# 1. Accounting Policies

## General

The Statement of Accounts summarises the council's transactions for the 2022-23 financial year and its position at the year end of 31 March 2023. The council is required to prepare an annual Statement of Accounts in accordance with the statutory framework established in England by the Accounts and Audit Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practice. These primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) supported by the 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.

Unless otherwise stated the figures in these accounts are rounded to the nearest thousand pounds, and revenue and credit balances are shown in brackets.

## Going Concern

Going concern assumes that an authority's functions and services will continue to operate for the foreseeable future. There is a high degree of uncertainty over future levels of funding for local government, however the council has robust financial management procedures in place and maintains sufficient reserves to mitigate adverse economic trends. Furthermore, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for local authority financial statements to be prepared on anything other than a going concern basis.

The accounting policies that have been adopted are set out in the following paragraphs.

## Accruals of Income and Expenditure

Revenue streams are accounted for in the year they are due irrespective of whether the sums have been paid or received as follows:

- Revenue from contracts with service recipients for either goods or services is recognised when/as the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract
- Supplies of goods are recorded as expenditure when they are consumed, when there is a delay between the date the supplies are received and when they are consumed, they are carried as inventories on the Balance Sheet
- Expenditure in relation to services received (including the services provided by employees) are recorded when the services are received rather than when payments are made
- Revenue from non-exchange transactions such as council tax and non-domestic rates are recognised when it is probable that the economic benefits associated with the transaction will flow to the council and the amount of revenue can be measured reliably.

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 and annual fees for which the due dates do not coincide with normal quarter or year dates, subject to materiality. This policy is applied consistently each year and does not have a material effect on the year’s accounts.

## 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 no more than three months 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 Council’s cash management.

## Material Items of Income and Expenditure

Where material items of income and expenditure are not disclosed on the face of the Comprehensive Income and Expenditure Statement a separate note will set out the nature and amount of the relevant item.

## Prior Period Adjustments

Material adjustments applicable to prior years arising from changes in accounting policies or standards will be reflected retrospectively in the Statement of Accounts when required by proper accounting practice, by restating both the opening balances and the comparable figures for the prior year, together with a disclosure note detailing the reasons for such restatement. Material errors in prior period figures are also corrected retrospectively in the same way.

## Employee Benefits

**Pensions General**

The Accounting Standards, IAS 19 and 26 regarding Employee Benefits and Retirement Benefits, require 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 IAS 26 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.

**Benefits Payable During Employment**

The full costs of employees are charged to the accounts of the period within which the employees worked.

The costs of any short term employee benefits untaken at the balance sheet date such as untaken leave, flexitime and lieu time due to be settled within 12 months of the year-end are accrued subject to materiality. The value of the accrual is calculated at the wage and salary rates applicable to the period in which the employee takes the benefit (the following year), and is charged to Surplus or Deficit on the Provision of Services, but is then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account so that the entitlements are charged to the year the absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or makes an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

**Post Employment Benefits**

The Local Government Pension Scheme administered by Kent County Council (KCC) is a defined benefit scheme. Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The formal valuation of the Fund for the purpose of setting employers' actual contributions disclosed in these accounts was as at 31 March 2022 and this has been used to update the service cost figures.

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, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.4% based on the indicative rate of return on high quality corporate bonds.

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

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

**Service Costs comprising;**

***Current Service Cost*** – the increase in liabilities as a result of years 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 Cost of Services in the Comprehensive Income and Expenditure Statement.

***Net Interest on the Net Defined Benefit Liability*** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

**Remeasurements;**

***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 Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

***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 – charged to the Pensions Reserve.

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

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as the benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## Events after the Reporting Period

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 Core Financial Statements if it would have had a material effect, 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 taking place after the date the accounts are authorised for issue are not reflected in the Statement of Accounts.

## Financial Instruments – Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council 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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council's borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in accordance with the loan agreements.

## Financial Instruments – 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 cash flow characteristics. The Council's business model is to hold investments to collect contractual cash flow, these assets are therefore classified and measured at amortised cost.

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council 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 line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. 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 if material.

## Expected Credit Loss

**Trade debtors** - classified as financial assets, any loss allowance is calculated by considering the age of the debt, historic payment trends and any lifetime expected credit loss. Where these assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement under the heading 'Impairment of Financial Instruments'.

In exceptional circumstances where there is an increased risk of default due to adverse economic conditions, the council may apply an additional general provision to it's usual assessment.

No loss allowance is set aside for local authority and central government debts as statutory provisions under the Local Government Act 2003 prevent default.

**Loans** - the impairment loss is measured as the difference between the carrying amount and present value of the revised future cash flows discounted at the assets original effective interest rate. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## Fair Value Measurement

The Council measures some of its property assets and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The Council measures the fair value of an asset or liability using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## Government and Non-Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

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) are credited to the foot of the Comprehensive Income and Expenditure Statement under Taxation and Non–Specific Grant Income.

Grants where the Council acts as an agent rather than as the principal will not impact on the Comprehensive Income and Expenditure Statement and will be reflected only in the balance sheet.

## Heritage Assets

A heritage asset is a tangible or intangible asset that is intended to be preserved in trust for future generations because of its historical, artistic, scientific, technological, geophysical or environmental qualities and is held and maintained principally for its contribution to knowledge and culture.

The council has identified the following asset groups as classified as Heritage Assets:

- Public statues
- Artefacts and or collections within museums
- Art collections
- Civic regalia
- Historic amusement park and rides

Heritage assets (other than operational heritage assets) shall normally be measured at cost in accordance with FRS 102 since it is deemed to be more appropriate and relevant than applying any valuation model.

Acquisitions are initially recognised at cost or if bequeathed or donated at nil cost, at valuation.

Heritage assets are reviewed for evidence of impairment, including doubts as to authenticity. Any impairment is accounted for in accordance with the council's policy within the Property Plant and Equipment accounting policy. The proceeds of any disposals likewise follow the council's general accounting policy.

## Intangible Assets

In line with IAS 38 (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 council 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 council 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.

## Interests in Companies and Other Entities

The Code's definition of an interest in another entity includes 'the means by which an entity has control or joint control of, or significant influence over, another entity'. In accordance with IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements, assessment of any involvement/interest for the purposes of group accounts will consider the above when determining whether or not a group relationship exists. This is considered to apply where the Council has all of the following:

- sole control of another entity and power over it;
- exposure to risks or rights to variable returns;
- and the ability to use its power over the other entity to influence those returns.

Subject to the assessment set out above if the council's interest is deemed to be a group relationship the Council may still only prepare single entity accounts if the group interest is not material.

## 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 IAS 2 (Inventories), require stocks to be shown at the lower of actual cost or net realisable value. The stock at the printing unit is measured at the 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 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. Long term contracts are accounted for by charging the (Surplus) or Deficit on the Provision of Services with the consideration allocated to the performance obligations of the contract that have been satisfied, based on the goods or services that have been transferred to the service recipient during the financial year.

## Joint Operations

Joint Operations are activities undertaken by the council in conjunction with other bodies where there is joint control and the parties have rights to the assets, and obligations for the liabilities of the arrangement. Joint control exists where unanimous consent is required from the parties sharing control for decisions about relevant activities. The council recognises on its Balance Sheet its own assets and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of the income it may earn from the activity of the operation.

## 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**

Where the Council enters into a lease, and recognition exemptions do not apply, the asset is recognised in the Council's Balance Sheet, together with any associated liability to recognise the Council's obligations to fund the asset through future lease payments.

The asset and liability is measured with regard to the present value of the lease payments discounted using the interest rate implicit in the lease or, if this cannot be readily determined, the Council's incremental borrowing rate. The cost of the right-to-use asset will also include any lease payments such as premiums made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the Council, and an estimate of any restoration costs to be incurred by the Council.

The asset is subsequently revalued on the same basis as if it were owned by the Council, with the practical expedient that cost may be used where it is a reliable proxy for current value. The valuation only reflects the rights that the Council has acquired and not the full value of the asset.

The liability is subsequently revalued if the lease term and/or payments change. The lease term is the non-cancellable period of the lease plus periods covered by an option to (a) extend the lease if the Council is reasonably certain to exercise that option, and (b) to terminate the lease if the Council is reasonably certain not to exercise that option.

The cost of the fixed asset is 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 the lease are apportioned between a finance charge and a reduction in the liability. The apportionment basis used ensures that the finance charge is allocated over the term of the lease.

There are two specific recognition exemptions (in addition to the general rules on materiality), being for:

1) Short-term leases: leases with a term of 1 year or less; and/or
2) Leases where the underlying asset is of low value: this is assessed using the Council's *de minimis* level of £15k for capital recognition.

Where recognition exemptions do apply, the 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**

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 Council to the lessee. Where the Council is an intermediate lessor (i.e. it has sub-let property that it has itself leased) this is assessed by reference to the right-of-use asset acquired by the Council under the head-lease rather than the underlying asset itself.

All other leases are classified as operating leases.

**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 allocated to the lease term to give a constant periodic rate of return to the Council.

**Operating Leases:** Rentals receivable are credited to the relevant service revenue account over the term of the lease, generally meaning that rentals are credited when they become receivable.

## Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

## Property, Plant and Equipment and Investment Property

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**: Expenditure on the acquisition, creation or enhancement of non-current assets has been capitalised on an accruals basis at cost with subsequent measurement as explained below. 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 IAS 16. This excludes expenditure on routine repairs and maintenance of non-current assets, which is charged directly to service revenue accounts. The Council has set a de minimis level in respect of the recognition of capital expenditure of £15k.

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
  - Surplus Property

b) Heritage Assets

c) Investment Properties

d) 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 Operational Buildings*** – the lower of net current replacement cost or net realisable value (as certified by the Estates Surveyor)

b) ***Council Dwellings*** – existing use value for social housing, including regional adjustment factors as amended from time to time

c) ***Heritage Assets*** – (see separate accounting policy)

d) ***Infrastructure Assets*** – historical cost net of depreciation

e) ***Vehicles, Plant and Equipment*** – the lower of net current replacement cost or net realisable value
f) ***Community Assets*** – historical cost
g) ***Investment Properties*** – normally open market value
h) ***Surplus Property*** - fair 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 an annual basis for Council Dwellings using the Beacon principle, investment properties with a value over £100k, and General Fund Operational Land and Buildings with a value over £800k. Revaluations of other non-current assets are undertaken on a 5-year rolling programme, revaluing approximately one fifth of these Council's assets annually. Identified material changes to asset valuations will be adjusted in the interim period, as they occur. The Asset Valuations in these accounts have been prepared using the services of external valuers. The valuations were produced in accordance with guidelines issued by CIPFA, and in accordance with the Royal Institute of Chartered Surveyors current guidance notes for Asset Valuation. The date of valuation for the General Fund is 31 December 2022.

The basis for Council Dwellings valuations is Existing Use Value for Social Housing (EUV-SH). Under this method the vacant possession value of the dwellings is reduced to 33% of the market value, to reflect the occupation by a secure tenant. A full valuation of the Beacon properties is undertaken every five years but an annual adjustment is made to reflect market changes during the year. The date of valuation for the Housing Revenue Account is 31 March 2023.

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.

**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 arms 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 £10k) the Capital Receipts Reserve.

**Components**: The 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 accounts for components for assets with a gross book value in excess of £1m and where any individual component has a value in excess of £100k. The component proposals for the HRA dwelling stock differ from that above. The Council componentises its council dwelling stock on a dwelling basis and proportions the overall valuation into four key components. Those components that are depreciable are depreciated over the remaining useful life of the council dwelling, resulting in an overall stock depreciation figure.

**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 £10k are categorised as capital receipts. A proportion of receipts relating to Right to Buy disposals are payable to the Government, net of allowable deductions. Since the changes to the pooling of capital receipts (1st April 2012) and the introduction of the Government's 1-4-1 replacement programme, which the Council adopted, a higher proportion of receipts are retained. These housing receipts are retained for the 1-4-1 replacement of Council Dwellings and for investment in certain regeneration projects or affordable housing. The balance of receipts is required to be credited to the Usable 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 non-current 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 | Up to 60 years |
| Infrastructure | Up to 40 years |
| Heritage Assets | Varies on asset type, see separate accounting policy |
| Other Buildings | Specifically determined by Estates Officer |
| Vehicles | Up to 12 years |
| Plant | Up to 10 years |
| Surplus Assets | Up to 40 years, or as specifically determined by Estates Officer |

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. On revaluation, accumulated depreciation is written out for both current value and historical cost with subsequent depreciation calculated on a straight line basis over the remaining useful life of the asset.

Newly acquired assets are depreciated in the year of acquisition unless the purchase is near to the financial year end and the change in depreciation charge is considered material in which case depreciation will apply to the following year. Assets in the course of construction are depreciated when they are brought into use.

Where an item of Property, Plant and Equipment 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).
The Council componentises its housing stock and then depreciates the depreciable components over the useful economic life of each council dwelling.

## Provisions

Provisions represent sums set aside for liabilities or losses which are likely or certain to be incurred where an event has taken place that gives the Council a legal obligation that probably requires settlement and a reliable estimate can be made of the amount of that obligation. Provisions are charged directly to the appropriate service line in the Comprehensive Income and Expenditure Statement when the obligation arises and when the expenditure is actually incurred it is charged directly to the provision.

New arrangements for the retention of business rates came into effect on 1 April 2013 along with the requirement for an additional provision to be set aside for potential changes to rateable values as a result of appeals. This provision is calculated using Valuation Office (VO) data on successful and outstanding appeals. As there is potential for such appeals to be backdated to previous as well as current VO rating lists, the amount set aside includes an element for backdating. An estimate is also made for appeals that may yet be lodged under the new Check, Challenge and Appeal process, based on a percentage of the likelihood of appeal for those properties that are not currently in receipt of mandatory or discretionary relief.

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. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service line within the Cost of Services in the Comprehensive Income and Expenditure Statement and an equal amount is appropriated back to the General Fund from the relevant reserve so that there is no impact on the council taxpayer.

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

The Statement of Accounts also clearly separates the usable and unusable reserves in the Financing section of the Balance Sheet.

## Contingent Assets and 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. Contingent liabilities can also arise where a provision would have been made but it is either not probable that an outflow of resources will be required or the amount cannot be measured reliably. Contingent liabilities are not recognised on the Balance Sheet but are disclosed in a note to the accounts.

A Contingent Asset arises where an event has taken place that gives the Council 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 Council. Contingent Assets 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.

## Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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 through the Movement in Reserves Statement to ensure that there is no impact on the council taxpayer.

## 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 and 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 highly probable (within 12 months)
- The asset is for sale at a fair price
- It is unlikely that the sale process will stop

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.

## Impairment of Non-Contractual Debts

Provisions are made for the impairment of non-contractual (non-exchange) statutory debts such as Council Tax and Business Rates by evaluating the risk of impairment on a collective basis, based on their past-due status, using recovery stages and age analysis. The requirement is to set aside a provision where there is evidence of non-recoverable losses.

Debts relating to garage rents are subject to a flat rate percentage based on historical trends. All other HRA related debts over £2.5k 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 which is dependent on whether the debt is to be collected from on-going benefit.

## 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 estimated on 15 January for Council Tax and 31

January for Business Rates). The Council Tax and Business Rate 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 and Business Rates are collected on an agency basis, so the Balance Sheet reflects the debtor/creditor position between the Council, Central Government and major preceptors, since the cash paid to preceptors in the year is not the share of actual cash collected from council tax and business rate payers.

## Business Rate Pool

Income or expenditure generated as a result of membership of the Kent Business Rate Pool (from 1 April 2015) is accounted for in the proportions set out in the pool agreement. The Council's share of any income or expenditure is credited or debited respectively to Taxation and Non-Specific Grant Income and Expenditure in the Comprehensive Income and Expenditure Statement in the relevant financial year. Levy or safety net payments due to or from the lead authority at the end of the accounting year are reflected as creditors or debtors in the Balance Sheet and any increase or decrease in the Growth Fund share (to be utilised to promote growth within the district pool based area) is set aside in the Equalisation Reserve within the council's Balance Sheet for future use.

## Value Added Tax

In accounting for VAT, the Council complies with FRS 102 (The Financial Reporting Standard applicable in the UK). VAT payable is excluded from the main accounting statements unless it is not recoverable under normal tax rules. VAT receivable is excluded as it is due to Her Majesty's Revenue and Customs (HMRC).