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EXPLANATORY FOREWORD

Review of 2010/11 Financial Year

2010/11 has been a particularly challenging year for the Council. Savings of £1.6m were initially identified when the budget was being set, and these savings included adjustments to various fees and charges budgets to reflect reduced demand for various services, which was a consequence of the economic downturn. Budgetary provision was also required for the full introduction of the doorstep recycling scheme.

The Bank of England kept interest rates on hold at 0.5% throughout the year, and this meant that investment income was lower than could have been expected in additional years. There was a reduced level of capital receipts, due to the Council being unable to dispose of surplus assets also as a consequence of the economic downturn. This also had an impact on investment income as there were less surplus funds to invest. The reduced level of capital receipts also meant that the capital programme had to be reviewed and adjusted to match the available funding.

Statement of Accounts

The Council's accounts for the year 2010/11, covering the period 1st April 2010 to 31st March 2011, are set out on the following pages. They consist of:

1. The Primary Statements, consisting of the Movement in Reserves Statement, the Comprehensive Income & Expenditure Statement, the Balance Sheet and the Cash Flow Statement. The purpose of these statements is explained in more detail in the section following this foreword.
2. Notes to the Accounts – these provide more detailed analysis and information on significant balances and movements within the statements listed above.
3. The Collection Fund - shows the transactions of the Authority in relation to Non Domestic Rates, Council Tax and residual Community Charge (or Poll Tax). It illustrates the way in which these have been distributed to Preceptors and the General Fund.

All the figures in the above sections have been rounded to the nearest £1000.

This Statement has been produced in accordance with the requirements of the Code of Practice on Local Authority Accounting for 2010/11, which now requires the Statement to comply with International Financial Reporting Standards (IFRS), as adapted for the public sector. This means there are number of differences in the way the Statement was previously produced under UK GAAP (Generally Accepted Accounting Practice):

- New statements, amended layouts and additional disclosures
- A requirement to accrue for untaken holiday pay at year end

- Immediate recognition of capital grants rather than deferring them and matching to expenditure
- More emphasis on component accounting for Property, Plant & Equipment (Fixed Assets) and the introduction of a new asset classification – Assets Held for Sale
- Where applicable property leases are classified and accounted for as separate leases of land and buildings, and there is now the need to assess whether other contractual arrangements contain the substance of a lease

These accounts are preceded by the Annual Governance Statement and the Statement of Responsibilities.

Where applicable the comparative figures for 2009/10 have been restated in line with the requirements of IFRS. For 2010/11 only the Balance Sheet also contains comparative figures as at 1st April 2009, and there is a note that reconciles the differences between the restated Balance Sheets and Comprehensive Income & Expenditure Statements as at 31st March 2010.

In line with the recently approved Accounts & Audit Regulations 2011 the Statement of Accounts is now required to be signed off by the Responsible Financial Officer by 30th June, with the approval of the Audit Committee to be given by 30th September.

The Council's financial year runs from 1st April to 31st March. A summary of the Balance Sheet as at 31st March 2011 is shown below:

2009/10		2010/11
£000		£000
69,337	Property, Plant & Equipment	71,532
15,098	Investment Properties	15,105
659	Other Long Term Assets	536
27,671	Money owed to the Council	32,462
(12,591)	Money owed by the Council	(19,378)
(67,914)	Long Term Liabilities	(33,995)
32,260	Net Assets	66,262
10,405	Usable Reserves	11,477
21,855	Unusable Reserves	54,785
32,260	Total Reserves	66,262

The major movements in the Balance Sheet can be summarised as follows:

- An increase in the value of Property, Plant & Equipment of £2.1m, which is mainly attributable to large-scale capital projects at the Museum and the Leisure Centre.
- An increase in investments held with banks and building societies at the end of the year of £12.3m, which is due to slippage in both revenue and capital expenditure.

- A decrease in the short-term debtors figure of £4.1m, and a corresponding increase in the short-term creditors figure of £2.1m, which mainly relates to the Housing Benefits Subsidy Claim.
- A significant reduction in the pensions liability of £33.9m, following the annual assessment of the position of the pensions fund by the Actuaries.

Comprehensive Income & Expenditure Statement

The Comprehensive Income & Expenditure Statement summarises the cost of all General Fund services provided by the Council. The total budget requirement was calculated to be £22.812m, which was funded as follows:

	£000
Revenue Support Grant	1,206
Non-Domestic Rate Income	8,304
Council Tax Prior Year Adjustment	11
Council Tax Income	13,291
Total	22,812

Parish precepts are not included in the above table.

The initial net spend of £23.392m was calculated as follows:

	£000
Total Budget Requirement (from previous table)	22,812
Planned Contributions from Balances	255
Asset Replacement	(40)
Invest to Save	12
Local Development Framework Earmarked Reserves	353
Net Spend on General Fund Services	23,392

The actual spend for revenue purposes was £21.860m, and there was a net increase in balances of £1.550m. The General Fund Balances at 31st March 2011 were £9.940m. A summary of the revenue spend for 2010/11 is shown below. (The Corporate Services line includes appropriation entries shown as part of the Movement in Reserves Statement):

Portfolio	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
Leader of the Council	1,498	1,864	1,124	(740)
Community Services	1,487	1,665	1,630	(35)
Corporate Services	(427)	(1,154)	(1,618)	(464)
Environment	8,821	8,556	7,752	(804)
Leisure & Culture	4,489	4,842	4,942	100
Regeneration	7,842	9,747	8,030	(1,717)
Total Service Spending	23,710	25,520	21,860	(3,660)

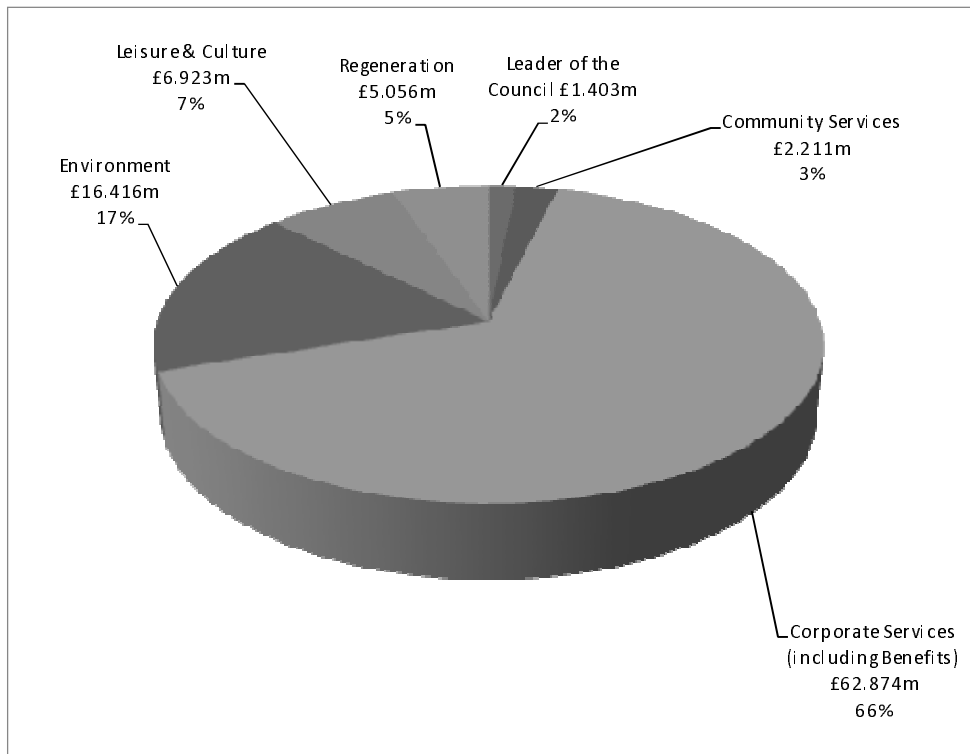
The major variances can be analysed as follows:

- Leader of the Council – a sum set aside to cover the additional costs of concessionary fares was not used due to a change in the administration arrangements. There was also an unused element of Housing & Planning Delivery Grant that had been carried forward from 2009/10.
- Corporate Services – the variance was mainly as a consequence of the pension fund adjustments and various technical accounting entries that are required to ensure that certain charges do not increase the level of Council Tax.
- Environment – there were underspends in the budgets for concessionary fares and refuse collection.
- Regeneration – the write-off of capital grants for social housing and renovation grants was lower than estimated.

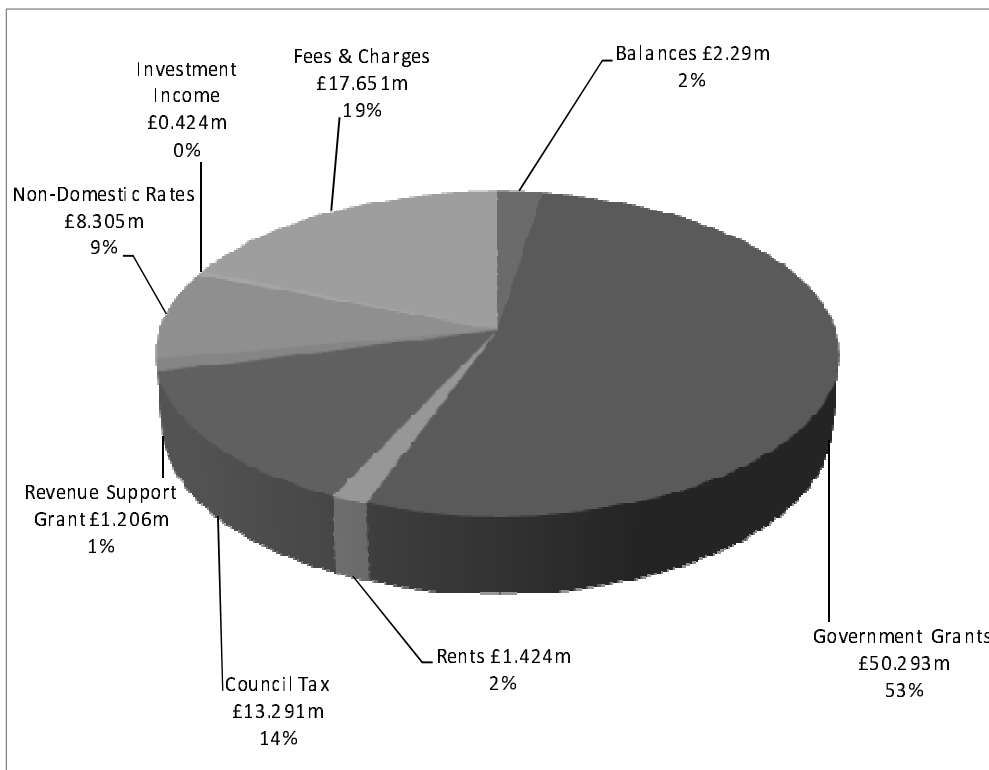
Expenditure & Income - The pie charts shown on the following page illustrate in broad terms where the Council's money comes from and the services that it provides.

21% of the Council's income came from the services it provided through rents, fees and charges and interest. The largest single source of income was Specific Government Grants, such as Rent Allowances, Council Tax Benefit and Housing Subsidy, which provide 53% of the total.

Spending – Where it Went



Income – Where it Came From



Capital Expenditure & Income

The Council spent £7.759m on Capital Projects compared to an original estimate of £9.216m. As a result of unused resources carried forward from 2009/10 and a major review of the capital programme by Cabinet the revised estimate was set at £7.641m. Significant elements of the capital spending were the Museum extension (£2.069m), Renovation Grants (£1.853m), and Support for Social Housing (£1.829m).

A summary of capital expenditure is shown below:

	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
Leader of the Council	0	0	0	0
Community Services	81	27	56	(29)
Corporate Services	370	334	527	(193)
Environment	0	31	22	9
Leisure & Culture	4,147	3,159	3,078	81
Regeneration	4,618	4,090	4,076	14
Total	9,216	7,641	7,759	(118)

The Original Estimate includes unspent resources brought forward from 2009/10 of £2.478m.

Capital expenditure was funded as follows:

	£000
Revenue Support	48
Disposal of Assets - Current & Previous Years	4,063
Other Grants & Contributions	3,648
Total	7,759

The disposal of assets during the year realised capital receipts of £3.582m, and £1.476m of useable capital receipts have been carried forward for future use. In addition the Council has received £1.095m of funding to date from the Heritage Lottery Fund towards the new Museum extension. Grants to the value of £1.085m have also been received from various sources to fund renovation grant payments.

Borrowing & Investments

The Council has adopted the requirements of the CIPFA Prudential Code for Capital Finance. This has given individual authorities responsibility for deciding their own level of affordable borrowing, based on the guidelines laid out in the Code. However, there was no long-term borrowing during 2010/11, as the capital receipts from the sale of the Council's housing stock in 2004, and other receipts, continue to be utilised to fund capital expenditure.

Investment income, which historically has been quite high, has now fallen to lower levels, with interest of £0.359m being generated in 2010/11. (The figure for 2009/10 was £0.742m). This is a reflection of the current low level of interest rates, along with the lower level of resources available for investment. The level of capital receipts has continued to fall as they are used to fund the capital programme, and the effects of the economic downturn means that the Council has been unable to dispose of several surplus assets which would have generated significant capital receipts.

Collection Fund

The Council is a Billing Authority, meaning it is responsible for collecting and paying over Council Tax contributions on behalf of Kent County Council, Kent Police Authority, Kent and Medway Towns Fire Authority, and the Parish Councils within the Borough area. The Council operates a Collection Fund into which it pays all income collected from the Council Tax and National Non-Domestic Rates. The demands on the Fund for 2010/11 totalling £88.261m were as follows:

Authority	£000
Maidstone Borough Council	13,291
Kent County Council	62,621
Kent Police Authority	8,288
Kent & Medway Towns Fire & Rescue Authority	4,061
Total	88,261

The Band D level of Council Tax in 2010/11 was £1,476.80, which breaks down as follows:

Authority	£.p
Maidstone Borough Council	222.39
Kent County Council	1,047.78
Kent Police Authority	138.68
Kent & Medway Towns Fire & Rescue Authority	67.95
Total	1,476.80

Individual additions to the Council Tax level were made to cover Parish Precepts in parished areas. This level of Council Tax related to a property in Band D and by the application of statutory multipliers the corresponding amount was charged to all properties in Bands A-H.

Pensions

Note 36 to the Balance Sheet refers to the Disclosure of Net Pension Assets and Liabilities. Under the requirements of FRS17 (Financial Reporting Standard) on Retirement Benefits these figures are now reflected in the Council's Balance Sheet and Income & Expenditure Account. The latest actuarial valuation carried

out on behalf of the Kent County Council Pension Fund shows a significant movement in the liability related to the pension scheme, from £64.277m in 2009/10 to £30.342m in 2010/11.

Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields). The next triennial valuation takes place on 31st March 2013.

Other Comments

No post balance sheet events were identified during the preparation of the Statement.

Future Developments

Following the introduction of IFRS this year there are no significant changes currently proposed for local government accounting. However there will continue to be minor changes, the first of which will be the introduction of a new classification for Heritage Assets in 2011/12. This is explained in further detail in note 5.

The ongoing economic situation will continue to have a significant effect on the financial position of the Council in 2011/12. With continuing uncertainty over new capital receipts, existing receipts will need to be used to fund the capital programme, which in turn will further reduce sums available to invest. Investment income will be a smaller source of income than in previous years due to continuing low interest rates, and there is also likely to continue to be reduced income from fees and charges.

There is also the likelihood of further pressures arising from the Government's commitment to reduce the national budget deficit. Cuts to central government funding have meant that substantial budget reductions will continue to be made over the next few years. The Government has also announced its intention to review the current system under which central funding is allocated to local government, with particular reference to the way non-domestic rates are distributed.

The Council will continue to explore ways of reducing its costs through efficiency savings, shared services and partnership working. There is now a formal arrangement with Swale and Tunbridge Wells Borough Councils in the form of the Mid-Kent Improvement Partnership (MKIP), and a number of partnership arrangements are now established covering Internal Audit, Licensing, Revenues & Benefits and Legal Services.

Finally, the Government has announced its intention to abolish the Audit Commission, who audit the accounts of local government. At this stage no formal arrangements have been made regarding the future of external audit services, but it is likely that there will be more discretion for individual Councils to appoint their own auditors through a competitive process.

Authorised for Publication

This Statement was authorised for publication on 30th June 2011, the date it was signed by the Director of Regeneration & Communities as presenting a true and fair view of the financial affairs of the Council for 2010/11.

EXPLANATION OF THE PURPOSE OF THE PRIMARY STATEMENTS

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income & Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowers) to the Council.

ANNUAL GOVERNANCE STATEMENT

1. SCOPE OF RESPONSIBILITY

- 1.1 Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Maidstone Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Maidstone Borough Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions which includes arrangements for the management of risk.
- 1.3 Maidstone Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework "Delivering Good Governance in Local Government". A copy of the Code is on the website at www.maidstone.gov.uk or can be obtained from the Council at Maidstone House, King Street, Maidstone, Kent ME15 6JQ. This statement explains how Maidstone Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2011.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Maidstone Borough Council's policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised then provides a means of managing the risks efficiently, effectively and economically.
- 2.3 This governance framework has been in place at Maidstone Borough Council for the year ended 31 March 2011 and up to the date of approval of the annual report and Statement of Accounts.

3 THE GOVERNANCE FRAMEWORK

- 3.1 The following elements represent the key elements of the corporate governance and internal control environment:
- 3.2 The Borough vision is set out within the Sustainable Community Strategy. The Strategic Plan then reflects that vision and establishes complimentary priorities. Monitoring against the key measures of success is reported quarterly to Cabinet. Key Performance Indicator outturns are subject to review by Cabinet, Overview and Scrutiny committees and, ultimately, by the full Council.
- 3.3 The Council's Constitution specifies the roles and responsibilities of Members and Officers and lays down financial and contract procedural rules for the efficient and effective discharge of the Council's business. The Constitution includes the roles and responsibility of the Standards and Audit Committees.
- 3.4 The Council has wide ranging arrangements to consult and work with both partners and the public on issues directly related to Corporate Governance. These parties are consulted on the Council's long term vision, the key priorities of the Council and on resource issues relating to the budget strategy for the delivery of these key priorities. The major partnership is the Local Strategic Partnership (LSP) which delivers the requirement of the Sustainable Community Strategy and partner objectives. Partners and the public receive reports on the actual performance of the Council in delivering its priorities and there is also consultation on the effectiveness of these reporting arrangements.
- 3.5 Policy and decision-making is facilitated through reports from Officers to Cabinet and individual Cabinet Members. Each Cabinet Member has a specific portfolio and will take decisions on matters relevant to the portfolio. The Overview and Scrutiny Committees which broadly mirror the specific Cabinet portfolios have the opportunity to 'call-in' the decisions of Cabinet and recommend changes to decisions or policies.
- 3.6 The Audit Committee reviews all aspects of Corporate Governance and Risk Management. In particular, it considers regular reports from Internal and External Audit and gives observations and recommendations to Cabinet. It also considers and approves the Annual Statement of Accounts.
- 3.7 Compliance with established policies, procedures, laws and regulations is achieved through:
 - a) The establishment of a Corporate Governance Officer Working Party chaired by the Chief Executive.

- b) A well established and effective Internal Audit section which works to an approved three year audit plan. Individual audit reports are produced for the relevant managers, with a copy to the Chief Executive, the Responsible Finance Officer and appropriate Director, and six monthly reports to Audit Committee which evaluate the overall internal control environment tested through the audit work. An annual review of audit work and effectiveness, supported where appropriate by a Peer Review or a review by External Audit every three years, is produced for Audit Committee.
- c) External Audit, who produce a number of reports which are reported to management and Members. Recommendations and comments are considered and, where necessary, action is taken to address any issues raised.
- d) The Council has a Treasury Management Code of Practice and Strategy and Prudential Indicators which are monitored on a daily basis.
- e) Financial Monitoring with regular reporting to Officers authorised to spend, Management Team and Cabinet which facilitates the effective control of the budget.
- f) An Annual Corporate Planning Cycle approved by Cabinet which facilitates the effective planning of service delivery, including the identification of risks, and budgeting.
- g) Quarterly meetings held with each Head of Service to monitor performance and ensure compliance with a range of corporate policies with summaries of each meeting cycle being reported to Management Team.
- h) The Council's established complaints system backed up by a database linked to the Council's Customer Relationship Management System (CRM) which monitors action taken in relation to individual complaints through an audit trail, facilitates the escalation of complaints to Stage 2 and provides a mechanism for managers to ensure that complaints are dealt with within the prescribed timescales. The system also provides strategic information on complaints which is reported regularly to Management Team and Standards Committee.
- i) An agreed Risk Management Strategy with identified corporate strategic risks and Management Action Plans. The Strategic Risk Register is subject to regular review. Risks to service delivery (operational risks) have been accepted as the responsibility of individual authorised officers and incorporated into Service Plans. Heads of Service are responsible for ensuring that their service managers retain an effective operational risk register. Risk management is a standard heading for consideration of all

reports to Management Team and Members. A formal risk assessment is required for reports which require decisions on strategic issues or which seek approval for significant projects.

- j) Effective professional relationships between the Council and its external auditors and inspectors.
- k) Service delivery by trained and experienced people. Further details of human resources related initiatives are set out in an approved People Strategy. Members receive regular planned training and have received a Members' Training Charter. The Council has had an Investors in People (IiP) award for a number of years, which involves regular appraisals, service and training planning, training evaluation forms, recruitment and selection procedures and initiatives such as Work/Life Balance. The Council was re-accredited with IiP early in 2011.
- l) Performance Management, which is achieved through 'Reach the Summit' and the Council's Performance Plan. Procedures are in place to regularly review the performance of the Council across all sections and in a timely manner. Regular reports are presented to Management Team and Cabinet and Overview and Scrutiny Committees.
- m) The Council's policy of early closure of the accounts which enables presentation of the statutory Statement of Accounts to Members to meet the statutory timetable. This facilitates good financial management and allows the historic accounts to be an effective influence to future financial planning and management.
- n) The Council's effective overview and scrutiny process which has a nationally recognised reputation. This contributes significantly to the internal control environment.
- o) Standards and Audit Committees that monitor and improve the arrangements for Corporate Governance within the Council.
- p) The governance arrangements for the Local Strategic Partnership (LSP). Governance has been reviewed in 2010/11 and the board of the LSP has been amended and refocused. The structure now includes small, focused delivery boards for each key outcome.
- q) Service level agreements which are in place for all major grants to the voluntary sector. The medium term financial strategy for 2011/12 commenced a review of parish funding, in consultation with parish councils, to agree an appropriate focus on council priorities and to develop a robust arrangement for future funding.
- r) The Cabinet agreeing a Local Code of Corporate Governance which is reviewed and reported to Cabinet on an annual basis by

the Corporate Governance Officer Working Party.

- s) The Council appointing a Monitoring Officer and Head of Legal Services to oversee its compliance with laws and statutory obligations. The Monitoring Officer, who is a Member of Management Team, reports on a regular basis to the Council's Standards Committee.

3.8 Corporate Governance is at the heart of everything the Council does, for staff this is incorporated into the six core values (STRIVE) in the delivery of services. This incorporates key elements such as customer service, delivery of targets, integrity in high standards of Corporate Governance, Value for Money and efficiency and equality.

4 REVIEW OF EFFECTIVENESS

4.1 Maidstone Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of corporate governance and internal control. This is undertaken by the Corporate Governance Officer Working Party. An internal review was undertaken during 2010/11. The review of effectiveness of the system of corporate governance and internal control is informed by the work of the internal auditors and the Council's executive officers who have responsibility for the development and maintenance of the overall governance environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Council is keen to allow itself to be the subject of external scrutiny, challenge and peer review and has an effective internal mechanism for regularly reviewing governance controls.

- a) The Council responds positively to the annual audit opinion and value for money conclusion. The comments from the annual audit letter and any comments made during the work of the Auditor in reaching the conclusions contained in the letter are incorporated into improvement plans and have been and continue to be acted upon.
- b) During 2010 the Council undertook a staff survey through Times Best Companies. Feedback from the survey showed, as an overall measure, that staff engagement had improved since 2008. The Council plans to facilitate a leadership development programme in 2011 in response to some of the feedback received.
- c) In 2010 the Audit Committee, in partnership with the other three authorities within the Mid Kent Internal Audit Partnership, commissioned a cross borough peer review of the committees by Local Government Improvement and Development. This review has identified a number of areas where improvements can be made including:

- a. The members' training programme
 - b. The tracking of recommendations
 - c. The expansion of the committee's role regarding governance and partnerships.
- d) During 2010/11 the Council was reviewed and re-accredited with Investors in People. Along with recognition for wide ranging strengths and good practice a small number of improvements were recommended in the report for action in 2011/12.
- e) In December 2010 a review of the Mid-Kent Improvement Partnership (MKIP) was commissioned by the partner members, which includes Maidstone Borough Council. The Audit Commission was engaged to consider MKIP's governance structure and its ability to achieve the objectives of the partnership. In addition this Council's Audit Committee commissioned a review of the efficiencies identified by MKIP and the delivery of those efficiencies on the ground.
- f) Other examples of external challenge are the regular reviews of benefit processes by the Audit Commission and other assessments, such as those involved in the Chartermark and Beacon status. Benchmarking and other comparisons are also regularly used.
- 4.3 Following the productivity peer review completed for the Council in 2009/10, the Council has produced a completely new strategic plan for 2011 onwards. This has been developed with a refocus of the Council's priorities on its three key objectives moving forward. In doing this it has identified the priority of all service areas and the method of efficiency to be targeted to each area.
- 4.4 Six monthly internal audit reports have been presented to the Audit Committee. The Annual Internal Audit Report gave the Head of Internal Audit's view on the overall internal control environment, which has subsequently been agreed. The annual internal audit report includes an analysis showing the 'internal control/assurance level' that was given for each audit review at the time of the audit and the reassessed assurance level that was given at the time of the follow up. Improvements in control are therefore demonstrated individually for each review and collectively as an overall "direction of travel" improvement.
- 4.5 The effectiveness of the system of Internal Audit for 2010/11 was confirmed by a combination of an internal self-assessment, customer satisfaction survey, a three yearly review by external audit and an earlier comprehensive peer review. The results of the exercise were reported to the Audit Committee in May 2011 and concluded that the Internal Audit section was effective in operating an internal audit service for 2010/11.
- 4.6 Risk Management is included in service planning, project planning and decision making. A significant update and refocus of the Strategic Risk

Register to more closely address the key objectives contained in the Council's Strategic Plan occurred during 2010/11. In addition the LSP undertook a similar review of their strategic risks and developed a risk register linked to the objectives of the Sustainable Communities Strategy.

- 4.7 Management Team and Cabinet receive regular reports on performance across the Council and also take the opportunity to review processes and procedures. This has resulted in resources being redeployed to areas of concern. In 2009/10 the Council acquired a new performance management system. The new system has been implemented for reporting in 2010/11. Along with the development of links between the LSP, SCS and the strategic risk register, the Council has developed new performance scorecards based on the balanced scorecard approach. This approach will be implemented for reporting in 2011/12.
- 4.8 A new project management toolkit has been introduced along with a project overview board. The board considers the major projects currently being undertaken by the Council at a strategic level and ensures resources are applied and actions taken to maintain control over all such projects.
- 4.9 The Responsible Financial Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control, application of the various Codes of Conduct and, within Management Team, have specific responsibility for the relevant aspects of Corporate Governance.
- 4.10 The Cabinet has agreed a Local Code of Corporate Governance which is reviewed and reported to Cabinet on an annual basis.
- 4.11 The Corporate Governance Working Group has advised on the implications of the results of the review of the effectiveness of the corporate governance system and a plan to address the issues identified and ensure continuous improvement of the system is in place.

5 SIGNIFICANT GOVERNANCE ISSUES

- 5.1 The Statement of Internal Control for 2009/10, considered in May 2010, contained a small number of issues which were to be addressed during 2010/11 and these are detailed below:-
 - a) Audit reports with a level of assurance lower than substantial – two areas were outstanding at March 2010 relating to IT Disaster Recovery and the Business Transformation Programme. The six monthly follow-up reviews by Internal Audit on these areas have confirmed that the level of control assurance increased during the year to substantial.
 - b) Consideration of and improvements to the role of the Audit Committee were commencing at the end of 2009/10. The role of the committee has now been agreed to include the approval of the

annual statements of accounts, consideration of the treasury management strategy and monitoring of progress against that strategy along with the risk assessment of the medium term financial strategy. The committee took responsibility for these matters during 2010/11.

- c) The organisational Productivity Peer Review undertaken by the IDEa in 2009/10 identified a number of actions that have been incorporated into the Council's Corporate Improvement Plan. The key action to focus the strategic priorities has been completed through the approval of the Strategic Plan 2011-2015.
- d) Partnership Working – the Council's partnership protocol has been reviewed during 2010/11. The governance arrangements for the LSP have also been reviewed.

5.2 During the review of the effectiveness of Corporate Governance in 2010/11 the following areas have been identified for further work in 2011/12:-

- a) Audit reports with a level of assurance that are lower than substantial at the end of 2010/11, where follow up reviews have not been completed are Licensing, Housing Improvement Grants and Control of Capital Projects (Crematorium). The six month follow up reviews on these audits are yet to take place and if they do not confirm a substantial assurance level at that time further action will be recorded and reported through agreed procedures.
- b) To align with other changes throughout Kent and as part of the government's localism agenda the Council will need to work closely with its LSP partners to develop the Locality Board for Maidstone.
- c) As part of the work on the new strategic plan and reduced strategic priorities, the Council has commenced a review of funding arrangements with parish councils. This review is intended to identify the most appropriate method of funding priority work at a local level through the parish councils.
- d) Actions from Times best companies staff survey
- e) The Investors in People review report recommended a small number of areas for focus in the coming year. These are in line with the actions from the Times Best Companies staff survey. The actions are to strengthen the approach to coaching in the organisation, to enable a better follow through of objectives after a restructure to ensure good practice remains embedded and the development of a more consistent approach to team meetings within the organisation.
- f) Actions from the Peer Review of the Audit Committee

- g) In line with the work completed on the strategic plan and key priorities, the Council will review the committee and cabinet structure within the organisation during the early part of 2011/12 with the intention of commencing the new structure at the commencement of the municipal year.

5.3 Over the coming year it is proposed that steps to address the above matters will be taken to further enhance the Council's governance arrangements. These steps will address the need for improvements that were identified in the review of effectiveness and their implementation and operation will be monitored as part of the next annual review.

.....
Chief Executive

.....
Leader

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Council, that officer is the Director of Regeneration & Communities.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Director of Regeneration & Communities' Responsibilities

The Director of Regeneration & Communities is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Regeneration & Communities has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority Code.

The Director of Regeneration & Communities has also:

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

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31st March 2011.



Signed:

Zena Cooke, Director of Regeneration & Communities

Date:

30th June 2011

PRIMARY STATEMENTS

MOVEMENT IN RESERVES STATEMENT

For the years ended 31st March 2010 & 2011

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2009	7,317	7,612	73	15,002	42,138	57,140
Movement in reserves during 2009/10						
Surplus or (deficit) on provision of services	(6,670)			(6,670)	0	(6,670)
Other Comprehensive Expenditure and Income	195	0	0	195	(18,405)	(18,210)
Total Comprehensive Expenditure and Income	(6,475)	0	0	(6,475)	(18,405)	(24,880)
Adjustments between accounting basis & funding basis under regulations (Note 6)	7,547	(5,658)	(11)	1,878	(1,878)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	1,072	(5,658)	(11)	(4,597)	(20,283)	(24,880)
Transfers to/from Earmarked Reserves					0	
Increase/Decrease (movement) in Year	1,072	(5,658)	(11)	(4,597)	(20,283)	(24,880)
Balance at 31 March 2010 carried forward	8,389	1,954	62	10,405	21,855	32,260
Movement in reserves during 2010/11						
Surplus or (deficit) on provision of services	8,430			8,430	0	8,430
Other Comprehensive Expenditure and Income	0	0	0	0	25,572	25,572
Total Comprehensive Expenditure and Income	8,430	0	0	8,430	25,572	34,002
Adjustments between accounting basis & funding basis under regulations (Note 6)	(6,878)	(486)	7	(7,358)	7,358	0
Net Increase/Decrease before Transfers to Earmarked Reserves	1,551	(486)	7	1,072	32,930	34,002
Transfers to/from Earmarked Reserves				0	0	0
Increase/Decrease in Year	1,551	(486)	7	1,072	32,930	34,002
Balance at 31 March 2011 carried forward	9,940	1,468	69	11,477	54,785	66,262

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ended 31st March 2010 & 2011

2009/10 (Restated)				2010/11		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
63,887	(60,169)	3,718	Central services to the public	63,906	(60,720)	3,186
22,839	(6,801)	16,038	Cultural, environmental, regulatory and planning services	21,672	(7,987)	13,684
6,077	(3,718)	2,359	Highways and transport services	5,193	(3,865)	1,328
6,883	(3,679)	3,204	Other housing services	5,678	(544)	5,134
2,405	(101)	2,304	Corporate and democratic core	2,241	(104)	2,137
934		934	Non distributed costs	191		191
2,131	(456)	1,675	Concessionary Fares	2,044	(469)	1,575
			Pensions - Past Service Costs		(9,843)	(9,843)
105,156	(74,924)	30,232	Cost Of Services	100,925	(83,532)	17,392
938	(637)	301	Other Operating Expenditure (Note 8)	972	(725)	247
2,938	(1,197)	1,741	Financing and Investment Income and Expenditure (Note 9)	2,076	(752)	1,324
	(25,604)	(25,604)	Taxation and Non-Specific Grant Income (Note 10)		(27,393)	(27,393)
		6,670	(Surplus) or Deficit on Provision of Services			(8,430)
		(7,835)	Surplus or deficit on revaluation of non current assets			(397)
		26,045	Actuarial gains / losses on pension assets / liabilities - Matching the entry to the pensions reserve			(25,175)
		18,210	Other Comprehensive Income and Expenditure			(25,572)
		24,880	Total Comprehensive Income and Expenditure			(34,002)

Figures for concessionary fares and pensions are disclosed separately as they are considered material figures.

BALANCE SHEET**As at 1st April 2009 and 31st March 2010 & 2011**

1st April 2009 (Restated) £000	31st March 2010 (Restated) £000		Notes	31st March 2011 £000
61,186	69,337	Property, Plant & Equipment	18	71,532
15,448	15,098	Investment Property	19	15,105
477	474	Intangible Assets	20	458
5,011	11	Long Term Investments	21	11
331	174	Long Term Debtors	25	68
82,453	85,094	Long Term Assets		87,174
8,219	5,000	Short Term Investments	21	12,000
3,538	5,465	Assets Held for Sale	23	2,324
108	98	Inventories	24	83
12,824	13,438	Short Term Debtors	25	9,050
5,702	3,670	Cash & Cash Equivalents	26	9,005
30,391	27,671	Current Assets		32,462
1,088	213	Cash & Cash Equivalents	26	730
8,976	7,506	Short Term Creditors	27	13,376
3,201	2,289	Provision for Bad Debts	28	2,488
0	1,143	Deferred Liability	31/32	1,107
3,231	1,440	Capital Grants Receipts in Advance	29	1,678
16,496	12,591	Current Liabilities		19,379
151	25	Long Term Creditors	30	0
(133)	(32)	Provisions	34	87
0	3,644	Deferred Liability	31/32	3,566
39,190	64,277	Other Long Term Liabilities	36	30,342
39,208	67,914	Long Term Liabilities		33,995
57,140	32,260	Net Assets		66,262
15,002	10,405	Usable Reserves	33	11,477
42,138	21,855	Unusable Reserves	34	54,785
57,140	32,260	Total Reserves		66,262

CASHFLOW STATEMENT

2009/10 (Restated) £000	Notes	2010/11 £000
6,670	Net (surplus) or deficit on the provision of services	(8,430)
(4,903)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(3,766)
1,604	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	3,947
<u>3,371</u>	Net cash flows from Operating activities (Note 43)	<u>(8,249)</u>
(3,161)	Investing Activities (Note 44)	6,766
947	Financing Activities (Note 45)	(3,336)
<u>(2,214)</u>	Net increase or decrease in cash & cash equivalents	<u>3,430</u>
(4,614)	Cash & cash equivalents at the beginning of the reporting period	(3,456)
<u>(3,457)</u>	Cash & cash equivalents at the end of the reporting period (Note 26)	<u>(8,275)</u>

NOTES TO THE ACCOUNTS

1 - RECONCILIATION BETWEEN UK GAAP & IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

An explanation of the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements is set out in the following tables and notes that accompany the tables.

Reconciliation of Net Worth reported under previous GAAP to Net Worth under IFRS at the date of transition to IFRS (1st April 2009)

	UK GAAP 1st April 2009 £000	Note i - Grants £000	Note ii - Assets £000	Note iii - Investing £000	Note iv - Other £000	IFRS 1st April 2009 £000
Property, Plant & Equipment	60,505		681			61,186
Investment Property	11,284		4,164			15,448
Intangible Assets	477					477
Long Term Investments	5,011					5,011
Long Term Debtors	331					331
Long Term Assets	77,608	0	4,845	0	0	82,453
Short Term Investments	13,919			(5,700)		8,219
Assets Held for Sale	2,928		610			3,538
Inventories	108					108
Short Term Debtors	12,824					12,824
Cash & Cash Equivalents	2			5,700		5,702
Current Assets	29,781	0	610	0	0	30,391
Cash & Cash Equivalents	1,088					1,088
Short Term Creditors	8,843				133	8,976
Provision for Bad Debts	3,201					3,201
Government Grants Deferred	3,538	(3,538)				0
Collection Fund	93				(93)	0
Capital Grants Receipts in Advance	3,306	(75)				3,231
Current Liabilities	20,069	(3,613)	0	0	40	16,496
Long Term Creditors	151					151
Provisions	0				(133)	(133)
Other Long Term Liabilities	37,610		1,580			39,190
Long Term Liabilities	37,761	0	1,580	0	(133)	39,208
Net Assets	49,559	3,613	3,875	0	93	57,140
Usable Reserves	14,929	75			(2)	15,002
Unusable Reserves	34,630	3,538	3,875		95	42,138
Total Reserves	49,559	3,613	3,875	0	93	57,140

Reconciliation of Net Worth reported under Previous GAAP to Net Worth under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (31st March 2010)

	UK GAAP	Effect of transition to IFRS				IFRS
	31st March	Note i -	Note ii-	Note iii -	Note iv -	31st March
	2010	Grants	Assets	Investing	Other	2010
	£000	£000	£000	£000	£000	£000
Property, Plant & Equipment	68,406		931			69,337
Investment Property	12,114		2,984			15,098
Intangible Assets	474					474
Long Term Investments	11					11
Long Term Debtors	174					174
Long Term Assets	81,179	0	3,915	0	0	85,094
Short Term Investments	8,670			(3,670)		5,000
Assets Held for Sale	4,646		819			5,465
Inventories	98					98
Short Term Debtors	13,437				1	13,438
Cash & Cash Equivalents	0			3,670		3,670
Current Assets	26,851	0	819	0	1	27,671
Cash & Cash Equivalents	213					213
Short Term Creditors	7,474				32	7,506
Deferred Liability	426		717			1,143
Government Grants Deferred	5,650	(5,650)				0
Provision for Bad Debts	2,289					2,289
Capital Grants Receipts in Advance	1,504	(64)				1,440
Current Liabilities	17,556	(5,714)	717	0	32	12,591
Long Term Creditors	25					25
Provisions	0				(32)	(32)
Deferred Liability	2,426		1,218			3,644
Other Long Term Liabilities	64,277					64,277
Long Term Liabilities	66,728	0	1,218	0	(32)	67,914
Net Assets	23,746	5,714	2,799	0	1	32,260
Usable Reserves	10,933	61	(589)			10,405
Unusable Reserves	12,813	5,651	3,390		1	21,855
Total Reserves	23,746	5,712	2,801	0	1	32,260

Reconciliation to Total Comprehensive Income & Expenditure under IFRS for the latest period in the most recent annual financial statements (Year ended 31st March 2010)

	UK GAAP	Effect of transition to IFRS				IFRS
	31st March 2010 £000	Note i - Grants £000	Note ii- Assets £000	Note iii - Investing £000	Note iv - Other £000	31st March 2010 £000
Central services to the public	3,584		(420)		554	3,718
Cultural, environmental, regulatory and planning services	17,610				103	17,713
Highways and transport services	2,356				3	2,359
Other housing services	3,215				(11)	3,204
Corporate and democratic core	2,311				(7)	2,304
Non distributed costs	834				100	934
Cost Of Services	29,910	0	(420)	0	742	30,232
Other Operating Expenditure	301					301
Financing and Investment Income and Expenditure	2,071		125		(455)	1,741
Taxation and Non-Specific Grant Income	(23,304)	(2,300)				(25,604)
(Surplus) or Deficit on Provision of Services	8,978	(2,300)	(295)	0	287	6,670
Surplus or deficit on revaluation of non current assets	(7,835)					(7,835)
Actuarial gains / losses on pension assets / liabilities - Matching the entry to the pensions reserve	26,045					26,045
Other Recognised (Gains) & Losses	2				(2)	0
Other Comprehensive Income and Expenditure	18,212	0	0	0	(2)	18,210
Total Comprehensive Income and Expenditure	27,190	(2,300)	(295)	0	285	24,880

Note i – Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund. As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31st March 2009 has been transferred to the Capital Adjustment Account in the opening 1st April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1st April 2009 Balance Sheet	2008/09 Statements £000	Adjustments Made £000
Government Grants Deferred	3,538	(3,538)
Capital Adjustment Account	57,454	3,538
Unapplied Government Grants & External Contributions	3,306	(75)
Capital Grants Received in Advance	-	75

31st March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Government Grants Deferred	5,650	(5,650)
Capital Adjustment Account	53,746	5,650
Unapplied Government Grants & External Contributions	1,504	(64)
Capital Grants Received in Advance	-	64

2009/10 Comprehensive Income & Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Taxation & Non-Specific Grant Income	(23,304)	(2,300)

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

Note ii – Assets

Under the code there are now stricter definitions of what can be classified as an Investment Property or an Asset Held for Sale, which has meant there has been

some movement between these categories and Property, Plant & Equipment (previously known as Fixed Assets). There is also a requirement to assess contractual agreements to identify any possible lease-type arrangements. Following this exercise it was established that the Refuse Collection and Park & Ride contracts both contained such arrangements. The vehicles used have been brought into Property, Plant & Equipment with a deferred liability balance also being established to reflect the value of the element of the contract that has been brought onto the Balance Sheet.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1st April 2009 Balance Sheet	2008/09 Statements £000	Adjustments Made £000
Property, Plant & Equipment	60,505	681
Investment Properties	11,284	4,164
Assets Held for Sale	2,928	610
Long Term Liabilities - Deferred Liabilities	-	(1,580)
Capital Adjustment Account	57,454	(3,875)

31st March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Property, Plant & Equipment	68,406	931
Investment Properties	12,114	2,984
Assets Held for Sale	4,646	819
Long Term Liabilities - Deferred Liabilities	2,426	1,218
Capital Adjustment Account	53,746	(4,176)

2009/10 Comprehensive Income & Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Other Operating Expenditure	301	(420)
Financing and Investment Income & Expenditure	2,071	(330)

Note iii – Investing

Under the code any investments that mature within 3 months of their purchase date are considered to be highly liquid, and are therefore now classified as part of Cash & Cash Equivalents rather than Short Term Investments.

Note iv – Other

These are a number of minor adjustments resulting from other changes in the code. These include Short Term Accumulating Compensated Absences. These refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

2 - ACCOUNTING POLICIES

a) GENERAL

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31st March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations 2011 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the UK 2010/11 and the Service Reporting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the 2011 Act.

The financial information contained in the accounts has the following qualitative characteristics, as laid out in the Code of Practice on Local Authority Accounting:

- Relevance
- Reliability
- Comparability
- Understandability

In addition, the following accounting concepts have been given precedence in the preparation of the accounts:

- Going concern
- Primary legislative requirements

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

b) ACCRUALS OF INCOME & EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) CASH & 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 3 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 Cashflow 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.

d) EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income & Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

e) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES & ERRORS

Prior period adjustments may arise as result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current or financial years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

f) CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation & impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation.

g) EMPLOYEE BENEFITS

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any type of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. 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 the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in

Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority 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 Non Distributed Costs line in the Comprehensive Income & Expenditure Statement when the Authority is demonstrably committed to the termination of an officer or a group of officers or making an offer or making 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 Authority 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 Employee Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Kent County Council (KCC). The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC 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 change in net pensions liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income & Expenditure Account 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 Income & Expenditure Account 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 Income & Expenditure Account.
- 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 Income & Expenditure Account.

- Gains/losses on settlements & 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 Income & Expenditure Account as part of Non Distributed Costs.
- Actuarial gains & losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains & Losses.
- Contributions paid to KCC pension fund – cash paid as employers' 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 in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on General Fund Balance this means that there are appropriations 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 any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

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 and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date

when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) 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 are carried at their amortised cost. Interest is charged to the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Account.

Financial Assets:

Financial assets are classified into two types:

- Loans & Receivables – assets that have fixed or determinable payments but are not quoted on an open market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans & Receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income & 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 & Expenditure Statement is the amount receivable for the year in the loan agreement.

j) GOVERNMENT GRANTS & CONTRIBUTIONS

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income & 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 acquired using the grant or condition 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 on 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 & Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & 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.

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation & Non-Specific Grant Income in the Comprehensive Income & Expenditure Statement.

k) INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (i.e. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

I) INVENTORIES

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First-In First-Out costing formula.

m) INVESTMENT PROPERTIES

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 year-end. Gains and losses on revaluation are posted to the Financing and Investment Income & Expenditure line in the Comprehensive Income & 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.

n) LEASES

Lease 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.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases:

Property, Plant & Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and;
- A finance charge (debited to the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Statement).

Property, Plant & Equipment recognised under finance leases is accounted for using the policies applied to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period)

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases:

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the service benefiting from the use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of the payments.

The Authority as Lessor

Finance Leases:

The Authority has no leases classified as finance leases.

Operating Leases:

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

o) OVERHEADS & SUPPORT SERVICES

The costs of support services and overheads are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice. The total absorption costing principle is used

– the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

- Corporate & Democratic Core – costs relating to the Council’s status as a multi-functional democratic organisation.
- Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Comprehensive Income & Expenditure Statement, as part of Net Expenditure on Continuing Services.

p) PROPERTY, PLANT & EQUIPMENT

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant & Equipment is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the asset value is over £10,000 and yields benefits to the Authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service revenue accounts.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in manner intended by management

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, Community Assets and Assets Under Construction - Depreciated Historical Cost
- All other Assets – Fair Value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV)

Where there is no market-based evidence of Fair Value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of Fair Value.

Where non-property assets that have short useful lives or low values (or both), Depreciated Historical Cost basis is used as a proxy for Fair Value.

Assets included in the Balance Sheet at Fair Value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their Fair Value at the year-end, but as a minimum every 5 years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- 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 & Expenditure Statement.

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

Component Accounting

International Accounting Standard 16 (IAS16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and derecognition of parts of assets (referred to as componentisation). Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1st April 2010.

Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and method of depreciation.

The policy adopted is as follows:

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- Where there is more than one significant component part of the same asset with the same useful life, such component parts will be group together for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped.

- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a gross book value of £1.5 million and over will be considered for componentisation.
- Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of 25% in relation to the overall value of the asset or over £500,000 will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist 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, they are accounted for by:

- 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 the 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 & Expenditure Statement.

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

Depreciation

Depreciation is provided for on all Property, Plant & Equipment assets by the systematic allocation of depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

Where an item of Property, Plant & Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. This is a straight-line allocation over the useful life of the component as estimated by a suitably qualified officer.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals & 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. The asset is revalued immediately before reclassification and then carried at the lower value of this amount and Fair Value less costs to sell. Where there is a subsequent decrease to Fair Value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Gains in Fair Value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not classified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant & Equipment or Assets Held for Sale) is written off the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income & Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in 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 from the General Fund Balance in the Movement in Reserves Statement.

q) DEFERRED LIABILITIES

Deferred Liabilities are recognised under the terms of IFRIC 12 (IFRS Interpretations Committee) and the arrangement is recognised as a service concession, and accounted for accordingly. This generally involves the grantor (the Council) conveying to the operator (Serco) for the period of the concession the right to provide services that give the public access to major economic and social facilities.

r) CONTINGENT LIABILITIES/ASSETS

Contingent liabilities and assets are recognised in the notes to the Balance Sheet. The contingent liability is not recognised within the accounts as the date of the possible transaction concerned is not sufficiently certain at this stage. The contingent asset is not accrued in conformity with the concept of prudence.

s) RESERVES

The Authority 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 in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

The current system of capital accounting requires the Council to maintain two specific reserve accounts in the Balance Sheet:

- a) the Revaluation Reserve represents principally the balance of the gains arising on the periodic revaluation of fixed assets since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.
- b) the Capital Adjustment Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

t) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

u) VALUE ADDED TAX

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

v) REDEMPTION OF DEBT

The policy regarding debt redemption is only to redeem debt when, taking into account all circumstances regarding current and potential future borrowing controls, and Housing Subsidy, it is economic and viable to do so. As the Council is currently debt-free, the policy is to use current and future capital receipts in a prudent manner, and it is not planned to borrow over the period of the Financial Plan.

w) DEBTORS AND CREDITORS

The revenue accounts for the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and standard accounting practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

An exception to this principle relates to electricity and similar quarterly payments which are charged at the date of the meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

Internal Debtors are netted against internal Creditors on consolidation.

x) COLLECTION FUND ACCOUNTING

Following detailed consideration of the role performed by Councils such as Maidstone BC in collecting Council Tax, CIPFA have determined that these councils known as

'billing authorities' act as 'agents' collecting council tax on behalf of the major preceptors and business rates on behalf of the Government. This means changes have been made to the accounts as follows:

Council Tax

The proportion of council tax arrears and prepayments, the collection fund balance and allowance for doubtful debts at the year end relating to the Maidstone BC demand on the Collection Fund are all that is now shown on the

Balance Sheet. For this reason the balances as at 31st March 2009 were restated and allocated between the Council and its major preceptors as shown in the note to the accounts on prior period adjustments. Adjusting entries have been made to a new account called the Collection Fund Adjustment account.

The Collection Fund adjustment account will continue to be used in future years to hold the adjustments relating to the balances in respect of Kent County Council, Kent Police and Kent & Medway Towns Fire Authority to prevent this change in policy having an impact on the Income and Expenditure of Maidstone BC and the council tax payers. Equal and opposite adjustments will also be made in the accounts of the organisations stated above.

Business Rates (NNDR)

Business Rates will continue to be collected by Maidstone BC as billing authority and paid over to the Government 'NNDR pool'. However, arrears, prepayments and provisions for doubtful debts in respect of business rates will not now be shown separately on the Balance Sheet. These will be consolidated into one entry with the amount payable to or from the NNDR pool and will be shown as a net debtor or creditor as appropriate. Again a prior period adjustment as at 31st March 2009 was made to ensure that the comparative figures are prepared on the same basis and details are shown in the note to the accounts on prior period adjustments.

y) MINIMUM REVENUE PROVISION

The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt. It represents the Council's underlying need to borrow for capital expenditure. There is a general duty upon the Council to make an amount of MRP which it considers 'prudent'.

The Council has no borrowing, but has identified that it has three contractual arrangements that are classified as finance leases under the requirements of IFRIC 4. The repayments under these leases therefore need to be treated as a borrowing arrangement. The MRP amount that is set aside is equivalent to the value of the annual principal repayments on the contracts .

3 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- A comprehensive review of all property leases has been undertaken to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property

leases which need to be classified as finance leases.

- A further review of service contracts was also undertaken in accordance with the requirements of IFRIC 4 to determine whether any of the contractual arrangements contain the substance of a finance lease. It was determined that the refuse collection and park & ride contracts were classified as containing finance leases for the vehicles involved in the delivery of the service, and these have now been included with Property, Plant & Equipment on the Balance Sheet.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.
- A review of the Council's property portfolio was undertaken to determine which assets should be classified as Investment Properties. These are those assets held solely to generate rental income or which are held for capital appreciation. A number of assets were classified under this heading, which is shown on the face of the Balance Sheet.

4 - ASSUMPTIONS MADE ABOUT THE FUTURE & OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant & Equipment

Uncertainties:

Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.

Effect if actual results differ from assumptions:

If the useful life of assets is reduced depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £80,000 for every year that useful lives had to be reduced.

Pensions Liability

Uncertainties:

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions:

The effect on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £10.705m. However, the assumptions interact in complex ways. During 2010/11 the Council's actuaries advised that the net pensions liability had decreased by £10.993m as a result of estimates being corrected as a result of experience and was further decreased by £13.077m attributable to updating of the assumptions.

Arrears

Uncertainties:

At 31st March 2011 the Council had a balance of sundry debtors for £7.974m. A review of significant balances suggested that a provision of doubtful debts for £2.488m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

Effect if actual results differ from assumptions:

If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.3m to set aside as an allowance.

Assets Held for Sale

Uncertainties:

The Council is currently actively marketing a number of surplus properties with a view to completing sales within one year of the Balance Sheet date. The capital receipts from these sales will subsequently be used to fund the ongoing capital programme. However, in the current economic climate it has been proving difficult to dispose of assets or to achieve an acceptable sale value.

Effect if actual results differ from assumptions:

The current capital programme assumes receipts to the value of £3.5m from property disposals. Any shortfall in this sum would increase the need to fund the ongoing programme from borrowing, which would have an associated revenue cost in terms of interest on the principal repayments.

Financial Instruments

Uncertainties:

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

Effect if actual results differ from assumptions:

Current income for the year on the Council's investments was £0.349m. If interest rates had been 1% higher then the interest receivable upon its variable rate investments would have been £71,000 more. If the rates were 1% less this would be reversed.

5 - ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

There is a requirement to disclose accounting standards that will be applicable for the 2011/12 Statement of Accounts.

For 2011/12 the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) will be adopting the requirements of FRS 30 (Heritage Assets) in full.

Heritage Assets are defined as assets preserved in trust for future generations because of their cultural, environmental or historical associations, or which have historical, artistic, scientific, geophysical or environmental qualities. Therefore this applies to assets held and maintained by the Council principally for the contribution of knowledge and culture.

Examples of what are likely to be classified as Heritage Assets are as follows:

- Historical buildings
- War memorials
- Civic regalia
- Museum and gallery works of art

6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATIONS

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

Maidstone Borough Council – Statement of Accounts 2010/11

2010/11	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	2,596			2,596
Revaluation losses on Property, Plant & Equipment				0
Movement in the market value of Investment Properties				0
Amortisation of intangible assets	234			234
Capital grants and contributions applied	(3,612)			(3,612)
Revenue expenditure funded from capital expenditure under statute	4,119			4,119
Prior Year Adjustments	177			177
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	2,865			2,865
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment	(971)			(971)
Capital expenditure charged against the General Fund balance	(48)			(48)
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement			8	8
Application of grants to capital financing transferred to the Capital Adjustment Account			(1)	(1)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(3,576)	3,583		7
Use of the Capital Receipts Reserve to finance new capital expenditure		(4,063)		(4,063)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals				0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	6	(6)		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				0
Adjustments primarily involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement				0
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(5,594)			(5,594)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,161)			(3,161)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements				0
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	87			87
Total Adjustments	(6,878)	(486)	7	(7,357)

Maidstone Borough Council – Statement of Accounts 2010/11

2009/10 Comparative Figures	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	9,026			9,026
Revaluation losses on Property, Plant & Equipment				0
Movement in the market value of Held for Sale Assets	(420)			(420)
Amortisation of intangible assets	240			240
Capital grants and contributions applied				0
Revenue expenditure funded from capital expenditure under statute	2,646			2,646
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(637)			(637)
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement				
Statutory provision for the financing of capital investment	(696)			(696)
Capital expenditure charged against the General Fund balance	(480)			(480)
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(284)			(284)
Application of grants to capital financing transferred to the Capital Adjustment Account	(2,395)		(11)	(2,406)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement		1,080		1,080
Use of the Capital Receipts Reserve to finance new capital expenditure		(6,705)		(6,705)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals				0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	33	(33)		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				0
Adjustments primarily involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement				0
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	3,988			3,988
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,373)			(3,373)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements				0
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(101)			(101)
Total Adjustments	7,547	(5,658)	(11)	1,878

7 - MATERIAL ITEMS OF INCOME & EXPENSE

Within the Comprehensive Income & Expenditure Statement are the following material items:

Income:

- Capital receipt for the disposal of Armstrong Road Depot - £3.198m *
- Recognition of capital grants received - £3.611m *
- Office accommodation recharge for Maidstone House - £1.071m
- IT Recharges - £1.015m

Expense

- Write out Armstrong Road Depot from Balance Sheet - £2.550m *
- Revenue Expenditure Funded by Capital Under Statute (Renovation Grants) - £1.852m *
- Revenue Expenditure Funded by Capital Under Statute (Social Housing Grants) - £1.829m *

* These entries are required under the IFRS Code of Practice to be charged to revenue in the first instance. However, they are subsequently reversed out through the Movement in Reserves Statement to ensure that they do not impact upon the bottom line of the General Fund.

8 - OTHER OPERATING EXPENDITURE

These are corporate items of income and expenditure that cannot reasonably be allocated or apportioned to services.

	2010/11	2009/10
	£000	£000
Parish Council precepts	966	905
Payments to the Government Housing Capital Receipts Pool	6	33
Gains/losses on the disposal of non-current assets	(725)	(637)
	247	301

9 - FINANCING AND INVESTMENT INCOME & EXPENDITURE

These are corporate items of income and expenditure arising from the Council's involvement in financial instruments and similar transactions involving interest or the unwinding of discounts.

	2010/11	2009/10
	£000	£000
Interest payable and similar charges	376	142
Pensions interest cost & expected return on pensions assets	1,700	2,796
Interest receivable and similar income	(359)	(742)
Income & Expenditure in relation to investment properties and changes in their fair value	(393)	(455)
	1,324	1,741

10 - TAXATION & NON-SPECIFIC GRANT INCOMES

This note consolidates all the grants and contributions receivable that cannot be identified to particular service expenditure. However, all capital grants and contributions are shown in this note, whether they are service specific or not.

	2010/11	2009/10
	£000	£000
Council tax income	14,267	13,720
Non domestic rates	8,308	7,689
Non-ringfenced government grants	1,206	1,895
Capital grants & contributions	3,612	2,300
	27,393	25,604

11 - AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income & Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Cabinet Member portfolios.

The income and expenditure of the individual Member portfolios recorded in budget reports is as follows:

Portfolio Holder Income & Expenditure 2010/11	Leader of the Council £000	Community Services £000	Corporate Services £000	Environment £000	Leisure & Culture £000	Regeneration £000	Total £000
Fees, charges & other service income	(521)	(465)	(12,114)	(5,060)	(4,519)	(1,287)	(23,966)
Government Grants	(23)	(6)	(49,217)	(508)	0	(539)	(50,293)
Total income	(544)	(471)	(61,332)	(5,568)	(4,519)	(1,826)	(74,259)
Employee expenses	716	601	6,714	4,143	1,594	3,105	16,873
Other service expenses	688	1,706	55,777	13,246	6,361	6,010	83,788
Support service recharges	264	(215)	(7,261)	(4,069)	1,480	790	(9,010)
Total expenditure	1,668	2,092	55,231	13,320	9,435	9,905	91,652
Net Expenditure	1,124	1,621	(6,101)	7,752	4,916	8,079	17,392

Portfolio Holder Income & Expenditure 2009/10 comparative figures	Leader of the Council £000	Community Services £000	Corporate Services £000	Environment £000	Leisure & Culture £000	Regeneration £000	Total £000
Fees, charges & other service income	(3,298)	(849)	(17,192)	(12,022)	(5,602)	(9,536)	(48,499)
Government Grants	(863)	0	(45,693)	(470)	0	(236)	(47,262)
Total income	(4,161)	(849)	(62,885)	(12,492)	(5,602)	(9,772)	(95,761)
Employee expenses	442	341	6,656	4,195	1,684	3,057	16,375
Other service expenses	526	1,519	56,965	14,545	6,320	8,747	88,622
Support service recharges	1,312	465	7,404	3,319	2,729	5,767	20,996
Total expenditure	2,280	2,325	71,025	22,059	10,733	17,571	125,993
Net Expenditure	(1,881)	1,476	8,140	9,567	5,131	7,799	30,232

Reconciliation of Portfolio Holder Income & Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio holder income and expenditure relate to the amounts included in the Comprehensive Income & Expenditure Statement.

	2010/11 £000	2009/10 £000
Net Expenditure in Portfolio Analysis	17,392	30,232
Amounts reported below the line on the Net Cost of Services	0	0
Cost of services in Comprehensive Income & Expenditure Statement	17,392	30,232

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio holder income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income & Expenditure Statement.

2010/11	Portfolio holder analysis £000	Below the line on Net Cost of Services £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(23,966)		(23,966)		(23,966)
Interest & investment income			0	(752)	(753)
Income from council tax			0	(14,267)	(14,267)
Government grants and contributions	(50,293)		(50,293)	(13,124)	(63,417)
Total Income	(74,259)	0	(74,259)	(28,143)	(102,402)
Employee expenses	16,874		16,874	1,700	18,574
Other service expenses	83,788		83,788		83,788
Support Service recharges	(9,011)		(9,011)		(9,011)
Depreciation, amortisation and impairment			0		0
Interest Payments			0	376	376
Precepts & Levies			0	966	966
Payments to Housing Capital Receipts Pool			0		0
Gain or Loss on Disposal of Fixed Assets			0	(721)	(721)
Total Expenditure	91,651	0	91,651	2,321	93,972
Surplus or deficit on the provision of services	17,392	0	17,392	(25,822)	(8,430)

2009/10 comparative figures	Portfolio holder analysis £000	Below the line on Net Cost of Services £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(66,266)		(66,266)		(66,266)
Interest & investment income		(455)	(455)	(742)	(1,197)
Income from council tax			0	(13,720)	(13,720)
Government grants and contributions	(47,262)		(47,262)	(12,634)	(59,896)
Total Income	(113,528)	(455)	(113,983)	(27,096)	(141,079)
Employee expenses	15,760	(2,080)	13,680	2,796	16,476
Other service expenses	100,328	(405)	99,923		99,923
Support Service recharges	20,996		20,996		20,996
Depreciation, amortisation and impairment		10,036	10,036		10,036
Interest Payments			0	17	17
Precepts & Levies			0	905	905
Payments to Housing Capital Receipts Pool			0	33	33
Gain or Loss on Disposal of Fixed Assets			0	(637)	(637)
Total Expenditure	137,084	7,551	144,635	3,114	147,749
Surplus or deficit on the provision of services	23,556	7,096	30,652	(23,982)	6,670

12 - TRADING OPERATIONS

The Council has established 8 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

Operation	2010/11		(Surplus)/ Deficit £000	2009/10 £000
	Income £000	Expenditure £000		
Market	(609)	494	(115)	(148)
Parkwood Industrial Estate	(426)	48	(378)	(386)
Pay & Display Car Parking	(1,715)	942	(773)	(5)
On-street Car Parking	(583)	608	25	109
MBS Support Crew	(156)	156	0	0
Building Cleaning	(91)	91	0	0
Street Cleaning	(1,465)	1,465	0	0
Parks	(1,873)	1,873	0	0
Net (Surplus)/ Deficit	(6,918)	5,677	(1,241)	(430)

13 - MEMBERS' ALLOWANCES

The total sum of Members Allowances paid during 2010/11 totalled £430,682. (£436,708 in 2009/10).

The Council also produce a statement, in accordance with provision 1021 – 15(3) of the Local Authorities (Members Allowance) (England) Regulations 2003, giving details of allowances paid to Members for the year. This can be viewed on the Council's website:

http://www.maidstone.gov.uk/council_and_democracy/councillors_democracy_elect/councillors_allowances.aspx

14 - OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

2010/11	Salary (including Fees & Allowances) £000	Benefits in Kind (e.g. Car Allowance) £000	Total Remuneration excluding Pension Contributions £000	Pension Contributions £000	Total Remuneration including Pension Contributions £000
Chief Executive	102	5	107	29	136
Director of Change, Planning & the Environment	94	5	99	27	126
Director of Regeneration & Communities	93	4	97	26	123
Head of Legal Services	66	0	66	19	85

2009/10 Comparative Figures	Salary (including Fees & Allowances) £000	Benefits in Kind (e.g. Car Allowance) £000	Total Remuneration excluding Pension Contributions £000	Pension Contributions £000	Total Remuneration including Pension Contributions £000
Chief Executive	130	5	135	33	168
Director of Prosperity & Regeneration	94	4	98	27	125
Director of Change & Environmental Service	94	4	98	26	125
Director of Resources & Partnerships	91	4	95	23	117
Head of Corporate Law & Legal Services	65	5	70	19	89

Note : During the financial year the Director of Prosperity & Regeneration became the Chief Executive.

Senior Officers are defined as those who sit on the Corporate Management Team.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2010/11 No. of employees	2009/10 No. of employees
£50,000 - £54,999	3	6
£55,000 - £59,999	5	2
£60,000 - £64,999	1	4
£65,000 - £69,999	3	3
£70,000 - £74,999	0	0
£75,000 - £79,999	2	2
£80,000 - £84,999	0	1
£85,000 - £89,999	1	0
£90,000 - £94,999	0	1

15 - EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided the Council's external auditors, who are the Audit Commission.

	2010/11 £000	2009/10 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	108	125
Fees payable for the certification of grant claims and returns during the year	32	31
Fees payable in respect of other services provided during the year	5	3
Total	145	159

16 - GRANT INCOME

The Council has credited the following grants, contributions and donations to the Comprehensive Income & Expenditure Statement in 2010/11:

	2010/11 £000	2009/10 £000
Credited to Taxation & Non Specific Grant Income		
Council tax income	14,267	13,720
Non domestic rates	8,308	7,689
Non-ringfenced government grants	1,206	1,895
Capital grants & contributions	3,612	2,300
Total	27,393	25,604
Credited to Services		
Housing Benefit Subsidy	38,313	35,603
Council Tax Benefits	10,639	10,115
Concessionary Fares	467	455
Growth Point	483	71
Non-Domestic Rates - Cost of Collection	208	226
Housing & Planning Delivery Grant	0	585
Other Grants	183	207
Total	50,293	47,262

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31st March 2011 £000
Capital Grants Receipts in Advance	
Growth Point	121
Heritage Lottery Fund	25
Other Contributions	6
Total	152

17 - RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council- it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 11 (Page 55) on reporting for resources allocation decisions.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2010/11 is shown in Note 13 (Page 57).

Officers

All Members and Senior Officers were required to complete a declaration of interests that included details of any finance-related transactions with the Council. There was only one declaration of a material nature – one Member is a Chair on the Trustees of a charitable organisation that receives grants totalling £30,000 from the Council.

Two other organisations where an interest was declared also received payments:

- Maidstone Museum Foundation - £8,392
- Absolute Pest Control Ltd - £11,126

18 - PROPERTY, PLANT & EQUIPMENT**Movements on Balances**

Movements in 2010/11	Infrastructure Assets £000	Community Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuations								
At 1st April 2010	5,816	479	58,752	3,684	3,977	4,206	0	76,914
Additions	38	297	3,370	556	46	19	0	4,327
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	327	0	0	0	0	327
Other movements in cost or valuation	0	0	34	0	0	0	0	34
At 31st March 2011	5,854	776	62,484	4,240	4,023	4,225	0	81,602
Accumulated Depreciation & Impairment								
At 1st April 2010	(2,575)	0	(1,369)	(1,016)	(1,849)	(762)	0	(7,571)
Depreciation charge	(286)	0	(967)	(341)	(605)	(397)	0	(2,596)
Other movements in depreciation or impairment	0	0	98	0	0	0	0	98
At 31st March 2011	(2,861)	0	(2,238)	(1,357)	(2,454)	(1,159)	0	(10,069)
Net Book Value								
At 31st March 2011	2,993	776	60,246	2,883	1,569	3,066	0	71,533
At 31st March 2010	3,241	479	57,378	2,668	2,127	3,444	0	69,337

Comparative Movements in 2009/10	Infrastructure Assets £000	Community Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuations								
At 1st April 2009	5,718	238	51,479	2,023	3,185	3,584	1,087	67,314
Additions	106	244	7,284	1,661	791	622	224	10,932
Revaluation increases/(decreases) recognised in the Revaluation Reserve			4,801					4,801
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services			(4,756)					(4,756)
Derecognition - disposals	(8)		(223)				(224)	(455)
Assets reclassified (to)/from Held for Sale			(925)					(925)
Other movements in cost or valuation		(3)	1,087				(1,087)	(3)
At 31st March 2010	5,816	479	58,747	3,684	3,976	4,206	0	76,908
Accumulated Depreciation & Impairment								
At 1st April 2009	(2,288)		(1,324)	(663)	(1,399)	(461)		(6,135)
Depreciation charge	(287)		(933)	(353)	(450)	(301)		(2,324)
Derecognition - disposals								0
Derecognition - other			25					25
Other movements in depreciation or impairment			863					863
At 31st March 2010	(2,575)	0	(1,369)	(1,016)	(1,849)	(762)	0	(7,571)
Net Book Value								
At 31st March 2010	3,241	479	57,378	2,668	2,127	3,444	0	69,337

Community Assets have all previously been revalued at £1 each, in accordance with Note 2. The Statement of Recommended Practice for Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute. A number of Community Assets are likely to be reclassified as Heritage Assets as outlined in note 5.

Depreciation

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

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, Plant, Furniture IT & Office Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

Capital Commitments

At 31st March 2011 the Council has entered into a number of contracts in 2011/12 and future years budgeted to cost £7.5m. Similar commitments at 31st March 2010 were £5.1m. The major commitments are:

- Mote Park Regeneration Scheme - £2.2m
- Museum Improvement Scheme - £0.9m
- High Street Regeneration Scheme - £2.2m
- Social Housing Grants - £2.2m

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant & Equipment required to be measured at fair value is revalued at least every 5 years. All valuations were carried out internally by a Royal Institution of Chartered Surveyors (RICS) qualified valuer. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 1st April 2010.

	Infrastructure Assets £000	Community Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Assets Under Construction £000	Total £000
Carried at historical cost	5,855	776	627	4,231	4,032	4,225	0	19,745
Valued at fair value as at:								
31st March 2007			134					134
31st March 2008			5,285					5,285
31st March 2009			2,186					2,186
31st March 2010			53,682					53,682
31st March 2011			568					568
Total Cost or Valuation	5,855	776	62,484	4,231	4,032	4,225	0	81,601

19 - INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Statement:

	2010/11 £000	2009/10 £000
Rental income from investment property	(723)	(712)
Direct operating expenses arising from investment property	330	257
Net (gain)/loss	(393)	(455)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2010/11 £000	2009/10 £000
Balance at start of the year	15,098	15,448
Additions:		
Subsequent expenditure		20
Disposals		(124)
Net gains/losses from fair value adjustments		(242)
Other changes	7	(4)
Balance at end of year	15,105	15,098

20 - INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant & Equipment. The intangible assets primarily cover purchased licences.

The carrying amount of intangible assets is amortised on a straight-line basis over 3 or 5 years. The amortisation of £0.234m charged to revenue in 2010/11 was charged to the IT Administration cost centre and the absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2010/11 £000	2009/10 £000
Balance at start of year:		
Gross carrying amount	1,185	948
Accumulated amortisation	(711)	(471)
Net carrying amount at start of year	474	477
Additions	218	237
Amortisation for the period	(234)	(240)
Net carrying amount at end of year	458	474

21 - FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31st March 2011 £000	31st March 2010 £000	31st March 2011 £000	31st March 2010 £000
Investments				
Loans & receivables	0	0	21,005	8,670
Available-for-sale financial assets	11	11	0	0
	<u>11</u>	<u>11</u>	<u>21,005</u>	<u>8,670</u>
Debtors				
Loans & receivables	68	174	9,050	13,438
Other Long Term Liabilities				
Finance lease liabilities	3,566	3,644	1,107	1,143
Creditors				
Financial liabilities at amortised cost	0	0	13,376	7,506

On the face of the Balance Sheet Loans & Receivables are split in Current Assets between Short Term Investments and Cash & Cash Equivalents.

Income & Expense

	Long-Term		Short Term	
	31st March 2011 £000	31st March 2010 £000	31st March 2011 £000	31st March 2010 £000
Income:				
Loans & Receivables	0	0	349	580
Available-for-sale Financial Assets	0	0	0	155
Other Interest	0	0	10	7
Total	<u>0</u>	<u>0</u>	<u>359</u>	<u>742</u>

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Where an instrument has a maturity of less than 12 months the fair value is taken to be the carrying amount. The Council has no loans or long-term creditors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.

22 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority.
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments.
- Refinancing risk - the possibility the authority might be requiring to renew a financial instrument on maturity at a disadvantageous interest rate or terms.
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Head of Finance & Customer Services and the Treasury Management Accountant, under policies approved by the Council on 2nd March 2011 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – <http://www.maidstone.gov.uk>. A summary of the main points of the 2010/11 Treasury Management Strategy is also shown below.

The Council also provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These are set out in the Council's Treasury Management Practices, which are requirement of CIPFA's Treasury Management Code of Practice, which has been adopted by the Council. Treasury Management indicators have also been set to control key financial instruments risks in accordance with CIPFA's Prudential Code. The Treasury Management Practices can also be viewed on the Council's website, at the above link.

Treasury Management Strategy 2010/11

A summary of the main points of the strategy is as follows:

- Adoption of new reporting arrangements as specified in the Revised Code.
- Invest funds short term (up to 1 year) so that funds are available to invest when rates increase.
- Up to £2m being invested for 1 year if the funds become available and the rates are favourable.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. There are limits based on credit

ratings set on the amount and length of time deposits can be made with individual banks and financial institutions, and these are set out in the Annual Treasury Management Strategy. These ratings are Supplied by Sector (the Council's Treasury Advisors), who look at ratings from all three credit rating agencies, Fitch, Moodys and Standard and Poors. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

There are no credit limits set on the authority's customers, as the amounts involved are not considered sufficiently material to warrant the setting of such limits.

As at 31st March 2011 the investments were held with the following institutions:

	31st March 2011	31st March 2010
	£000	£000
AAA rated Institutions	2,000	0
AA rated Institutions	11,005	6,520
A rated Institutions	0	2,150
Unrated Building Societies	8,000	0
UK Government	11	11
Total	21,016	8,681

Liquidity Risk

Liquidity risk arises from the Council having insufficient resources to meet its ongoing commitments. The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money market and the Public Loans Works Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Borrowing is generally only undertaken on a short-term basis for cash flow purposes, and there is also an overdraft facility of £0.5m available with Nat West Bank. However provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £8m to fund ongoing schemes in the event of projected capital receipts not being realised.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk – Interest Rate Risk

As the Council is currently debt-free its only risk is in relation to exposure to interest rate movements in its investments. This exposure is managed by use of Prudential Indicators, which set limits on the proportion of investments held at fixed and variable rates. These indicators are monitored on a daily basis. The main exposure to risk in this area is the use of investment Call Accounts and Money Market Funds which are linked to Base Rate. However the risk is considered to be small as these accounts are generally only used for the short-term investment of funds for cash flow purposes, and funds can be withdrawn on a daily basis. The risk exposure is summarised in the table below.

	31st March 2011 £000	31st March 2010 £000
Call Accounts	7,005	3,670
Receivables	14,000	5,000
Available-for-Sale Financial Assets	11	11
Total	21,016	8,681

The Council also makes use of interest rate forecasts and market data and advice provided by its Treasury Management advisors to ensure that investment income is maximised wherever possible.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

23 - ASSETS HELD FOR SALE

All assets held for sale are non-current assets.

	2010/11 £000	2009/10 £000
Balance outstanding at start of year	5,465	3,538
Assets newly classified as held for sale:		
Property, Plant & Equipment		925
Investment Properties	819	
Revaluation gains		1,624
Impairment losses	(1,095)	(503)
Assets sold	(2,865)	(119)
Balance outstanding at year-end	2,324	5,465

24 – INVENTORIES

These are materials or supplies that will be consumed in producing goods or providing services or will be sold or distributed as part of the Council's ordinary business.

	2010/11 £000	2009/10 £000
Stores	81	97
Stamps & Franks	2	1
Total	83	98

25 – DEBTORS

Long Term

	2010/11 £000	2009/10 £000
Loans to Outside Bodies	0	64
Mortgages	67	84
Housing Act Advances	1	1
Cobtree Trust	0	25
Total	68	174

Short Term

	2010/11	2009/10
	£000	£000
Central government bodies	278	3,606
Other local authorities	701	121
Other entities and individuals	8,071	9,711
Total	9,050	13,438

Other entities and individuals is broken down as follows:

	2010/11	2009/10
	£000	£000
Council Tax payers	952	864
Non-domestic rate payers	1,544	1,908
Capital debtors	1,102	439
General debtors	3,335	4,860
Payments in Advance	592	1,001
Other miscellaneous amounts	546	648
Total	8,071	9,720

26 - CASH & CASH EQUIVALENTS

The balance of Cash & Cash Equivalents is made up of the following elements:

	2010/11	2009/10
	£000	£000
Cash held by the Council	9	14
Bank current accounts	(739)	(227)
Short-term deposits	9,005	3,670
Total	8,275	3,457

Cash & Cash Equivalents are split on the face of the Balance Sheet between Current Assets and Current Liabilities.

27 – CREDITORS

Short Term

	2010/11	2009/10
	£000	£000
Central government bodies	6,272	388
Other local authorities	415	499
Other entities and individuals	6,689	6,619
Total	13,376	7,506

Other entities and individuals is broken down as follows:

	2010/11	2009/10
	£000	£000
General creditors	3,420	3,326
Capital creditors	870	358
Council tax payers	520	107
Non-domestic rate payers	628	108
Receipts in advance	737	1,924
Deposits	402	651
Retentions	112	145
Total	6,689	6,619

28 - PROVISION FOR BAD DEBTS

	2010/11	2009/10
	£000	£000
Excess Charges Provision	311	389
Sundry Bad Debts Provision	2,177	1,900
Total	2,488	2,289

29 - CAPITAL GRANTS RECEIVED IN ADVANCE

Grants and other contributions given towards the Council's capital expenditure are retained in this account whilst conditions remain attached to financial assistance.

	2010/11 £000	2009/10 £000
Balance at start of year:	1,440	3,196
Grants Received	3,816	3,616
Funding used for capital expenditure	(3,578)	(5,372)
Balance at end of year:	1,678	1,440

30 - TRUST FUNDS

The Council is required to set out details of the nature and amount of trust funds where it acts as sole trustee, the only one of which is the Cobtree Estate Trust. The object of this trust is to hold Cobtree Manor and Cobtree Manor Estate for the benefit of the inhabitants of Maidstone and other members of the general public.

Gross expenditure in 2010/11 totalled £314,807 (£204,822 in 2009/10). Gross income in 2010/11 totalled £345,005 (£330,775 in 2009/10).

The assets and liabilities of the Trust as at 31st March 2011 may be summarised as follows:

	2010/11 £000	2009/10 £000
Fixed Assets:		
Cobtree Golf Course	501	501
Cobtree Manor Park	936	936
Investments	1,352	1,288
	2,789	2,725
Current Assets:		
Maidstone Borough Council	20	0
Current Liabilities:		
Maidstone Borough Council	0	13
Auditors	4	5
	4	18
Total assets less current liabilities	2,805	2,707
Total Charitable Funds	2,805	2,707

31 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS

The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to the Comprehensive Income & Expenditure Statement.

The value of the works carried out to date (£0.857m) has been reflected in the non-current assets total, with a matching entry shown as a deferred liability (less repayments made in 2010/11) to reflect the balance due on the loan for the works done to date.

The annual principal repayments are credited to the Comprehensive Income & Expenditure Statement, then reversed out of the Movement in Reserves Statement to the Capital Adjustment Account to reflect the fact that this is a repayment of debt, as this arrangement is classed as borrowing under the terms of the CIPFA Prudential Code for Capital.

Payments

	2010/11 £000	2009/10 £000
Balance outstanding at start of year	2,852	0
Value of capital works	857	3,152
Repayment of principal	(426)	(300)
Balance outstanding at end of year	3,283	2,852

These figures are shown on the face of the Balance Sheet as Deferred Liabilities, and are split between the Short Term and Long Term elements.

32 - LEASE TYPE ARRANGEMENTS

Under the terms of IFRIC 4 (Determining Whether an Arrangement Contains a Lease) the Council is required to identify any contractual arrangements that may include an element that could be classified as a finance lease. It has been established that the vehicles used in the provision of the refuse collection and park & ride contracts need to be classified under this arrangement, and therefore the value of the assets used are now reflected within the Property, Plant & Equipment heading on the Balance Sheet, as finance leases need to be shown in this way.

The cost of services within the Comprehensive Income & Expenditure Statement are charged with a sum that reflects the value of the element of the contract that relates to the vehicles, along with depreciation and financing charges. These sums are all reversed out in the Movement in Reserves Statement to the Capital Adjustment Account to ensure that there is no impact upon Council Tax.

	2010/11	2009/10
	£000	£000
Balance outstanding at start of year	1,935	1,580
Value of assets in use	0	750
Repayment of principal	(545)	(395)
Balance outstanding at end of year	1,390	1,935

These figures are shown on the face of the Balance Sheet as Deferred Liabilities, and are split between the Short Term and Long Term elements.

33 - USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and the table below:

Capital Receipts Reserve

This reserve contains the proceeds from the sale of non-current assets, which are used to fund capital expenditure.

	31st March	31st March
	2011	2010
	£000	£000
Balance at 1st April	1,955	7,612
Capital Receipts Received	3,583	1,081
Capital Receipts Applied	(4,063)	(6,705)
Pooled Capital Receipts	(6)	(33)
Balance at 31st March	1,469	1,955

34 - UNUSABLE RESERVES

	31st March 2011 £000	31st March 2010 £000
Revaluation Reserve	18,826	18,467
Capital Adjustment Account	66,321	67,597
Deferred Capital Receipts Reserve	67	83
Pensions Reserve	(30,342)	(64,277)
Collection Fund Adjustment Account	0	17
Accumulated Absences Account	(87)	(32)
Total Unusable Reserves	54,785	21,855

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant & Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only the revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	31st March 2011 £000	31st March 2010 £000
Balance at 1st April	18,467	15,322
Upward revaluation of assets	397	4,564
Downward revaluation of assets		(1,377)
Difference between fair value depreciation and historical cost depreciation	(38)	(42)
Balance at 31st March	18,826	18,467

b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets

and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant & Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	31st March 2011 £000	31st March 2010 £000
Balance at 1st April	67,597	71,591
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Sums set-aside for Debt Repayment	971	300
Charges for depreciation & impairment of non-current assets	(2,650)	(8,218)
Amortisation of intangible assets	(234)	(240)
Prior Year Adjustments	(177)	
Revenue expenditure funded from capital under statute	(4,118)	(6,024)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(2,865)	(416)
	(9,073)	(14,598)
Adjusting amounts written out of the Revaluation Reserve	38	42
Net written out amount of the cost of non-current assets consumed in the year	(9,035)	(14,556)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	4,063	6,705
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	3,648	3,377
Application of grants to capital financing from the Capital Grants Unapplied Account		
Capital expenditure charged against the General Fund balance	48	480
	7,759	10,562
Balance at 31st March	66,321	67,597

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income & Expenditure Statement as benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31st March 2011 £000	31st March 2010 £000
Balance at 1st April	64,277	37,610
Actuarial gains or losses on pension assets and liabilities	(25,094)	26,116
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	(5,598)	3,988
Employer's pension contributions and direct payments to pensioners payable in the year	(3,243)	(3,437)
Balance at 31st March	30,342	64,277

d) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	31st March 2011 £000	31st March 2010 £000
Balance at 1st April	83	105
Transfer to the Capital Receipts Reserve upon receipt of cash	(16)	(22)
Balance at 31st March	67	83

e) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income & Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	31st March 2011 £000	31st March 2010 £000
Balance at 1st April	15	17
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(15)	(2)
Balance at 31st March	0	15

f) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward

at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	31st March 2011 £000	31st March 2010 £000
Balance at 1st April	(32)	(133)
Settlement of cancellation of accrual made at the end of the preceding year	32	
Amounts accrued by the end of the current year		(32)
	0	(165)
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(87)	133
Balance at 31st March	(87)	(32)

35 - CAPITAL EXPENDITURE & CAPITAL FUNDING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it.

	2010/11 £000	2009/10 £000
Capital Investment		
Property, Plant & Equipment	3,447	9,960
Investment Properties	0	245
Intangible Assets	218	237
Revenue Expenditure Funded from Capital Under Statute	4,094	5,669
	7,759	16,111
Sources of Finance		
Capital receipts	4,063	6,705
Government grants & other contributions	3,648	5,773
Direct Revenue Contributions	48	3,633
	7,759	16,111

36 - DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time the employees earn their future entitlement.

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

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2010/11	2009/10
	£000	£000
Comprehensive Income & Expenditure Statement		
Cost of Services:		
- Current service cost	2,547	1,181
- Past service costs	(9,843)	-
- Settlements & curtailments	(2)	11
Financing and Investment Income & Expenditure:		
- Interest cost	6,167	5,712
- Expected return on scheme assets	(4,467)	(2,916)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	(5,598)	3,988
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement:		
- Actuarial gains & losses	-	-
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	(5,598)	3,988
Movement in Reserves Statement:		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	5,594	(3,988)
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	3,161	3,373

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income & Expenditure Statement to 31st March 2011 is a loss of £16.437m.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2010/11	2009/10
	£000	£000
Opening balance at 1st April	126,515	83,960
Current service cost	2,547	1,181
Interest cost	6,167	5,712
Contributions by scheme participants	696	761
Actuarial gains & losses	(21,071)	39,227
Benefits paid	(4,179)	(4,135)
Past service costs	(9,843)	-
Entity combinations	(197)	(202)
Curtailments	41	11
Settlements	(123)	-
Closing balance at 31st March	100,553	126,515

Reconciliation of fair value of the scheme (plan) assets:

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on the gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £4.480m. (2009/10: £16.027m)

	2010/11	2009/10
	£000	£000
Opening balance at 1st April	62,238	46,350
Expected Rate of Return	4,467	2,916
Actuarial gains & losses	4,023	13,111
Employer Contributions	3,243	3,437
Contributions by scheme participants	696	761
Benefits paid	(4,376)	(4,337)
Payment of Bulk Transfer Values	(80)	-
Closing balance at 31st March	70,211	62,238

Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000
Present value of assets in the Local Government Pension Scheme	65,390	57,520	46,350	62,238	70,211
Fair value of assets in the Local Government Pension Scheme	98,480	86,370	83,960	126,515	100,553
Surplus/(Deficit) in the scheme	(33,090)	(28,850)	(37,610)	(64,277)	(30,342)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £30.342m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2012 are £2.622m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Pension Fund being based on the latest full valuation of the scheme as at 31st March 2010.

The principal assumptions used by the actuary have been:

	2010/11	2009/10
Long-term expected rate of return of assets in the scheme:		
Equity investments	7.4%	7.5%
Gilts	4.4%	4.5%
Other Bonds	5.5%	5.5%
Property	5.4%	5.5%
Cash	3.0%	3.0%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- Men	19.8	21.5
- Women	23.9	24.4
Longevity at 65 for future pensioners:		
- Men	21.9	22.6
- Women	25.8	25.5
Rate of inflation	3.5%	3.9%
Rate of increase in salaries	5.0%	5.4%
Rate of increase in pensions	2.7%	3.9%
Rate of discounting scheme liabilities	5.5%	5.5%

History of Experience Gains and Losses

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

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Difference between the expected and actual return on assets	-0.6	-21.1	-33.0	21.1	5.7
Experience gains and losses on liabilities	0.1	3.1	0.0	0.4	8.0

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

	31st March 2011		31st March 2010	
	£000	%	£000	%
Equities	53,361	76	46,056	74
Gilts	702	1	622	1
Other Bonds	8,425	12	8,713	14
Property	6,319	9	4,357	7
Cash	1,404	2	2,490	4
Total	70,211	100	62,238	100

37 - LEASES

Finance Leases

The Council currently has no finance leases.

Operating Leases – Council as Lessee

The Council has a number of finance leases, primarily covering vehicles, plant, equipment and refuse & recycling waste bins.

The future minimum lease payments due under non-cancellable leases in future years are:

	31st March 2011 £000	31st March 2010 £000
Not more than 1 year	18	56
Later than 1 year and not later than 5 years	74	100
Later than 5 years	0	0
	92	156

The expenditure charged to the Comprehensive Income & Expenditure Statement for 2010/11 in relation to these leases was as follows:

- Cultural, Environmental, Regulatory & Planning Services - £137,702
- Central Services - £113,424
- **Total - £251,126**

Operating Leases – Council as Lessor

The Council leases out property under operating leases for the following purposes:

- Domestic Dwellings
- Retail & Leisure Units
- Light Industrial Units

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31st March 2011 £000	31st March 2010 £000
Not more than 1 year	193	55
Later than 1 year and note later than 5 years	72	209
Later than 5 years	735	735
	1,000	999

38 - IMPAIRMENT LOSSES

During 2010/11 the Council did not identify any losses as a result of impairment.

39 - TERMINATION BENEFITS

The Council terminated the contracts of 14 employees in 2010/11, incurring liabilities of £0.186m (£0.176m in 2009/10). The sums were payable to a number of officers who were made redundant as part of various structural changes that took place during the year.

40 - CONTINGENT LIABILITIES

The Council entered into a PFI Agreement with Kent County Council and nine other Kent District Councils in 2006/07 which aims to provide affordable housing throughout the county. In the event of the contractor defaulting on its obligations 10 years into the contract there is the possibility of the Council incurring an estimated liability of £6.954m, and in the event of the contract being terminated through force majeure after 10 years there is an estimated liability of £8.052m. Whilst these scenarios are considered highly unlikely the sums concerned are material enough to be noted.

41 - CONTINGENT ASSETS

The Council has made a claim to HM Revenues & Customs for the recovery of VAT paid in respect of off street car parking. This was as a result of a European Court of Justice ruling in favour of the city of Oporto in Portugal regarding VAT treatment of the income. The claim is for £2.857m, and covers the financial years 1998/99 to 2009/10. A number of other Authorities are also pursuing similar claims. The Council have not currently made any allowance for any settlement in this statement as this issue is still ongoing. HM Revenue & Customs' current appeal to the High Court against the European Court of Justices' decision has been referred back to the European Court of Justice by the High Court. Current estimates suggest a waiting time of two years for a ruling. HM Revenue & Customs' current advice is that any refunds would be subject to unjust enrichment rules and may not benefit local authorities directly.

The Council has also submitted a claim to HM Revenues & Customs under the principles established in the Fleming/Conde Nash decision in the House of Lords.

This claim was successful and a payment was received in 2009/10, with the 'simple' interest received accrued for at year end. The outstanding claim relates to additional claims plus compound interest, expected to be in the region of £1.601m. However it is difficult at this stage to clarify when any payment might be made as HM Revenue & Customs are dealing with a large number of similar claims from local authorities all over the UK.

42 – EVENTS AFTER THE BALANCE SHEET DATE

No post-Balance Sheet events were identified.

43 - CASH FLOW STATEMENT – OPERATING ACTIVITIES

	2010/11 £000	2009/10 £000
Interest received	357	742
Interest paid	0	0
Dividends received	0	0
	357	742

44 - CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2010/11 £000	2009/10 £000
Purchase of property, plant & equipment, investment property and intangible assets	3,713	6,663
Purchase of short-term and long-term investments	36,000	15,000
Other payments for investing activities	217	431
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(3,807)	(1,293)
Proceeds from short-term and long-term investments	(29,357)	(23,962)
Other receipts for investing activities		
Net cash flows from investing activities	6,766	(3,161)

45 - CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2010/11	2009/10
	£000	£000
Cash receipts of short & long-term borrowing		(14,000)
Other receipts from financing activities	(3,383)	
Cash payments for the reduction of outstanding liabilities relating to finance leases		0
Repayments of short & long-term borrowing		14,000
Other payments for financing activities	47	947
Net cash flows from financing activities	(3,336)	947

COLLECTION FUND STATEMENT & NOTES

2009/10 £000		2010/11 £000	2010/11 £000
INCOME			
77,541	Income From Council Tax	79,930	
9,259	Transfers From General Fund Council Tax Benefit	9,895	89,825
51,403	Income From Non-Domestic Rates (Note x)		50,389
138,203	Total Income		140,214
EXPENDITURE			
Precepts and Demands			
60,609	Kent County Council	62,621	
7,952	Kent Police Authority	8,288	
13,720	Maidstone Borough Council	14,247	
3,901	Kent & Medway Towns Fire Authority	4,061	89,217
Non-Domestic Rates			
51,193	Payments To National Pool	50,181	
210	Cost of Collection Allowance	208	50,389
Bad and Doubtful Debts			
152	Write Off	99	
383	Additional / (Reduced) Provision For Non Payment	479	578
110	Contribution toward previous year's Collection Fund surplus		77
138,230	Total Expenditure		140,261
(27)	Surplus/(Deficit) For Year		(47)
110	Surplus Brought Forward From Previous Years		83
83	Surplus as at 31st March 2011 (Note 4)		36

Notes to the Collection Fund

Note 1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1 April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, Kent Police Authority and this Council for the forthcoming year and dividing this by the council tax base [the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 59,765.2 for 2010/11 (59,057.6 for 2009/10) (see table below)]. This basic amount of council tax for a Band D property £1,476.80 for 2010/11 (£1,443.97 for 2009/10) is multiplied by the proportion specified for the particular band to give an individual amount due. Parish Precepts are added to this basic amount.

The bands, number of dwellings in each, the multiplier for each and the resultant tax base are detailed in the table below.

Band	Number of Dwellings	Multiplier	Council Tax Base
Band A (incl disabled relief)	2.25	5/9	1.3
Band A	3,236.25	6/9	2,157.5
Band B	6,902.00	7/9	5,368.2
Band C	15,296.50	8/9	13,596.9
Band D	15,270.75	9/9	15,270.8
Band E	8,191.25	11/9	10,011.5
Band F	4,776.50	13/9	6,899.4
Band G	3,443.50	15/9	5,739.2
Band H	291.75	18/9	583.5
Other			136.9
			59,765.2

Council tax income as follows:

	£000
Initial Accounts	98,977
Additional Accounts	977
Less: Reduced Accounts	(10,129)
	89,825
Less: Amounts written off	(99)
Net Income to Fund	89,726

Note 2 - Income from Non-Domestic Rates

Under the National System for non-domestic rates, the Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government. This money is paid into a National Pool. The Council receives in return a contribution from the Pool based on a standard amount per head of local adult population. This is paid into the Council's General Fund.

Non-Domestic Rate Income to the Collection Fund is as follows:

	£000
Non-Domestic Rateable Value	62,451
Non-Domestic Rate Multiplier Small Business Multiplier	
Less: Allowances and adjustments during the year	(12,062)
Net Income to Fund	50,389

Note 3 - Adjustment for Previous Years Community Charge

Although Council Tax replaced Community Charge on 1st April 1993, the Council has continued to account for residual adjustments in relation to the Community Charges raised in earlier years in the Collection Fund. The Council has carried a full provision against any residual debt and in 2007/08 a decision was taken to utilise the provision and write off the remaining debt of £18,929.

Note 4 - Surplus/(Deficit) on the Collection Fund re Council Tax

Any surplus at the year end is distributed amongst the precepting authorities over the following two financial years. A deficit must be covered by council tax raised the following year. The distribution for 2009/10 given in the tables below is of a surplus.

Surplus at 31st March 2010 (£000)	£83	
Distribution:	2010/11	2011/12
	£000	£000
Maidstone Borough Council	12	3
Kent County Council	47	11
Kent Police Authority	6	1
Kent & Medway Towns Fire Authority	2	1
	67	16

2010/11 Surplus (£000)	£35	
Distribution:	2011/12	2012/13
	£000	£000
Maidstone Borough Council	8	(3)
Kent County Council	35	(11)
Kent Police Authority	6	(2)
Kent & Medway Towns Fire Authority	3	(1)
	52	(17)

The amount distributed has to be used by each authority to reduce the amount of Council Tax that they have to raise to finance their own expenditure. The distribution is calculated by reference to the proportion of the respective precepts and demands made in the previous year.

Note 5 - Amounts Written Off

The following amounts were written off during the year:

	2008/09	2009/10	2010/11
	£000	£000	£000
Council Tax	160	152	99
Non-Domestic Rates	231	506	499
Community Charge			
	391	658	598

GLOSSARY OF TERMS

ACCOUNTING POLICIES

The specific policies and procedures used by the Council to prepare the Statement of Accounts. These include any methods, measurement systems and procedures for presenting disclosures.

ACCOUNTS

Statement aggregating items of income and expenditure and assets and liabilities. The accounts may show detailed transactions for every activity (generally used for management and control purposes during a financial year) or be summarised to show the overall position at the end of the period. The latter are known as final accounts and show both the net surplus (profit) or deficit (loss) and a balance sheet of the assets, liabilities and other balances at the end of the accounting period. Councils are required to publish a Statement of Accounts as specified in the *Accounts and Audit Regulations 2011*.

ASSETS HELD FOR SALE

Assets that the Council are actively marketing for sale, and for which there is a reasonable expectation that the sale will take place within one year of the Balance Sheet date.

BALANCE SHEET

A statement of the assets, liabilities and other balances of the Council at the end of an accounting period.

BALANCES

Capital or revenue reserves of an authority made up of the accumulated surplus of income over expenditure on the general fund or any other account. Revenue balances may be utilised to provide for unforeseen circumstances, to ensure that payments can be made pending the receipt of income, and if justified they may be used to reduce the collection fund levy.

CAPITAL EXPENDITURE

Generally, expenditure which is of value to an authority in the provision of services beyond the end of the financial year in which it was incurred, e.g. purchase of land and buildings, construction or improvement of buildings.

CAPITAL FINANCING

The raising of money to pay for capital expenditure. Usually the cost of capital assets is met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from the revenue accounts, the proceeds of the sale of capital assets, capital grants, reserves and other contributions.

CAPITAL RECEIPTS

Proceeds from the sale of capital assets. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

COLLECTION FUND

Councils that collect precepts and non-domestic rates on behalf of other authorities are required to maintain a Collection Fund to summarise the collection and payments of precepts, and any associated adjustments.

CREDITORS

Amounts owed by the Council for work done, goods received, or services rendered but for which payment had not been made at the date of the balance sheet.

DEBTORS

Sums of money due to the Council but unpaid at the balance sheet date.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

GENERAL FUND

The main revenue account of a charging authority that summarises the cost of all services provided by the Council.

INTANGIBLE ASSETS

Intangible assets are assets that do not have a physical substance but are identifiable and controlled by the authority, such as computer software.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These are the accounting standards (as adapted for the public sector) that the Council are required to follow when preparing the annual Statement of Accounts.

INVESTMENT PROPERTIES

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

PROPERTY, PLANT & EQUIPMENT

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

REVENUE EXPENDITURE FUNDED FROM CAPITAL BY STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets, and is charged as expenditure to the relevant service revenue account in the year.

REVENUE SUPPORT GRANT

A general grant paid by central government to local authorities to help finance the cost of services. It is paid to charging authorities for credit to the Collection Fund.

REVENUE ACCOUNT

An account which records the day to day expenditure and income of an authority on such items as salaries and wages, running costs of services, the purchase of consumable materials and equipment, and the financing costs of capital assets.

SUPPORT SERVICES

An allocation of the net cost of the administrative and professional departments which provide support for all the Council's services (e.g. Executive Services, Finance, Personnel), together with the costs of pooled administrative buildings.

USABLE CAPITAL RECEIPTS

Funds received by an authority from the sale of capital assets that have yet to be used to finance capital expenditure or repay debt.

UNUSABLE RESERVES

These are non-cash reserves that are kept to manage the accounting processes for non-current assets, retirement benefits and employee benefits and do not represent usable resources for the Council.

USABLE RESERVES

These are funds available to the Council and represent specific amounts set-aside for future policy purposes or earmarked purposes, including the General Fund and the Capital Receipts Reserve.

AUDIT OPINION

To follow at the completion of the external audit.