INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROGRESS REPORT AND UPDATED TIMETABLE

To:	**Governance and Audit Committee – 15 March 2011**
Main Portfolio Area:	**Finance and Corporate Services**
By:	**Financial Services Manager**
Classification:	**Unrestricted**

Summary: **This report provides an update on progress in relation to the adoption of International Reporting Standards (IFRS) for 2010/11.**

For Decision

1.0 Introduction

1.1 The move to adopt International Financial Reporting Standards in the public sector for the preparation of the annual financial statements requires local authorities to produce their accounts based on IFRS for the first time in 2010/11. First time adopters must comply with IFRS 1, which requires comparative data to be produced from the date of transition (1 April 2009). In order to plan for these changes a project plan was put in place and reported to this committee in September 2009, and is regularly monitored and updated to reflect changes in guidance.

1.2 The CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards was published in December 2009, and additional guidance notes for practitioners December 2010.

2.0 Update on Progress

2.1 Transition work is largely complete, other than some outstanding asset revaluation work on reclassified assets. Audit working papers have been prepared for inspection in early March and financial system updates are scheduled for the end of March after the audit is complete. In addition work is continuing on the new format and additional disclosure notes required for the 2010/11 Statement of Accounts. The revised implementation plan is attached (see **Annex 1**)

2.1.1 To comply with IFRS 1 a 1 April 2009 balance sheet has been produced reconciling the differences from UK GAAP accounting (see **Annex 2** attached). New balance sheet headings have been mapped to the old headings and IFRS adjustments have been effected in the centre columns. Material restatements require additional disclosure in the notes to the accounts and are detailed below:

- **Government Grants Deferred** – government grant income used to finance the acquisition or enhancement of non current assets is no longer deferred and released to the General Fund over the life of the asset but is recognised immediately as non specific grant income in the Comprehensive Income and Expenditure Account and is then reversed out to the balance sheet (Capital Adjustment Account) so that there is no impact to the taxpayer as the transaction is of a capital nature.

- **Capital Grants and Contributions** – similarly any capital grants and contributions received with conditions on their use are released to the General Fund in the same way once the conditions have been satisfied. Where conditions are yet to be met the grants are held on the balance sheet (Capital Grants Receipts in Advance).
- **Cash and Cash Equivalents** – cash equivalents are now shown with cash balances in the balance sheet. Cash equivalents are short term investments that are readily convertible to cash within three months of the date of acquisition.
- **Asset Reclassification** – stricter criteria for the classification of Investment Property (now solely held for income generation and/or capital appreciation) has resulted in £9m of existing Investment Property being reclassified as non operational land and buildings under the balance sheet heading of Property, Plant and Equipment.
- **Investment Property Revaluations** - gains or losses on the revaluation of Investment Property are no longer retained in the Revaluation Reserve on the balance sheet but are reflected in the Comprehensive Income and Expenditure Account under financing and investing income and expenditure and reversed out to the balance sheet to the Capital Adjustment Account to ensure there is no impact on the taxpayer.
- **Assets Held for Sale** – assets that have been identified for disposal but are not expected to be sold within twelve months of the balance sheet date are now classed as surplus assets under the balance sheet heading Property, Plant and Equipment only assets expected to be sold within one year can be classified as held for sale (Current Assets Held for Sale).

2.1.2 The necessity for prior year comparatives requires restatement of the 2009/10 core financial statements in the new format reflecting similar adjustments to 2.1.1 above. These statements are attached (see **Annex 3**) showing mapping to the published UK GAAP accounts. The core financial accounts are detailed below:

- **Movement in Reserves Statement** –this statement shows the movement in the year on the different reserves held by the authority and is analysed into usable and unusable reserves. The ‘Surplus/Deficit on the Provision of Services’ line shows the true cost of providing the authorities services.

- **Comprehensive Income and Expenditure Statement** – this statement shows the accounting cost of providing services in accordance with accepted practices rather than the amount to be funded by the taxpayer.

- **Restated Balance Sheet 31 March 2010** – the balance sheet shows the value of the assets and liabilities of the authority. The total of assets less liabilities is matched by the reserves (usable and unusable) that the authority holds.

- **Restated Cash Flow Statement** – this statement shows the changes in authority's cash and cash equivalents during the reporting period, and shows how the authority generated and used these classifying cash flows as operating, investing or financing activities.

2.1.3 A series of new and revised accounting policies are now required to satisfy the conditions of the Code that reflect the required changes to accounting treatment outlined in 2.1.1 above, and the changes that are not retrospective but apply from 1 April 2010. There are therefore new or revised policies for:

- asset componentisation – the recognition of separate elements of major assets that have significant value in relation to the total cost of the asset, or that have different useful lives.

- asset impairment – more detailed accounting treatment for each class of asset where the recoverable amount of that asset is below the balance sheet value (carrying amount).

- employee benefit costs – the requirement to account for accumulated compensated absences (untaken annual and flexi leave and lieu time at the year end) in the year the benefit is earned.

- segmental reporting – the requirement to disclose information on income and expenditure segments based on the authority's internal management reporting reconciled to the format in the Comprehensive Income and Expenditure Account (based on the Best Value Accounting Code of Practice BVACOP) in the notes to the accounts.

- group accounts.- the broader definition of group relationships under the Code where the ability to exert a significant influence on a body that the authority has an interest in can give rise to the necessity to publish group accounts.

The proposed policies to be published in the 2010/11 Statement of Accounts are attached (see **Annex 4**) and need to be formally adopted.

3.0 Corporate Implications

3.1 **Financial**

3.1.1 The purpose of this report is to raise members' awareness of the financial accounting changes under IFRS and inform them of progress on the implementation timetable. There are no costs associated with the implementation of these changes.

3.2 **Legal**

3.2.1 There are no legal implications.

3.3 **Corporate**

3.3.1 The Statement of Accounts is a statutory document and therefore failure to prepare the accounts in accordance with proper accounting practice could lead to the accounts being qualified by the Audit Commission which in turn could lead to considerable public censure.

3.4 **Equity and Equalities**

3.4.1 There are no equity or equality issues arising from this report

3.5 **Risks**

3.5.1 Failure to produce IFRS compliant accounts that meet statutory requirements may result in qualification.

4.0 Recommendations

4.1 That Governance and Audit Committee note the report and the updated timetable to implement the changes required under IFRS.

4.2 That Governance and Audit Committee adopt the revised accounting policies required to comply with the CIPFA Code of Practice on Local Authority Accounting.

4.3 That the Governance and Audit Committee approve the 1/4/09 opening balance sheet and the restated core financial accounts for publication in the 2010/11 Statement of Accounts subject to amendment for audit recommendations.

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Annex List

Annex 1	IFRS Implementation Plan
Annex 2	Balance Sheet 1 April 2009
Annex 3	Restated Core Financial Accounts 2009-10
Annex 4	Statement of Accounting Policies

Annex 1

IFRS Implementation Plan

Stage	Task	Revised Target Date	Date Achieved	Comments
Ongoing	Raise awareness of IFRS and train key staff. Cascade information within Accountancy.		Ongoing	Training and workshops attended on an ongoing basis.
	Engage with staff affected by the IFRS implementation – Property, Engineers, Procurement, HR.		Ongoing	In house liaison and Kent Wide Working Group continues to meet on regular basis.
Transition Balance Sheet	Agree treatment and estimation basis with auditors.	Ongoing	Ongoing	Liaising with Audit Commission on an ongoing basis.
	Compile restated Balance Sheet including reconciliation to GAAP basis.	Mid Dec 2010	February 2011	Restated balance sheet and reconciliation completed ready for audit.
	External Audit Commission verification.	March 2011	March 2011	Audit to take place 7th – 17th March and 4th – 5th April.
2009/10 Closedown	Restate 09/10 accounts on an IFRS compliant basis adopting new format, policies and disclosures, with reconciliation to UK GAAP.	March 2011	March 2011	Agreed restatement work ready for audit.
2010/11 Closedown	Design draft IFRS statement of accounts including statement of Accounting policies.	April 2011		Work continuing on the skeleton 2010/11 accounts.
	Test and implement permanent changes required to systems and procedures.	Feb 2011		Changes to be implemented by end of March after audit is complete.
	Produce 2010/11 Accounts on an IFRS basis.	June 30th 2011		

Annex 2

Balance Sheet 1 April 2009

2008 SORP Balance Sheet		IFRS Opening Balance Sheet Adjustments							Restated IFRS Balance Sheet 1/4/09	
	£'000s	Govt.Grants Deferred £'000s	Capital Grants £'000s	Cash Equiv. £'000s	Asset Reclass. £'000s	Inv.Prop Reval £'000s	Held for Sale £'000s	E'ee Benefits £'000s	£'000s	
										Property, Plant & Equipment
Council Dwellings	122,620						-288		122,332	-Council Dwellings
Other Land & Buildings	36,641				9,030		-276		45,395	-Other Land & Buildings
Vehicles, Plant & Equipment	4,898				73				4,971	-Vehicles, Plant & Equipment
Community & Infrastructure Assets	12,933								12,933	-Community &Infrastructure Assets
							1,268		1,268	-Surplus Assets
Investment Properties	31,485				-9,077		-175		22,233	Investment Properties
Surplus Assets Held for Disposal	829						-829		-	Non-Current Assets Held for Sale
Long-term Debtors	1,440								1,440	Long-term Debtors
Total Long Term Assets	**210,846**								**210,572**	**Long Term Assets**
Short-term Investments	6,936			-6,936					-	Short-term Investments
Debtors	12,482								12,482	Debtors
Cash & Bank	988			6,936					7,924	Cash & Cash Equivalents
							300		300	Current Assets Held for Sale
Current Assets	**20,406**								**20,706**	**Current Assets**
Borrowing Repayable within 12 months	-8,556								-8,556	Borrowing Repayable within 12 months
								-125	-125	Provision for Accum. Absences
Creditors	-13,592		1,994						-11,598	Creditors
Current Liabilities	**-22,148**								**-20,279**	**Current Liabilities**
Long Term Borrowing (> 1 year)	-18,647								-18,647	Long Term Borrowing (> 1 year)
Government Grants Deferred	-17,203	17,203							-	
Capital Contributions Unapplied	-2,172		-1,784						-3,956	Capital Grants - Receipts in Adv.
Pension Liability	-53,678								-53,678	Other Long term Liabilities
	-91,700								**-76,281**	**Long Term Liabilities**
Total Assets less Liabilities	**117,404**								**134,718**	**Net Assets**
Financed By:										**Usable Reserves:**
Usable Capital Receipts	-373								-373	Usable Capital Receipts
General Fund Balance	-2,076								-2,076	General Fund Balance
HRA & Major Repairs	-9,168								-9,168	HRA & Major Repairs
Earmarked Reserves	-6,817								-6,817	Earmarked Reserves
Capital Grants Unapplied	-		-210						-210	Capital Grants Unapplied
										Unusable Reserves:
Revaluation Reserve	-8,045					4,182			-3,863	Revaluation Reserve
Capital Adjustment Account	-143,269	-17,203			-26	-4,182			-164,680	Capital Adjustment Account
Deferred Credits/Capital Receipts	-1,384								-1,384	Deferred Capital Receipts
Adjustment Accounts	50								50	Adjustment Accounts
Pensions Reserve	53,678								53,678	Pensions Reserve
								125	125	Accumulated Absence Reserve
	-117,404								**-134,718**	**Total Reserves**

Restated Core Financial Accounts 2009-10

Statement of Movement in the General Fund Balance (SORP)

	£000	£000
Surplus or deficit for the year on the Income and Expenditure Account	-103	1,898
Additional amount required by statute transferred to the GF	**103**	**-1,898**
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year		
Amortisation of intangible fixed assets	-87	
Depreciation of fixed assets charged to I&E	-2,449	-40
Impairment of fixed assets charged to I&E	-5,310	-2,483
Government Grants Deferred Amortisation	8,129	
Revenue expenditure funded from Capital under Statute	-862	
Net gain or loss on sale of fixed assets	77	143
Net charges made for retirement benefits in accordance with FRS17	-5,486	-119
Soft Loans	1	
Council Tax Income in I & E different from regulation	3	
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund Balance for the year		
Minimum revenue provision for capital financing	569	
HRA capital receipts to housing central pool	-301	
Employers contributions to pension schemes	4,518	547
Capital expenditure charged to the General Fund Balance (RCCO)	2	4
Housing Revenue Account balance		44
Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance for the year		
Net transfer to or from earmarked reserves	1,299	6

IFRS 09/10 Adjustments

	Govt Grants Deferred	Assets Held for Sale	Asset Reclass.	E'ee Benefits	Grants & Contribs
	£000	£000	£000	£000	£000
Depreciation of fixed assets charged to I&E		-22	-337		
Government Grants Deferred Amortisation	-7,793				6,236
Net transfer to or from earmarked reserves				-2	

Movement in Reserves Statement for year ended 31 March 2010

	General Fund Balance	GF Earmark. Reserves	HRA & Major Repairs	Capital Receipts Reserve	Capital Grants Unapp.	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2009	**2,076**	**6,817**	**9,168**	**373**	**210**	**18,644**	**116,074**	**134,718**
Surplus or (deficit) on provision of services	-1,312	-	-1,912	-	-	**-3,224**	-	**-3,224**
Other Comprehensive Exp. and Income	**-**	**-**	**-**	**-**	**-**	**-**	**-26,849**	**-26,849**
Total Comprehensive Exp. and Income	**-1,312**	**-**	**-1,912**	**-**	**-**	**-3,224**	**-26,849**	**-30,073**
Adjustments between accounting basis & funding basis under regulations	**2,609**	**-**	**604**	**771**	**20**	**4,004**	**-10,897**	**-6,893**
(Amounts included in I&E to be removed for determing movement in general fund)								
Depreciation/amortisation	2,881		54					
Impairment/revaluation losses (to C I&E)	5,310		2,483					
Movement in market value of investment property	-489							
Capital grant and contributions	-6,572				20			
Revenue Expenditure Funded from Capital under Statute	862							
Net gain/loss on sale of non current assets	-77		-143	1,756				
Net retirement benefits per IAS19 (FRS17)	5,486		119					
Soft Loans	-1							
Gain/loss on revaluation of Available for sale Financial Instruments								
Council Tax Income in C I & E different from regulation	-3							
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement								
Statutory Provision for the repayment of debt	-569							
HRA capital receipts to housing central pool	301			-301				
Employers contributions to pension schemes	-4,518		-547					
Revenue contribution to finance capital	-2		-1,362					
Housing Revenue Account balance								
Other adjustments								
Use of captial receipts reserve to finance capital expenditure				-684				
Net Increase/Decrease before Transfers to	**1,297**	**-**	**-1,308**	**771**	**20**	**780**	**-37,746**	**-36,966**
Transfers to/from Earmarked Reserves								
All other movements in reserves	1,297	-1,150	-2,295		-	-2,148	**1,471**	**-677**
	1,297	-1,150	-2,295	-	-	**-2,148**	**1,471**	**-677**
Increase/Decrease (movement) in Year	**-**	**1,150**	**987**	**771**	**20**	**2,928**	**-39,217**	**-36,289**
Balance at 31 March 2010 carried forward	**2,076**	**7,967**	**10,155**	**1,144**	**230**	**21,572**	**76,857**	**98,429**

Annex 3

Income and Expenditure Account 2009/10

	Original SORP 31 March 2010 £000s Exp	£000s Inc	£000s Net	IFRS Adjustments: Govt Grants Deferred £000s	Grants & Contribs £000s	Asset Reclass. £000s	Invest Props £000s	Held for Sale £000s	E'ee Benefits £000s
Statement of Net Exp. on Continuing Operations									
Cultural, environmental & planning services	26,339	8,925	17,414	8,129		- 3			
Exceptional Items		5,352	- 5,352						
Highways and transport services	9,946	8,878	1,068			- 5			
Other housing services	67,123	64,884	2,239						
Local authority housing (HRA)	11,826	11,105	721			14			
Central services to the public	18,315	16,479	1,836						
Corporate and democratic core	2,880	261	2,619						
Non distributed costs	- 19	-	- 19			325		22	2
Net Cost of Services	**136,410**	**115,884**	**20,526**	8,129	-	331	-	22	2
Net Operating Expenditure			**27,232**	**8,129**	**-**	**337**	**- 489**	**22**	**2**
Precepts paid to Parish Councils			631						
Contrib. of Housing Capital Receipts to Govt Pool			301						
Gain/loss on disposal of fixed assets			- 220						
Interest Payable and Similar Charges			2,077						
Interest Payable and Similar Charges			147						
Pensions Interest Costs and Return on Assets			7,567						
Pensions Interest Costs and Return on Assets			- 3,668						
Interest Receivable and Investment Income			- 83						
							- 489		
(Surplus)/Deficit on Trading Undertakings			- 46			6			
Income from the Collection Fund			-10,162						
Distribution from Non-Domestic Pool			-10,695						
Government Grants			- 2,468						
Government Grants			- 2,112	- 336	- 6,236				
(Surplus)/Deficit for the Year			**1,795**	**7,793**	**- 6,236**	**337**	**- 489**	**22**	**2**
Statement of Recognised Gains and Losses									
(Surplus)/Deficit on the Revaluation of Fixed Assets			- 2,587				489		
(Surplus)/Deficit on the Revaluation of Fixed Assets									
Actuarial (gains)/losses on pension assets/liabilities			28,947						
Total Recognised (Gains)/Losses for the Year			**28,155**	**7,793**	**- 6,236**	**337**	**-**	**22**	**2**

Comprehensive Income and Expenditure Account for the year ended 31 March 2010

	Restated under IFRS 31 March 2010 £000s Exp	£000s Inc	£000s Net
Gross expenditure, gross income and net expenditure of continuing operations			
Cultural, environmental, regulatory and planning services	26,342	6,154	20,188
Highways and transport services	9,941	8,878	1,063
Other housing services	67,123	64,884	2,239
Local authority housing (HRA)	11,840	11,105	735
Central services to the public	18,315	16,479	1,836
Corporate and democratic core	2,880	261	2,619
Non distributed costs	330	-	330
Cost Of Services	**136,771**	**107,761**	**29,010**
Other Operating Expenditure			**712**
Payments of precepts to parishes			631
Housing Capital Receipts to Govt Pool			301
Gain/loss on disposal of non current assets			- 220
Financing and Investment Income and Expenditure			**5,511**
Interest payable and similar charges			2,077
Interest element of finance leases (lessee)			
Impairment of financial instruments			147
Pensions interest costs			7,567
Expected return on pension assets			- 3,668
Investment Interest income			- 83
Interest received on finance leases (lessor)			-
Changes in fair value of investment properties			- 489
Gains/loss on disposal of investment properties			- 111
Gain/loss on trading accounts			71
Gain/loss on investment properties			-
Taxation and Non-Specific Grant Income			**- 32,009**
Capital grants and contributions			
Council tax			- 10,162
NNDR			- 10,695
RSG			- 2,468
Non service related government grants			- 8,684
(Surplus) or Deficit on Provision of Services			**3,224**
(Surplus)/deficit on revaluation of non-current assets			**- 2,098**
Revaluation gains			- 2,098
Revaluation losses (chargeable to Reval Res)			
Impairment losses (chargeable to Reval Res)			
Actuarial gains/losses on pension assets/liabilities			**28,947**
Other Comprehensive Income and Expenditure			**26,849**
Total Comprehensive Income and Expenditure			**30,073**

Annex 3

2009 SORP Balance Sheet			IFRS 09/10 Adjustments							Restated IFRS 09/10 Balance Sheet	
	£'000s	Summary IFRS Adj. 1/4/09 £'000s	Govt Grants Deferred £'000s	Capital Grants £'000s	Cash Equiv. £'000s	Asset Reclass. £'000s	Invest Prop Reval £'000s	Assets Held for Sale £'000s	E'ee Benefits £'000s	£'000s	
											Property, Plant & Equipment
Council Dwellings	120,526	- 288						59		120,297	-Council Dwellings
Other Land & Buildings	34,802	8,754				- 330		319		43,545	-Other Land & Buildings
Vehicles, Plant & Equipment	4,154	73				- 7				4,220	-Vehicles, Plant & Equipment
Infrastructure & Community Assets	12,873									12,873	-Infrastructure Assets
		1,268						- 99		1,169	-Surplus Assets
Investment Properties	29,186	- 9,252						- 145		19,789	Investment Properties
Surplus Assets Held for Disposal	1,410	- 829						- 581		-	
Long-term Debtors	742									742	Long-term Debtors
Total Long Term Assets	**203,693**									**202,635**	**Long Term Assets**
Short-term Investments	9,203	- 6,936			- 517					1,750	Short-term Investments
Debtors	12,778									12,778	Debtors
Cash & Bank	274	6,936			517					7,727	Cash & Cash Equivalents
		300						425		725	Current Assets Held for Sale
Current Assets	**22,255**									**22,980**	**Current Assets**
Borrowing Repayable Within 12 Months	- 2,486									- 2,486	Borrowing Repayable Within 12 Months
		- 125							- 2	- 127	Provision for Accum. Absences
Creditors	- 10,699	1,994		194						- 8,511	Creditors
Current Liabilities	**- 13,185**									**- 11,124**	**Current Liabilities**
Long Term Borrowing (> 1 year)	- 24,646									- 24,646	Long Term Borrowing (> 1 year)
Government Grants Deferred	- 9,410	17,203	- 7,793							-	
Capital Contributions Unapplied	- 2,875	- 1,784		- 174						- 4,833	Capital Grants - Receipts in Adv.
Deferred Liabilities	- 3,418									- 86,583	Other Long term Liabilities
Pension Liability	- 83,165										
	-123,514									**- 116,062**	**Long Term Liabilities**
Total Assets less Liabilities	**89,249**									**98,429**	**Net Assets**
Financed By:											**Usable Reserves:**
Usable Capital Receipts	- 1,144									- 1,144	Usable Capital Receipts
General Fund Balance	- 2,076									- 2,076	General Fund Balance
HRA & Major Repairs	- 10,155									- 10,155	Housing Revenue Account
Earmarked Reserves	- 7,967									- 7,967	Earmarked Reserves
Capital Grants Unapplied		- 210		- 20						- 230	Capital Grants Unapplied
											Unusable Reserves:
Revaluation Reserve	- 10,497	4,182					489			- 5,826	Revaluation Reserve
Capital Adjustment Account	-139,911	- 21,411	7,793			337	- 489	22		- 153,659	Capital Adjustment Account
Deferred Credits/Capital Receipts	- 710									- 710	Deferred Capital Receipts
Adjustment Accounts	46									46	Adjustment Accounts
Pensions Reserve	83,165									83,165	Pensions Reserve
		125							2	127	Accumulated Absence Reserve
	- 89,249									**- 98,429**	**Total Reserves**

SORP Cash Flow Statement 09/10	2009-10 £'000s
Surplus/deficit for the year on the inc & Exp A/c	**1,795**
Interest Payable	- 2,077
Interest Payable (impairments)	- 147
Interest Receivable	83
Non Cash Transactions	
Depreciation	- 4,789
Amortisation	- 7,794
Impairment	8,042
Pension Costs	- 540
Revenue expenditure funded from capital under statute	- 468
Net gain/loss on the disposal of fixed assets	220
Soft Loans	1
Movements in stocks	12
Movement in debtors	- 583
Movement in creditors	2,281
Net Cash Inflow/Outflow from Revenue Activities	**- 3,964**
Returns on Investments and Servicing of Finance	
Interest paid	2,168
Interest received	- 51
Purchase of fixed assets	3,757
Other capital cash payments	87
Sale of fixed assets	- 1,759
Capital grants received	- 1,236
Other capital cash receipts	- 1,666
Management of Liquid Resources	
Increase/decrease on short term deposits	2,267
Increase/decrease in Council Tax liquid resources	- 206
Increase/decrease in NDR liquid resources	1,317
Financing Cash Inflows/Outflows	
Repayments of amounts borrowed	8,000
New loans raised	- 8,000
Net Increase/Decrease in Cash	**714**

SORP Cash Flow in IFRS Format	2009-10 £'000s
a) Net Surplus or Deficit on the Provision of services	**1,795**
b) Adjust net surplus or deficit on the provision of services for noncash movements	
Depreciation	- 4,789
Impairment and downward valuations	- 7,794
Amortisation	8,042
Increase in impairment provision for bad debts	- 147
Movement in Creditors	2,281
Movement in Debtors	528
Movement in Stock (Inventories)	12
Pension liability	- 540
Carrying amount of non-current assets sold	
Other non-cash items charged to the net surplus or deficit on the provision of services	- 467
c) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
Purchase of short term and long term investments	- 2,077
Proceeds from short term and long term investments	83
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	220
d) Net Cash Flows from Operating Activities	**- 2,853**
e) Investing Activities	
Purchase of Property, plant and equipment, investment property and intangible assets	3,757
Purchase of short term and long term investments	4,435
Other Payments for investing activities	87
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	- 1,759
Proceeds from short term and long term investments	- 51
Other receipts from investing activities	- 2,902
Net cash flows from investing activities	**3,567**
f) Financing Activities	
Cash receipts of short and long term borrowing	- 8,000
Other receipts from financing activities	-
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	-
Repayments of short and long term borrowing	8,000
Other payments for financing activities	-
Net cash flows from financing activities	**-**
g) Net increase or decrease in cash or cash equivalents	**714**
h) Cash and cash equivalents at the beginning of the reporting period	**988**
i) Cash and cash equivalents at the end of the reporting period	**274**

Annex 3

IFRS Cash Flow Statement		IFRS Adjustments 09/10 Assets Sold £'000s	Govt Grants £'000s	Capital Grants £'000s	Asset Reclass £'000s	Invest Props £'000s	Held for Sale £'000s	E'ee Benefits £'000s	Cash Equiv. £'000s	Restated 2009-10 £'000s
a) Net Surplus or Deficit on the Provision of services	**1,795**		**7,793**	**- 6,236**	**337**	**- 489**	**22**	**2**		**3,224**
b) Adjust net surplus or deficit on the provision of services for noncash movements										
Depreciation	- 4,789				- 337		- 22			- 5,148
Impairment and downward valuations	- 7,794									- 7,794
Amortisation	8,042									8,042
Increase in impairment provision for bad debts	- 147									- 147
Movement in Creditors	2,281							- 2		2,279
Movement in Debtors	528									528
Movement in Stock (Inventories)	12									12
Pension liability	- 540									- 540
Carrying amount of non-current assets sold		- 873								- 873
Other non-cash items charged to the net surplus or deficit on the provision of services	- 467		- 7,793	6,236		489				- 1,535
c) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities										
Purchase of short term and long term investments	- 2,077									- 2,077
Proceeds from short term and long term investments	83									83
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	220	873								1,093
d) Net Cash Flows from Operating Activities	**- 2,853**									**- 2,853**
e) Investing Activities										
Purchase of Property, plant and equipment, investment property and intangible assets and long and short term investments	8,192								- 517	7,675
Other Payments for investing activities	87									87
Proceeds from the sale of property, plant and equipment, investment property and intangible assets and other receipts	- 4,661									- 4,661
Proceeds from short term and long term investments	- 51									- 51
Net cash flows from investing activities	**3,567**									**3,050**
f) Financing Activities										
Cash receipts of short and long term borrowing	- 8,000									- 8,000
Repayments of short and long term borrowing	8,000									8,000
Net cash flows from financing activities	**-**									**-**
g) Net increase or decrease in cash or cash equivalents	**714**									**197**
h) Cash and cash equivalents at the beginning of the reporting period	**988**								**6936**	**7,924**
i) Cash and cash equivalents at the end of the reporting period	**274**								**7453**	**7,727**

Statement of Accounting Policies

General

The accounts had previously been prepared in accordance with 'The Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice' (SORP)' published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In tandem with the introduction of the concept of Best Value into local authorities, CIPFA also published the 'Best Value Accounting Code of Practice' (BVACOP). This Code complemented the SORP and both the SORP and BVACOP were based on UKGAAP reporting requirements and were recognised by statute as representing 'proper accounting practice'.

With effect from the Financial year commencing April 2010, Local Authorities are required to produce their annual financial statements in accordance with International Financial Reporting Standards (IFRS) requirements. CIPFA has produced a "Code of practice on local authority accounting in the United Kingdom 2010-11" (The Code), based on IFRS, to assist practitioners in preparing the annual financial statements in the required format. The IFRS standards apply from the 2010-11 financial year, the reporting criteria require comparative figures to be provided for 2009-10 and this in turn necessitated restatement of the balance sheet position as at 1st April 2009 and at 31st March 2010.

In general the Council is required to apply its accounting policies determined under IFRS retrospectively to determine the opening IFRS balance sheet. The changes required to comply with IFRS impact on the following areas, Non-current (Fixed) assets, Intangible assets, Impairment, Stocks, Employee benefits, Reserves, Government Grants, Leases, Group accounts, Segmental Reporting and some minor amendments.

The accounting policies that have been adopted are set out in the following paragraphs. Where an accounting policy has not been adopted, or where it has been varied, then a note to that effect has been provided.

The qualitative characteristics, fundamental accounting principles, concepts and estimation techniques upon which the accounts have been prepared are set out below: 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.

Qualitative Characteristics of Financial Information

Relevance

In accordance with FRS18, Accounting Policies, all information about the Authority's financial performance that is useful for assessing the stewardship of public funds and making economic decisions is disclosed within the accounts.

Reliability

The Accounts represent fairly the substance of transactions that have taken place. The accounts are free from material error, complete within the bounds of materiality and have been prudently prepared.

Comparability

Comparative figures have been included to allow performance to be compared with a prior period.

Comprehensibility

In accordance with FRS18, the accounts have been prepared in such a way to aid the understanding of the reader. We do, however, recognise the complexities contained within the Statement of Accounts. The Statements are prepared in accordance with accounting concepts, treatments and terminology that require reasonable knowledge of accounting and local government if they are to be properly understood. Technical terms have been avoided where possible, in favour of plain language. There is also a Glossary of Terms included, which can be found on pages 99 - 104.

The Explanatory Foreword on pages 4 – 11 sets out the local authority financial reporting framework and the key aspects of the authority's financial performance and standing.

Materiality

Materiality is a measure to ensure that information is of such significance as to justify its inclusion in the financial statements. An item of information is considered material to the financial statements if its misstatement or omission might reasonably be expected to influence assessments of the authority's stewardship, economic decisions, or comparisons with other entities, based upon those financial statements. If there are two or more similar items the materiality of the items in aggregate, as well as of items individually, are considered.

Council policy is to consider the following factors when assessing whether items are material:

- The item's size, judged in the context of both the financial statements as a whole and of such other information available as would affect consideration of the financial statements

- The item's nature, in relation to:

    - The transactions or other events giving rise to it

    - The legality, sensitivity, normality and potential consequences of the event or transaction

    - The identity of the parties involved

    - The particular headings or disclosures affected.

Strict compliance with the Code, as to both disclosure and accounting principles, is not considered necessary where the amounts involved are not material to the fair presentation of the financial position and transactions of the authority and to the understanding of the Statement of Accounts by a reader.

Accounting Concepts

Accruals

The accounts, other than cash flow information, have been prepared on an accruals basis. This means that sums due to or from the Council in respect of the year of account are included whether or not the cash has actually been received or paid in the year. Exceptions to this principle are public utility accounts which are charged according to the date of the meter reading and some recurring sundry debtor accounts for which the due dates do not coincide with normal quarter dates. This policy is applied consistently each year and does not have a material effect on the year's accounts.

The income to be recovered through ongoing benefit deduction is accounted for in the year of account and not when the cash has been received or paid in the year.

The income to be recovered through the issue of fines is accounted for in the year of account and not when the cash has been received or paid in the year.

Going Concern

The Accounts have been prepared on a going concern basis, on the assumption that the Authority will continue in operational existence for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.

Primacy of Legislation

Local Authorities derive their power from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. Where there is a conflict between a legal requirement and an accounting standard, the legal requirement will take precedence over the accounting standard.

Accounting Policies and Estimation Techniques

An accounting policy specifies the basis on which an item is to be measured. Where there is uncertainty over the monetary amount corresponding to that basis the amount will be arrived at using an estimation technique.

Overheads

All costs of management and administration have been fully allocated during the year on the following bases

Departments	-	Time spent by staff
Buildings	-	Employee numbers
Computing	-	Actual use and employee numbers

The Council has established a spreadsheet based system which records the services supported by individual staff within Business Units. These allocations are costed and recharges for the costs of management and administration are prepared from this information and allocated to services.

Value Added Tax

In accounting for VAT, we comply with the SSAP5, Accounting for Value Added Tax and VAT is excluded from the main accounting statements unless it is not recoverable. The Council's partial exemption status is reviewed on an annual basis.

Government and Non Government Grants and Contributions

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the Comprehensive Income and Expenditure Statement and then reversed to the Capital Adjustment Account once the Council is satisfied that all grant conditions have been complied with. This ensures that the overall revenue effect is neutral and that no cost falls to the local taxpayer. The change to IFRS removes the requirement to amortise the grant received over the life of the asset.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. If a grant has been received but not applied to fund capital expenditure the grant will be shown on the balance sheet within the Capital Grants receipts in advance account. If the grant is subsequently assessed to be free of any conditions and remains unapplied the grant will be shown as Capital Grants Unapplied on the balance sheet. If a grant is due for repayment due to the Council's failure to meet grant conditions it will be included as a creditor on the Balance Sheet.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and Area Based Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

Any contributions received under S106 agreements where developers are required to pay sums to the Council as a consequence of planning permission being granted are initially included in the Comprehensive Income and Expenditure Statement. Contributions applied to offset service revenue expenditure are credited to the service and contributions for capital works are included in the taxation and non-specific grant income line in the in the Comprehensive Income and Expenditure Statement and then taken to the Useable Reserves section of the balance sheet.

Area Based Grant

Area Based Grant (ABG) is a non-ring fenced grant, upon which no conditions have been imposed as to its use, therefore ensuring full local control over how the funding can be used.

As ABG is a general grant, monies received during the year are included within the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Intangible Assets

In line with FRS10/IAS 38, (Goodwill and Intangible Assets), expenditure on intangible fixed assets is capitalised at cost. An intangible fixed asset is one that has no physical substance but is identifiable and the Authority has control, (either through custody or legal protection) over the future economic benefits derivable from it.

Purchased intangible assets (e.g. software licences) should be capitalised as assets. Internally developed intangible assets should only be capitalised where criteria set out in section 4.5.2.7 of The Code are met. The authority must satisfy itself that these criteria can be met and that internal systems are able to distinguish between Research and Development phases of a project.

Council policy is to write down intangible assets to the relevant service revenue account in the year that they occur.

Non-Current Assets (formerly Fixed Assets)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as either Property, Plant and Equipment or Investment Properties.

Recognition: All expenditure on the acquisition, creation or enhancement of Non Current assets has been capitalised on an accruals basis. Expenditure on Non Current assets is capitalised, provided that the asset yields benefit to the Council and the services it provides, for a period of more than one financial year. Subsequent expenditure on Non Current assets is capitalised in accordance with FRS15. This excludes expenditure on routine repairs and maintenance of Non Current assets, which is charged directly to service revenue accounts.

Non Current assets are classified into groupings required by The Code, comprising

a) Property Plant and Equipment, which can be further analysed as
- Land and Operational Buildings
- Council Dwellings
- Infrastructure assets
- Vehicles Plant and Equipment
- Community Assets
- Assets under Construction
- Leased Assets
- Non Operational Land and Buildings

b) Investment Properties

c) Intangible Assets, (see separate Accounting Policy).

Measurement: Non Current assets have been valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). They have been classified in accordance with the IFRS Code and have been valued on the following bases:

a. **Land and Buildings** – The lower of net current replacement cost or net realisable value (as certified by the Estates Surveyor).

b.

c. **Council Dwellings** – Existing use value for social housing, including regional adjustment factors as amended from time to time.

d. **Infrastructure Assets** – Historical costs net of depreciation.

e.

f. **Vehicles, Plant and Equipment** – The lower of net current replacement cost or net realisable value.

g.

h. **Community Assets** – Historic cost.

i. **Non-operational Assets** – The lower of net current replacement cost and net realisable value.

j. **Investment Properties -** normally open market value

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value

Depreciated replacement cost is only used where there is no active market for the asset being valued: that is where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset.

Revaluation - Revaluations of Non Current assets are undertaken on a 5-year rolling programme, revaluing approximately one fifth of the Authority's assets annually. Council Dwellings are revalued annually using the Beacon principle. Identified material changes to asset valuations will be adjusted in the interim period, as they occur.

Surpluses from any revaluation of assets are credited to the Revaluation Reserve and are used to offset any subsequent revaluation loss with the exception of investment properties that are charged directly to the Comprehensive Income and Expenditure Statement and reversed out to the Capital Adjustment Account to ensure that no cost falls to the taxpayer. 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.

The Council has decided to adopt a phased approach to annual valuation of its Investment properties due to the size of the portfolio. From April 2010 investment properties with a value in excess of £100,000 will be valued annually with the remaining properties included in the existing 5 yearly rolling programme of revaluation.

Investment Property - Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Components: The IFRS Code requires local authorities to identify elements of major assets that have either a capital cost that is significant in relation to the total cost of the asset and/or has a different useful life or depreciation method. The Council proposes to account for components for assets with a gross book value in excess of £1m and where any individual component has a value in excess of £100,000. The component proposals for the HRA dwelling stock differ from that above. Guidance allows for the ongoing use of the MRA as a proxy for depreciation and if the Council continues this policy it is allowed to defer the application of component accounting to the dwelling stock. The Housing Finance system is likely to change from April 2012 and this accounting policy will need to be reviewed at that time. The requirement to implement Component accounting commences on 1st April 2010 and only applies to properties valued after that date or where there has been significant capital expenditure in respect of the individual asset.

Impairment: Assets are assessed at each year-end as to whether there is any indication that an impairment charge may be required. Where indications exist that may give rise to impairment of an asset and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, the accounting entries are

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

The HRA dwelling stock is revalued annually using beacon property values. Any change in valuation is assessed to determine any annual impairment charges.

Disposals:. Income from the disposal of Non current assets is accounted for on an accruals basis.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet, any receipt from disposal and any costs associated with the disposal are accounted for in the Comprehensive Income and Expenditure Statement so comprising any gains or losses on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The amount payable to the Government can be reduced where the Council elects to invest in certain regeneration projects or affordable housing. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow, (the Capital Financing Requirement). Receipts are appropriated to the reserve through the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

Depreciation: With the exception of Investment Properties and Land (which are not subject to depreciation), assets are depreciated on a straight line basis over their useful economic life as follows:

Council Dwellings	The Major Repairs Allowance (MRA) is used as a proxy for depreciation.
Infrastructure	Up to 40 years
Other Buildings	Specifically determined by Estates Officer
Vehicles	Up to 12 years
Plant	Up to 10 years
Surplus assets	Up to 40 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.
Newly acquired assets are depreciated in the year following acquisition unless the change in depreciation charge is considered material. Assets in the course of construction are depreciated when they are brought into use.
Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.(see Component section above).

A review of depreciation policy in connection with the Council dwelling stock was carried out in 2009/10 when it was decided that the Major Repairs Allowance would be used as a proxy for depreciation. This was reviewed as part of the IFRS transition arrangements along with proposed changes to the Housing Finance System. It was decided that no changes were required.

Non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. An asset "Held for sale" has the following specific criteria attached to it

- Management is committed to sell
- The asset is available for immediate sale
- A buyer is being actively sought
- The sale is likely (within 12 months)
- The asset is for sale at a fair price
- It is unlikely to stop the sale process

If the asset meets these criteria it should be newly classified as a current asset and no longer depreciated. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Charges to Revenue for Non-Current Assets

Service revenue accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

a) Depreciation attributable to the assets used by the relevant service

b) Impairment losses on Non-current assets where there are no accumulated gains in the Revaluation Reserve against which they can be written off

c) Amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, (Minimum Revenue Provision, (MRP)). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Council policy is to write down this expenditure in the year that it occurs. The full cost is charged to the relevant service in the Comprehensive Income and Expenditure Statement but then reversed out through the Movement in Reserves Statement to ensure that there is no effect on the revenue accounts as a whole.

Inventories, Rechargeable Works and Long Term Contracts

Inventories relate to printing, stationery and marketing merchandise held at Visitor Information Centres and Museums and stores held at the Parks and Waste Direct Labour Organisations.

The Code and SSAP9, Stocks and Long-term contracts, require stocks to be shown at the lower of actual cost or net realisable value. The stock at the printing unit is measured at average cost of stock held as it is considered that the financial effect of the different treatment is not material.

Any work in progress is subject to an interim valuation at the year end. Rechargeable Works are included at cost.

Long Term contracts are defined as “contracts entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods” The Council makes a disclosure in the notes to the Core Financial Statements in respect of any capital contracts meeting this definition.

Debtors and Creditors

The accounts of the Council are maintained on an accruals basis in accordance with FRS 18 ‘Accounting Policies’, i.e. 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.

Debts due to the Council are recorded as they become due and the item Debtors shown in the Balance Sheet represents the amounts due during the year which remain unpaid at the year-end, from which a sum is deducted as a provision for bad debts.

Interest payable has been accrued to 31 March 2010 on all loans outstanding at that date. Interest on short-term investments due, but not received as at 31 March 2010 has also been accrued where this is material.

Instalments of interest on Housing Act advances and deferred payments are brought into account on the day they fall due for payment, irrespective of the period to which they relate.

Housing Revenue Account gross rent income is brought into account for the full year irrespective of debit and collection dates.

Provisions

Provisions represent sums set aside for liabilities or losses which are likely, or certain to be incurred but it is uncertain as to the amounts or dates on which they will arise. Provisions are charged direct to the appropriate service revenue account and when the expenditure is incurred to which the provision relates it is charged direct to the provision.
HRA Leasehold Service Charge accounts are raised after the accounts have closed as they are based on actual cost in order to comply with Leasehold conditions. A provision is made on the Leasehold Maintenance Holding Account for the estimated cost of Services, Day to Day Repairs, Recurring Maintenance and Major Works incurred during the financial year.

Reserves

Amounts set aside for purposes falling outside of the definition of provisions are considered as reserves. The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year within the Net Cost of Services in the Comprehensive Income and Expenditure Statement and an equal amount is appropriated back to the General Fund from the accumulated reserve so that there is no charge to the taxpayer.

Details of the Council's reserves can be found within the notes to the Core Financial Accounts. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Council.

The IFRS standards require details of Reserves to be reported in the Movement in Reserves Statement, a new table in the core Financial Statements. The Statement of Accounts also clearly separates the useable and non-useable reserves in the Financing section of the balance sheet.

Provision for Bad and Doubtful Debts (Impairment)

Provisions are made for bad and doubtful statutory debts and these are charged to the appropriate revenue account. In accordance with the CIPFA guidelines, for Council Tax and Business Rate debts, the older the debt the greater the provision, although depending on specific circumstances this may not be applied. Debts relating to garage rents are subject to a flat rate percentage based on historical trends. All other HRA related debts over £2,500 are analysed and a provision made depending on individual circumstances, with the exception of leaseholder accounts as the Housing Act states that tenants should not subsidise Leaseholders, therefore no bad debt provision is made within the HRA. Housing benefit overpayment debt provision is subject to a range of specific percentages dependant on whether the debt is to be collected from ongoing benefit.

Previous guidance set out more detailed criteria for the assessment of the "impairment" of the outstanding debt and stressed a need to look at individual large debts and their specific circumstances as well as estimating a more general provision based on historic payment trends, these criteria are continued into the current policy.

Financial Liabilities

Financial liabilities 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 and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the Council's borrowings this means that interest charged to the Comprehensive Income and Expenditure Statement represent the amounts payable for the year in accordance with the loan agreements. Under the requirements of FRS25, 26 and 29 interest due (but not yet paid) on outstanding loans is added to the principal amount outstanding and is shown under short term borrowing in the Balance Sheet.

Financial Assets

Financial assets are classified into various types:

- Loans and receivables - Assets that have fixed or determinable payments not linked to market price
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are initially measured at fair value and subsequently carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure 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 Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement. A small element of the loans are classified as soft loans (made at less than market rate) so there is a requirement to record any loss in the Comprehensive Income and Expenditure Statement to represent interest forgone over the life of the loan.

Where assets are identified as impaired (in the case of trade debtors where there is a likelihood the payments due will not be made as a result of past events) the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement under the heading “Interest Payable and Similar charges”.

Any gains and losses that arise on the derecognition (i.e. cessation or transfer of the loan) of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. The accounting treatment for leases depends on whether the Council is a lessee; is paying a third party rental payments for the right to use an asset, or a lessor where it is granting the right to use an asset to an external third party. The accounting treatment for each is given below:

Where the Council is a Lessee:

Finance Leases: Where the Council enters into material finance leases, the asset is recognised in the Council’s Balance Sheet, together with any associated liability to fund the asset. The cost of the fixed asset is then charged to the Comprehensive Income and Expenditure Statement over the life of the asset in accordance with the Council’s depreciation policy.

Rentals payable under finance leases are apportioned between a finance charge and a reduction in the liability. The apportionment bases used ensures that the finance charge is allocated over the term of the lease.

Operating Leases: Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Where the Council is a Lessor:

Finance Leases: The asset is removed from the balance sheet as the risks and rewards are with the lessee with the amounts due from finance leases recorded in the Balance Sheet as a debtor. Rentals received are apportioned between reducing the debtor and finance interest earnings. The apportionment basis used ensures that earnings are normally allocated to the lease term to give a constant periodic rate of return to the Council.
Operating Leases: Rentals receivable are charged to the relevant service revenue account over the term of the lease, generally meaning that rentals are charged when they become payable.

Embedded Leases:- The IFRS reporting arrangements require the Council to determine whether or not it benefits from the exclusive use of tangible assets within any of its contract arrangements with third parties. If the Council decides that this is the case it has to decide whether the arrangement is to be considered a lease in accordance with IFRIC12. The Council has determined that there are no contracts that fall within these criteria.

Pensions

The Accounting Standard, FRS17 Retirement Benefits, requires recognition of pension assets and liabilities in the Balance Sheet and the operating costs of providing retirement benefits together with changes in the value of assets and liabilities to be reflected in the Comprehensive Income and Expenditure Statement.

In order that FRS17 requirements do not impact upon council tax levels, the movement on the net assets and liabilities (net of the employer's contributions and actuarial gains and losses) is reversed out to the Pension Reserve through the Movement in Reserves Statement.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Fund for the purpose of setting employers' actual contributions was as at 31 March 2007 and this has been used to update the service cost figures. The effects of the valuation carried out on the 31 March 2010 will be implemented on 1 April 2011.

Liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. This requires 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, employees turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond.

The assets of the pension fund attributable to the Council are included in the balance sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

Previously, quoted securities were valued at mid market value rather than bid price.

The changes in the net pensions liability is analysed into seven components:

Current service cost – the increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.

Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.

Expected Return on Assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.

Gains/Losses on Settlements and Curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed 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 actuaries have updated their assumptions – debited to the Comprehensive Income and Expenditure Statement.

Contributions paid to the Funds – cash paid as employer's contributions to the pension fund.

FRS17 also requires the disclosure of any additional liabilities, for example those in respect of additional pensions paid on retirement under the Discretionary Payment Regulations ("compensatory added years pensions") which are not paid from the Fund itself. This information has been provided by the Fund's actuary and is included within the liabilities figures quoted.

Exceptional Items

Exceptional items are ones that are material in terms of the Council's overall expenditure and not expected to recur frequently or regularly. The Council accounts for exceptional items in accordance with FRS3, Reporting Financial Performance.

Contingent Gains/Liabilities

Contingent liabilities are defined as possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. If such obligations are likely, they are quantified and a disclosure note is added to the Accounts.

A Contingent Gain arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent Gains are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Events After the Balance Sheet Date

Where an event occurs after the Balance Sheet date, whether favourable or unfavourable, and also provides evidence of conditions that existed at the Balance Sheet date, the amounts recognised in the Statement of Accounts will be adjusted. Any disclosures affected by the new information about the adjusting event will also be updated in light of the new information.
Events that occur after the Balance Sheet date indicative of conditions arising after the Balance Sheet date will not be adjusted in the Accounting Statements, but will be disclosed in the Notes to the Accounts, to include:

- the nature of the event, and
- an estimate of the financial effect or a statement that such an estimate cannot be made reliably

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

Group Accounts

The Code broadens the definition of an interest in a company/entity to include “an ability to exert a significant influence”. The guidance included in the 2009 SORP still applies but the assessment of the involvement/interest now needs to consider the above when determining whether or not a group relationship exists. This is considered to apply where,

- The authority has an interest in another body and that body is delivering a service or carrying on a trade or business of its own;
- The authority has access to benefits and exposure to risks inherent in realising those benefits;
- The authority controls the majority of equity capital or equivalent voting rights or appoints the majority of the governing body;
- The authority exercises or has the right to exercise dominant influence.

This Council has determined that for the 2009-10 financial year it has no interests in subsidiaries, associates or joint ventures of a material nature, but has a Joint Arrangement, not an Entity (JANE) with Kent County Council (East Kent Opportunities LLP). In accordance with FRS9 the Council has accounted for its share of the assets, liabilities, and income and expenditure within its own single entity accounts, but consider that including the Council’s share of the liability owed to Kent County Council for the cost of construction of the Spine road as a deferred liability instead of imputed cash provides more transparency. In addition the Council’s share of EKO’s landholdings are included in these accounts at the Council’s own land valuation as this is considered more appropriate. During 2009-10 the Council in conjunction with Canterbury, Dover and Shepway Councils is preparing to transfer the management of their combined HRA dwelling stock to an Arms Length Management Organisation. It is considered likely that this arrangement will constitute a Group Accounting arrangement as the Council will “own” 25% of the new organisation.

Collection Fund

Billing authorities are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Business Rates. Statute determines the amount required to be transferred from the Collection Fund to the General Fund (an authority's precept for the year plus/minus its share of the surplus/deficit on the Collection Fund for the previous year). From 1 April 2009 the Council Tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between this amount and the amount required by regulation is taken to the Collection Fund Adjustment Account, and is included as a reconciling item in the Movement in Reserves Statement to negate the effect on the taxpayer. Council Tax is collected on an agency basis, so the Balance sheet reflects debtor/creditor position between the Council and major preceptors, since the cash paid to preceptors in the year is not the share of actual cash collected from council taxpayers.

With effect from 1 April 2009 it is recognised that National Non-domestic Rates are collected by billing authorities for the Government on an agency basis. The recognition of ratepayers arrears/overpayments and impairment allowance for doubtful debts are no longer appropriate in the authority's Balance sheet, and are now consolidated into a debtor/creditor for amounts due to/from Government departments.

Investments

Short-term investments are shown in the Balance Sheet as 'Current Assets' at the actual sums lent.

Employee Costs

Overtime payments relating to the previous financial year are accrued to that year. The full costs of employees are charged to the accounts of the period within which the employees worked.

The Code requires that Councils identify the costs of any Employee Benefits accrued but untaken at the balance sheet date. These costs primarily consist of any untaken leave, flexitime and lieu time. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services so that the holiday benefits are accounted for in the financial year in which the holiday absence occurs. The adjustment is reversed out of the Comprehensive Income and Expenditure Statement so that there is no charge to the taxpayer.

Prior Period Adjustments

Material adjustments applicable to prior years arising from changes in accounting policies or standards will be reflected by restating the comparable figures in the Statement of Accounts, together with a disclosure note detailing the reasons for such restatement.

Segmental Reporting

A segment is a component of the Council's service activity which can be distinguished separately as providing services either by nature of the business or to particular areas of the community. The Council's primary reporting format during the year is by Directorate but traditionally the Statement of Accounts has been prepared in BVACOP format. The Council is only required to report Segments that constitute a significant proportion of the Council's total business but detailed information has been prepared for all activities as this provides more meaningful data.

Changes in Accounting Policy

The 2009 SORP required Local Authorities to amend their accounting arrangements and so their accounting policies in respect of Council Tax and Business rates (NNDR) These changes had been introduced for the 2009-10 Statement of Accounts along with amendments arising from a review of the existing policies. The implementation of IFRS requires further changes to Accounting Policies and these have been reflected in this document.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in [specified period, no more than three months] or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.