 2021/22 accounting period.

15. IFRS 16 Leases change from finance leases to Right of Use Assets. Fundamentally this change will see all leases recognised on the balance sheet where the Council is the lessee.

16. A review is ongoing to assess the impact of this accounting change and the impact on the accounts, it is not expected to be significant.

Accounting Policies for 2020/21

17. There are no major changes to the Accounting Policies and these are at **Appendix A**

Next Steps in Process

18. There will be a Members training session and the presentation of the draft statement on 15 June, where any questions or issues from Members can be discussed with officers.

19. In September the Statement of Accounts will be submitted for signing to the Audit Committee and the external auditors audit findings will be presented.

Conclusion

20. Members are asked to note the changes to the final accounts process and approve the Accounting Policies in **Appendix A**.

Portfolio Holder's Views

21. This year has been challenging and it good to see the Accountancy team are aiming for the end of May closedown. There are many external factors that could affect the completion of the Statement of Accounts and the audit of the statement, including, Covid19, exit from the EU and pressure of resourcing within the external audit team.

Contact and Email

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Accounting Policies

General Principles

The Statement of Accounts summarises the Authorities transactions for the 2020/21 financial year and its position at the year ending 31 March 2021. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require being prepared in accordance with proper accounting practices. These practices primarily comprise the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1. Accounting Concepts and Conventions

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 sets out the two fundamental, qualitative characteristics and four enhancing, qualitative characteristics of financial statements, which have been adopted by the Code:

- Fundamental
  - relevance
  - faithful representation
- Enhancing
  - comparability
  - verifiability
  - timeliness
  - understandability

The Code also includes consideration of materiality as a qualitative characteristic and the Framework considers it as part of the fundamental characteristic of relevance.

2. Accruals of Income and Expenditure

With the exception of the Cash Flow Statement, including its notes, and the Collection Fund, 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.

As per IFRS 15, revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

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. There is a de minimis limit for manual accruals (not automatic accruals) which has been increased to £10,000 to aid faster closing, transactions below this limit are not accrued for as they are deemed 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 of the change is provided 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 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	Per capita
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

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

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year, which consists of:

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rates surplus or deficit on the fund at the preceding year-end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves on the General Fund balance.

The Council, as billing authority, recognises the creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors.

6. **Charges to Revenue**

Service and Support Service Accounts 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 section 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 Property Plant and Equipment. 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 credited to the Comprehensive Income and Expenditure Statement when the income is recognised and, once conditions have been met. Revenue Grants specific to a particular service will be shown against the service expenditure section. General Revenue Grants, in the form of Revenue Support Grant, and Capital Grants are credited and disclosed separately in

the Taxation and Non-specific Grant Income section 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, at the lower of the carrying amount or the fair value (market value) of the asset, less the costs to sell the asset. Assets held 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 section in the Comprehensive Income and Expenditure Statement, but subsequently reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

13. **Investment Assets**

These assets are held solely to earn rentals and/or capital appreciation. The property cannot be used for any other purpose to be classed as an investment asset.

They are held initially at cost and subsequently at fair value, being the price that would be received to sell such an asset.

Properties are not depreciated but are revalued annually according to market conditions at the year-end.

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. These assets are depreciated on a straight-line basis.

14.2. Recognition 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 subcategories.

- 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 assets are held on the Balance Sheet at current 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 31 March. Material changes will be reflected in the accounts if they arise after the valuation.

14.4. Other Land and Buildings

These assets are held on the Balance Sheet initially at cost, however are revalued and updated with a desktop revaluation annually. All property and land will be fully valued at least once within the 5-year cycle.

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.

14.5. Vehicles, Plant, Furniture and Equipment

These assets 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 assets 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. These assets are held at cost on the Balance Sheet.

14.9. **Surplus Assets**
These assets are not being used to deliver services and are held at fair value which is the price that would be receivable if sold.

14.10. **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 1 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.

14.11. **Depreciation**
Depreciation on assets with a finite useful life, in line with International Accounting Standard (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 and enhancements are depreciated in year one, assets in the course of construction are not depreciated until they are ready for use, starting in the following year.
- In accordance with recognised accounting practice, land owned by this Council is not depreciated.

Following removal of the transitional arrangements from 1 April 2017, Council Dwellings and other HRA land and property are depreciated in line with proper accounting practices.

14.12. **Impairment of Non-current Assets**
A review for impairment of non-current assets, 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 section in the Comprehensive Income and Expenditure Statement.

14.13. **Gains or Losses on Disposal of Property Plant and Equipment**

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 section 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 section in the Comprehensive Income and Expenditure 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.

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 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 section 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.

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. Impairment Allowance for Bad and Doubtful Debts

The figure shown in the Statement of Accounts for Debtors is adjusted for bad debts. This amount is to provide for debts that are unlikely to be collected in future years. The percentage used to reduce the Debtors figure is based on historical evidence of collection and management judgements.

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 IPSAS 25 Employee Benefits, as detailed below.

20.1. Benefits payable during employment

- 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.
- 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.

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 committed to the termination of employment.

20.3. **Post-employment benefits**

As part of the terms and conditions of employment of its employees, the Council 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 employee's 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 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 section 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 2019 and changes to contribution rates as a result of that valuation took effect on 1 April 2020.

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 **Error! Reference source not found.** on page 55.

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

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

Financial Assets Measured at Amortised Cost Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure sections in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure section in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL) Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services, although they are reversed out through a statutory override.

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis. The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure section in the Comprehensive Income and Expenditure Statement.

Financial Assets Measured at Fair Value through other Comprehensive Income (FVOCI) It is the policy of the Council that certain equity assets will be designated as Financial Assets Measured at Fair Value through other Comprehensive Income. Designation is considered when the investment

would normally fall into the Fair Value through Profit of Loss classification, the investment meets the definition of an equity instrument and is not held for trading.

Any designation is determined so that a reliable accounting policy is maintained for the investment reflecting the long term strategical nature of each investment. Designation is irrevocable so that gain/losses in movements in fair value are not recognised in usable reserves until the investment matures or is sold.

21.3. Financial Instrument 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 Councils’ Financial Instruments as at 31 March and should reflect prevailing interest rates as at that date.

The Code identifies the following three types of risk associated with Financial Instruments:
(a) Credit risk
(b) Liquidity risk
(c) Market risk

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 **Error! Reference source not found.** on page **Error! Bookmark not defined.**9.

These disclosure requirements are equally applicable to outstanding debtors, see Note **Error! Reference source not found.** on page **Error! Bookmark not defined.**3 for an analysis of debtors. In addition to this, a provision for impairment is also included in the Statement.

22. Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash, 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 forms 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 Property Plant and Equipment needed to provide the services, passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as the ownership of the Property Plant and Equipment will pass to the Council at the end of the contract at no charge, the Council carries the Property Plant and Equipment used under the contract on the Balance Sheet.

The original recognition of these Property Plant and Equipment was balanced by the recognition of a liability, for the amounts due to the scheme operator to pay for the assets, net of any capital contributions made.

The stock is recognised at current 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.

Property Plant and Equipment 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

Group Accounts are prepared in accordance with IFRS 10 (consolidated financial statements) and IFRS 12 (disclosure of interest in other entities), where it is considered that the Council has a material interest in subsidiaries.

Where applicable the following principles will be followed:

Basis of Consolidation
Group Accounts will be prepared on the basis of a full consolidation of the financial transactions and balances of the Council and a relevant subsidiary. Any gains and losses arising from a subsidiary will be fully reflected in the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and Cashflow Statement within the Group column.

Accounting Policies
Group Accounts will be prepared using consistent accounting policies where possible; where there are conflicting policies with IFRS requirements, then the requirements of the Code of practice for Local Authority accounting will be adopted for consolidation purposes.

Where Intra-group charges occur, they will be removed during consolidation of the accounts.

The decision to group account is determined by Qualitative and Quantitative materiality, therefore when considering whether to group, not only the values are relevant, the interest to all stakeholders is also taken into account.

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, as per the approved policies by the council.