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## **EXPLANATORY FOREWORD**

### **Review of 2011/12 Financial Year**

2011/12 has been another challenging year for the Council. In setting the budget for the year a series of changes were implemented to the medium term financial strategy and a four year plan put in place to deliver savings that would meet the Government reductions in funding whilst delivering the outcomes required by the Council's strategic plan. The Council has successfully delivered these changes for 2011/12.

After allowing for the carry forward of resources the revenue account showed a net underspend of £1.113m against the approved budget of £19.907m. The Capital Programme has remained significantly on target and is fully funded through asset disposals and use of resources set aside from revenue. The rate of collection on Council Tax and Non-Domestics rates has remained at an acceptable level, and the return on investments made slightly exceeded the targeted figure over the course of the year.

The overall level of balances at 31<sup>st</sup> March 2012 was £10.173m, which was an increase of £0.230m over the year. This means that balances are above the minimum approved level of working balances by £2.113m.

Considered together, these factors will allow the Council to begin 2012/13 on a financially sound basis with the ability to consider options for the most appropriate use of the increased level of balances.

### **Statement of Accounts**

The Council's accounts for the year 2011/12, covering the period 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2012, 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 2011/12, which now requires the Statement to comply with International Financial Reporting Standards (IFRS), as adapted for the public sector.

## Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

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

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

The Council's financial year runs from 1<sup>st</sup> April to 31<sup>st</sup> March. A summary of the Balance Sheet as at 31<sup>st</sup> March 2012 is shown below:

<b>2010/11</b>		<b>2011/12</b>
<b>£000</b>		<b>£000</b>
71,532	Property, Plant & Equipment	62,150
6,667	Heritage Assets	6,667
14,917	Investment Properties	14,270
536	Other Long Term Assets	618
32,402	Money owed to the Council	26,569
(19,379)	Money owed by the Council	(13,361)
(34,059)	Long Term Liabilities	(49,456)
<b>72,617</b>	<b>Net Assets</b>	<b>47,457</b>
11,477	Usable Reserves	10,337
61,140	Unusable Reserves	37,120
<b>72,617</b>	<b>Total Reserves</b>	<b>47,457</b>

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

- A significant downward valuation of Maidstone Leisure Centre has reduced the value of assets held under Property, Plant & Equipment.
- The amount of investments held at the end of the year has reduced substantially in comparison to 2010/11 due to the funding required for the capital programme, which included the major projects in the Museum, at Mote Park and the High Street Regeneration.
- The movement in money owed to the Council represents changes in the amounts due to or from the Government at year end in respect of Housing Benefits and Business Rates.
- Long Term Liabilities have increased as result of an increase in the pensions liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council.

### **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 £19.907m, which was funded as follows:

Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

	<b>£000</b>
Revenue Support Grant	1,530
Non-Domestic Rate Income	4,951
Council Tax Prior Year Adjustment	16
Council Tax Income	13,410
<b>Total</b>	<b>19,907</b>

Parish precepts are not included in the above table.

The initial net spend of £20.807m was calculated as follows:

	<b>£000</b>
Total Budget Requirement (from previous table)	19,907
Planned Contributions from Balances	886
Asset Replacement	(40)
Invest to Save	54
<b>Net Spend on General Fund Services</b>	<b>20,807</b>

The actual spend for revenue purposes was £20.02m, and there was a net increase in balances of £0.233m. The General Fund Balances at 31<sup>st</sup> March 2012 were £10.173m. A summary of the revenue spend for 2011/12 is shown below. During the year the number of portfolios was reduced from six to five. (The Corporate Services line includes appropriation entries shown as part of the Movement in Reserves Statement):

<b>Portfolio</b>	<b>Original Estimate £000</b>	<b>Revised Estimate £000</b>	<b>Actual £000</b>	<b>Variance to Revised £000</b>
Leader of the Council	2,817	2,664	593	(2,071)
Community & Leisure Services	8,320	8,118	8,514	395
Corporate Services	(2,635)	3,423	(4,677)	(8,100)
Economic Development & Transport	6,558	5,481	9,959	4,480
Environment	5,997	5,985	5,633	(352)
<b>Total Service Spending</b>	<b>21,057</b>	<b>25,671</b>	<b>20,022</b>	<b>(5,648)</b>

The most significant element of the above variance is a £2.304m underspend on the revenue budget set-aside to fund capital expenditure, within the Corporate Services portfolio. The expenditure on the programme was able to be funded primarily from grants and capital receipts, meaning this budget was not required in 2011/12, but will be required in future years, so it is being carried forward into 2012/13.

In addition a number of grants and other underspent budgets to the value of £1.237m across all the portfolios are also being carried forward in 2012/13.

The other major variances can be analysed as follows:

- Leader of the Council – Contingency budgets exist for extra cost pressures and new legislation, totalling £0.16m and concessionary fares of £0.2m.

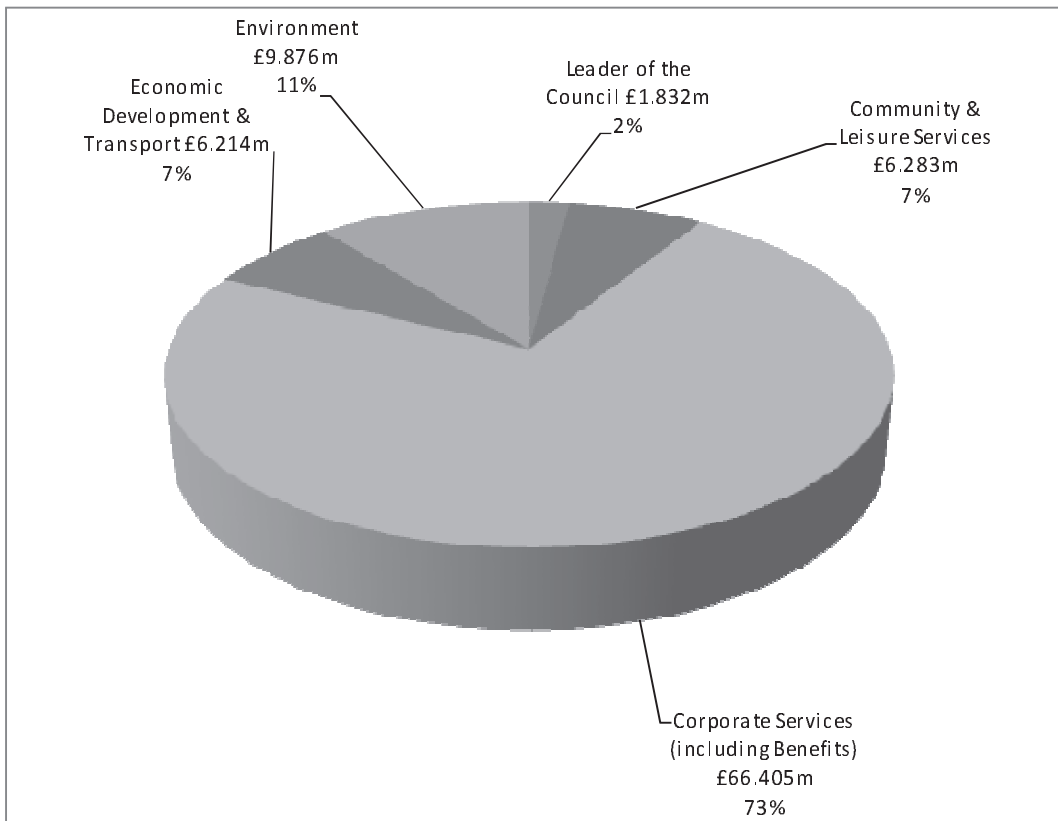
The concessionary fares contingency is a budget strategy saving in 2012/13. These resources were not required in 2011/12.

- Community & Leisure Services – Homelessness temporary accommodation has overspent by £0.17m due to a significant increase in demand.
- Corporate Services – Park Wood Equilibrium Unit rents were under recovered by £0.1m due to under occupancy. Council Tax administration and Council Tax benefit costs were both under spent. The under spend on both activities totalled £0.154m. The collection service has benefited from effective use of court procedures and the resulting higher levels of legal costs awarded. This portfolio also holds the budgets for the majority of central service support sections and in total an under spend in excess of £0.201m is reported, due mainly to staff vacancies.
- Economic Development & Transport – Park and Ride is reporting an over spend of £0.081m. The service manager along with the Cabinet Member, are actively pursuing a long term solution at this time. Development Management, including appeals but not enforcement, is reporting a total under spend of £0.125m due to vacancy levels and reduced use of professional services budgets. The Land Charges trading account has made a surplus of £0.095m. This variance is partly due to a government grant that was received to support changes to the service.
- Environment - The outturn figures for the on-street parking agency agreement with KCC have returned a surplus in excess of the agency agreement. The agreement allows for a maximum surplus that is index linked and currently stands at £0.074m. The surplus achieved is £0.192m. The Parking Services Manager has requested the carry forward of £0.117m of this surplus , the use of which is subject to confirmation from KCC.

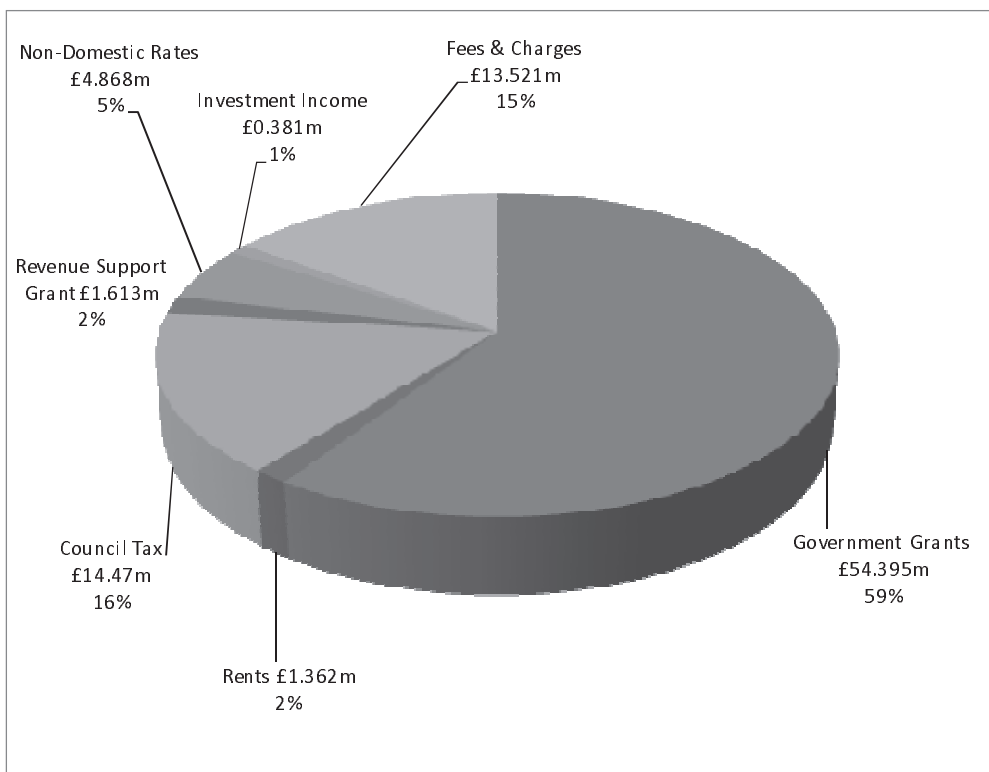
**Expenditure & Income** - The pie charts shown on the following page illustrate in broad terms where the Council's money comes from and the services that it provides.

17% 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 60% of the total.

**Spending – Where it Went**



**Income – Where it Came From**



## Capital Expenditure & Income

The Council spent £7.581m on Capital Projects compared to an original estimate of £7.711m. As a result of unused resources carried forward to 2012/13 and other adjustments to the programme during the year the revised estimate was set at £7.047m. Significant elements of the capital spending were the Museum extension (£1.342m), the Mote Park Regeneration Scheme (£1.356m), Renovation Grants (£1.305m), and the High Street Regeneration Scheme (£1.517m).

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 & Leisure Services	3,541	2,590	3,264	(674)
Corporate Services	330	292	427	(135)
Economic Development & Transport	3,814	4,039	3,816	223
Environment	26	126	74	52
<b>Total</b>	<b>7,711</b>	<b>7,047</b>	<b>7,581</b>	<b>(534)</b>

The variance on Community & Leisure Services is a combination of greater than anticipated spend on the Museum and Mote Park projects. In the case of the Mote Park project resources have been brought forward from 2012/13 to fund this. The variance on Corporate Services is due to software expenditure which is being funded by grant income.

Capital expenditure was funded as follows:

	£000
Revenue Support	2,490
Disposal of Assets - Current & Previous Years	2,500
Other Grants & Contributions	2,591
<b>Total</b>	<b>7,581</b>

The disposal of assets during the year realised capital receipts of £1.087m, and £0.056m of useable capital receipts have been carried forward for future use. In addition the Council has received £2.078m of funding to date from the Heritage Lottery Fund towards the new Museum extension. Funding of £0.824m has also been received from the Heritage Lottery Fund towards the Mote Park Regeneration Project. Grants to the value of £0.509m 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 2011/12, as there were sufficient resources available to fund the programme.

Investment income, which historically has been quite high, has now fallen to lower levels, with interest of £0.316m being generated in 2011/12. (The figure for 2010/11 was £0.359m). 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 had difficulty in disposing 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 2011/12 totalling £89.055m were as follows:

<b>Authority</b>	<b>£000</b>
Maidstone Borough Council	13,410
Kent County Council	63,184
Kent Police Authority	8,363
Kent & Medway Towns Fire & Rescue Authority	4,098
<b>Total</b>	<b>89,055</b>

The Band D level of Council Tax in 2011/12 was £1,476.80, which breaks down as follows:

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

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 38 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 £30.342m in 2010/11 to £46.566m in 2011/12.

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 31<sup>st</sup> March 2013.

### **Other Comments**

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

### **Future Developments**

Following the recent introduction of IFRS there are no significant changes currently proposed for local government accounting.

The ongoing economic situation will continue to have a significant effect on the financial position of the Council in 2012/13. 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 announced its intention in 2010 to abolish the Audit Commission, who audit the accounts of local government. Following a competitive process it has been announced from 2012/13 onwards the accounts of the Council will be audited by Grant Thornton.

### **Authorised for Publication**

This Statement was authorised for publication on 29<sup>th</sup> June 2012, 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 2011/12.

## **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](http://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(3) 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, and 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 2012 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 complementary priorities. Monitoring against the key measures of success and any corrective action 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 Services are delivered by trained and experienced staff. The details of human resources related initiatives are set out in an approved People Strategy.
- 3.5 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.
- 3.6 Compliance with established policies, procedures, laws and regulations is achieved through:

#### **Monitoring:**

- a) The monitoring of Corporate Governance has a high priority at the Council. This is demonstrated by the fact that monitoring is achieved through the Corporate Leadership Team that meets quarterly on this matter. In addition responsibility for operational control of the Council's arrangements is set at Head of Service level. The two key heads of service, Audit and Finance, are represented at the quarterly meetings.
- b) The Council has appointed 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 the Corporate Leadership Team, reports on a regular basis to the Council's Standards Committee.
- c) The Council has an effective overview and scrutiny process. This contributes significantly to the internal control environment.
- d) Standards and Audit Committees exist with a responsibility to monitor and improve the arrangements for Corporate Governance within the Council.

- e) The Cabinet consider and agree a Local Code of Corporate Governance annually, which is reviewed and reported to Cabinet on an annual basis by the Corporate Leadership Team. This document forms part of that report.

**Audit:**

- f) Internal Audit -The Council is a member of a well established and effective Internal Audit partnership that works to an approved three year audit plan. Individual audit reports are produced for the relevant managers, with a copy to the Chief Executive and the appropriate Director. A half yearly report is provided to the Audit Committee setting out the result of audit work during the first half of the financial year. An annual report to the Audit Committee provides an overview of audit work and an assessment of the effectiveness of Internal Audit.
- g) The annual report to the Audit Committee on 11 June 2012 contains the opinion of the Head of Audit Partnership that 'substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council'.
- h) 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. To achieve this there are effective professional relationships between the Council and its external auditors and inspectors.

**Risk Management:**

- 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.
- j) Risk management is a standard heading for consideration of all reports to Corporate Leadership Team and Members. A formal risk assessment is required for reports which require decisions on strategic issues or which seek approval for significant projects/funding.

**Performance Monitoring:**

- k) 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 the

Corporate Leadership Team and Cabinet and Overview and Scrutiny Committees.

- l) An Annual Corporate Planning Cycle approved by Cabinet which facilitates the effective planning of service delivery, including the identification of risks, and budgeting.
- m) 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 Corporate Leadership Team.
- n) A corporate project board exists, meeting quarterly and a project management toolkit is utilised to develop and monitor major projects. 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.
- o) The Council has had an “Investors in People” (IiP) award for a number of years, which involves regular appraisals, service and training planning, learning and development, training evaluation forms, recruitment and selection procedures and initiatives such as Work/Life Balance. The Council was re-accredited with IiP early in 2011.

**Finance:**

- p) Financial Monitoring with regular reporting to Officers authorised to spend, Corporate Leadership Team and Cabinet which facilitates the effective oversight and control of the budget.
- q) The Council has a Treasury Management Code of Practice and Strategy and Prudential Indicators which are monitored on a daily basis. The indicators are published as part of the Council’s annual budgets and are available from the following location:  
[http://www.maidstone.gov.uk/council\\_and\\_democracy/council\\_budgets\\_and\\_spending/annual\\_accounts.aspx](http://www.maidstone.gov.uk/council_and_democracy/council_budgets_and_spending/annual_accounts.aspx).
- r) 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.

**Transparency:**

- s) 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 Corporate Leadership Team and Standards Committee.

The agenda for meetings of the Standards Committee are available here:  
<http://meetings.maidstone.gov.uk/ieListMeetings.aspx?CIId=129&Year=2012>

- t) The Council publishes details of all Council spending to suppliers, senior officer salaries and details of all new contracts via its website.

The spending data can be viewed on the Council's website at:  
[http://www.maidstone.gov.uk/council\\_and\\_democracy/council\\_budgets\\_and\\_spending/payments\\_to\\_suppliers.aspx](http://www.maidstone.gov.uk/council_and_democracy/council_budgets_and_spending/payments_to_suppliers.aspx)

### **Partnerships:**

- u) The governance arrangements for partnership working have been reviewed and revised with the Local Strategic Partnership's dissolution and the establishment of the Maidstone Locality Board. The Board has significantly greater democratic representation from both the county and district councils.
- v) Greater partnership working has also been established with key partners, to support delivery of corporate priorities and objectives, including joint working on specific service areas and initiatives, such as community development, community safety and health promotion.
- w) The parish services scheme has been consulted upon and an implementation plan agreed for delivery during 2012/13, working collaboratively with parish councils, to will replace the previous concurrent functions grant funding.

## **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 Leadership Team. The review of effectiveness undertaken in 2011/12 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 During 2011/12 Corporate Leadership Team has made a number of changes to the way in which compliance with the local code of corporate governance is monitored. These changes formalise reporting through Covalent, the Council's performance management system, and will also improve the annual review work of Corporate Leadership Team.
- 4.3 The Council actively seeks opportunities to engage in external scrutiny, challenge and peer review. The Council also has effective internal



mechanisms for regularly reviewing governance controls. These have resulted in the following specific review activities in 2011/12.

- a) The Council responded positively to the annual external auditors audit opinion and value for money conclusion.
  - b) In March 2012 a Planning Peer Challenge was undertaken by the Local Government Association (LGA) in conjunction with the Planning Advisory Service (PAS).
  - c) A Resident Survey was conducted in December 2011. The survey provided a public assessment of satisfaction with how the Council runs its services. The results of the survey were reported to Cabinet in March 2012 .
  - d) The Council conducts regular employee surveys by alternating, on an annual basis, the employee engagement survey (Best Councils) and a stress survey. In 2011/12 a stress survey was completed.
  - e) An internal review of the success of the project management toolkit has been carried out by the Business Improvement Team.
  - f) Other examples of external challenge are the regular reviews of benefit processes by the Audit Commission (through the work on the Benefit Subsidy Grant Claim) and other assessments, such as those involved in the Chartermark and Beacon status. Benchmarking and other comparison processes are also regularly used.
- 4.4 The Council's Strategic Plan for 2011-15 was refreshed in 2011-12. A resident survey was carried out, with residents being asked to identify areas the council should be addressing. The responses helped to support the Cabinet's prioritisation of spending against services.
- 4.5 The Council has agreed an Improvement Plan, which is managed by the Business Improvement Team. The objectives of the improvement plan are will be monitored through the Improvement Plan Group throughout 2012/13. The Improvement Plan has three objectives:
- a) A reduction in net cost, through making savings or increased income
  - b) Improving or maintaining quality: ensuring we deliver excellent services, which means delivering what is promised to agreed standards
  - c) Identifying and responding to opportunities aligned with the Strategic Plan
- The plan can be found here:  
<http://meetings.maidstone.gov.uk/documents/s19320/Cabinet,%20Council%20or%20Committee%20Report%20for%20Improvement%20Plan%202012-15%20enc.%201.pdf>
- 4.5 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.

- 4.6 The effectiveness of the system of Internal Audit for 2011/12 was confirmed by a combination of an internal self-assessment and a customer satisfaction survey. The results of the exercise were reported to the Audit Committee in June 2012, which concluded that an effective internal audit service was in place in 2011/12.
- 4.7 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.
- 4.8 Corporate Leadership 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. The Council has developed new performance scorecards based on the balanced scorecard approach. This approach has been effectively used for reporting in 2011/12.
- 4.9 The Responsible Financial Officer and the Monitoring Officer have periodically reviewed the Constitution, procedures for internal financial control, and the application of the various Codes of Conduct. Members of the Corporate Leadership Team have specific responsibility for the relevant aspects of Corporate Governance.
- 4.10 The Cabinet agreed the Local Code of Corporate Governance for 2011/12. The code is reviewed, updated and reported to Cabinet on an annual basis.
- 4.11 The Corporate Leadership Team has considered the implications of the results of the review of the effectiveness of the corporate governance system and a plan, to address the issues identified in table 2 of section 5 of this statement and to ensure continuous improvement, is in place.

## 5 SIGNIFICANT GOVERNANCE ISSUES

5.1 The Statement of Internal Control for 2010/11, considered in June 2011, contained a small number of issues which were to be addressed during 2011/12 and these, and the actions taken during the year, are detailed in table 1 below.

<b>Governance Issue</b>	<b>Action Taken in Year</b>	<b>Outcome</b>
<p><b>Audit reports with levels of assurance lower than substantial.</b></p> <p>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).</p>	<p>Follow up reviews were completed on all three areas.</p>	<p>All three areas achieved a substantial level of assurance at review.</p>
<p><b>Locality Board for Maidstone</b></p> <p>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.</p>	<p>The changes to the partnership architecture have been agreed and implemented with the creation of the Maidstone Locality Board. The Board have identified its key priorities which align with those of the key partners and the council's Strategic Plan</p>	<p>Locality Board established Priorities identified Work programme and actions being developed to be agreed at the June Locality Board meeting</p>
<p><b>Parish Council Funding</b></p> <p>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.</p>	<p>The review of the concurrent functions grant scheme has been undertaken and consulted upon and a new Parish Services scheme has been devised</p>	<p>Parish Services scheme designed Implementation plan produced Pricing schedule produced Individual agreements to be established during 2012/13</p>

<p><b>Investors in People 2010</b></p> <p>The review report recommended a small number of areas for focus in the coming year.</p> <ul style="list-style-type: none"> <li>a) to strengthen the approach to coaching in the organisation,</li> <li>b) to enable a better follow through of objectives after a restructure to ensure good practice remains embedded and</li> <li>c) the development of a more consistent approach to team meetings within the organisation</li> </ul>	<p>Several members of staff, including the Learning &amp; Development Manager are involved with the Kent Coaching and mentoring scheme which requires them to become trained as a coach and this then to become trained as a coach and this then enables the organisation to have access to trained coaches and mentors throughout Kent.</p> <p>The organisation has commenced One Council briefings to clarify the organisations purpose and use this as the basis for role alignment – this will continue to be rolled out with teams.</p> <p>Core brief documents are now produced to give a consistent framework for team meetings.</p>	<p>The impact of these actions will be gauged during the year through the Best Councils’ employee survey</p>
<p><b>Actions from the Peer Review of the Audit Committee:</b></p> <ul style="list-style-type: none"> <li>a) Improvement to the Member’s training programme</li> <li>b) The tracking of recommendations</li> <li>c) The expansion of the committees role regarding governance &amp; partnerships</li> </ul>	<p>A Member training programme was developed and introduced in 2011/12.</p> <p>Forward programme for the Committee produced</p> <p>Chairman’s briefings undertaken</p>	<p>Independent Committee member to be appointed</p> <p>Review and implementation of any remaining recommendations to be completed during 2012/13</p>

<p><b>Committee and Cabinet Structure</b></p> <p>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</p>	<p>A review of the Committee and Cabinet Structure was undertaken in 2011 culminating in a report to Council on 27 April 2011</p>	<p>A range of options were considered the review focussed on how best to retain the strengths of the current arrangements while removing rarely used Committees, removing duplication and otherwise seeking to make the Council's arrangements more effective and efficient within the resources available.</p> <p>As a result of the review a number of changes were made including reducing the number of scrutiny committees from 4 to 3, aligning the scrutiny structure to the Council's strategic priorities. The number of council committees overall was reduced and terms of reference clarified. The Strategic Housing Advisory Committee was disbanded and replaced with a more effective housing consultative board</p>
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5.2 During the review of the effectiveness of Corporate Governance in 2011/12 a small number areas have been identified for further work in 2012/13. These are detailed in table 2 below.

<b>Governance Issue</b>	<b>Required Action</b>	<b>Target Date</b>
<p><b>Audit reports:</b></p> <p>Reports with levels of assurance lower than substantial.</p>	<p>At the end of 2011/12 the following report had a control assurance of 'limited' but had not had a follow up review: Emergency Planning</p>	<p>A follow up review will be completed by July 2012.</p>
<p><b>Annual External Audit Report:</b></p> <p>Recommendations arising from report</p>	<p>Review &amp; replace the asset register</p>	<p>As part of service plan by November 2012</p>
<p><b>Planning Peer Review:</b></p> <p>Recommendations arising from review</p>	<p>The Peer Review was conducted in March 2012 and the final report was received in May 2012; an action plan needs to be produced and a workshop, facilitated by the Planning Advisory Service, is scheduled for June 12<sup>th</sup> 2012. The outcomes of this will be presented to the Cabinet Member for Planning and Transport for consideration and agreement of the actions to be implemented</p>	<p>Action Plan to be agreed July 2012</p> <p>Actions to be integrated into the relevant service plans and reviewed according to the corporate service planning and performance monitoring timetable</p>
<p><b>Residents survey:</b></p> <p>Actions arising from specific satisfaction level results.</p>	<p>Service Managers have been asked to consider the results of the survey and incorporate actions into their service plans.</p>	<p>Target dates are monitored as part of one to one meetings that include all service plan actions. Target dates will vary.</p>
<p><b>Stress Survey:</b></p> <p>Need to clarify individual roles and purpose.</p> <p>Support to reduce bully at work.</p>	<p>Progress through the employee engagement programme as part of the "One Council" briefings</p> <p>e-learning interactive training to be provided.</p>	<p>One Council May 2012</p> <p>Employee Engagement work in teams June 2012 to March 2013</p> <p>September 2012</p>

<p><b>Project Management:</b></p> <p>Enhance project sponsorship.</p>	<p>New project sponsorship toolkit to be compiled and service managers to be trained.</p>	<p>Training to be underway by September 2012.</p>
<p><b>OSC Review of Governance:</b></p>	<p>The objective is to improve transparency and accountability in decision making at Maidstone Council.</p> <p>The review will be conducted using the Centre for Public Scrutiny’s local accountability framework and will be undertaken by the scrutiny team supported by the Mid Kent audit team.</p> <p>The mechanism for member participation in the review is dependent on the outcomes from O&amp;S Committee work programme discussions which are currently on-going; if not part of the O&amp;S programme then an alternative arrangement will be sought.</p>	<p>Commence July 2012.</p> <p>Review completed by December 2012 for subsequent consideration by Full Council.</p>
<p><b>Museum East Wing project:</b></p> <p>Outcomes from the review</p>	<p>The Cabinet had expressed concerns regarding the Museum East Wing project and have commissioned separate reviews on the contract management and fundraising management arrangements.</p>	<p>Reports will continue to be provided to Cabinet, the Cabinet Member and the Audit Committee during 2012 to ensure lessons learned are incorporated for future projects</p>

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.



Alison Broom – Chief Executive Cllr.Chris Garland – 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 31<sup>st</sup> March 2012.

**Signed:**



Zena Cooke, Director of Regeneration & Communities

**Date: 29<sup>th</sup> June 2012**



## PRIMARY STATEMENTS

### MOVEMENT IN RESERVES STATEMENT

For the years ended 31<sup>st</sup> March 2011 & 2012

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31st March 2010</b>	8,389	1,954	62	10,405	31,132	41,537
<b>Movement in Reserves during 2010/11 (Restated)</b>						
Surplus or Deficit on the Provision of Services	5,475			5,475		5,475
Other Comprehensive Income or Expenditure					25,605	25,605
<b>Total Comprehensive Income or Expenditure</b>	<b>5,475</b>	<b>0</b>	<b>0</b>	<b>5,475</b>	<b>25,605</b>	<b>31,080</b>
Adjustments between Accounting Basis and Funding Under Regulation (Note 5)	(3,925)	(486)	8	(4,403)	4,403	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>(3,925)</b>	<b>(486)</b>	<b>8</b>	<b>(4,403)</b>	<b>4,403</b>	<b>0</b>
<b>Transfers to/from Earmarked Reserves</b>						
<b>Increase or Decrease in 2010/11</b>	<b>9,939</b>	<b>1,468</b>	<b>70</b>	<b>11,477</b>	<b>61,140</b>	<b>72,617</b>

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31st March 2011</b>	9,939	1,468	70	11,477	61,140	72,617
<b>Movement in Reserves during 2010/11</b>						
Surplus or Deficit on the Provision of Services	(5,157)			(5,157)		(5,157)
Other Comprehensive Income or Expenditure					(20,003)	(20,003)
<b>Total Comprehensive Income or Expenditure</b>	<b>(5,157)</b>			<b>(5,157)</b>	<b>(20,003)</b>	<b>(25,160)</b>
Adjustments between Accounting Basis and Funding Under Regulation (Note 5)	5,391	(1,414)	40	4,017	(4,017)	
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>5,391</b>	<b>(1,414)</b>	<b>40</b>	<b>4,017</b>	<b>(4,017)</b>	
<b>Transfers to/from Earmarked Reserves</b>						
<b>Increase or Decrease in 2011/12</b>	<b>10,173</b>	<b>54</b>	<b>110</b>	<b>10,337</b>	<b>37,120</b>	<b>47,457</b>

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ended 31<sup>st</sup> March 2011 & 2012

2010/11 (Restated)		2011/12		Net
Gross Expenditure £000	Gross Income £000	Gross Expenditure £000	Gross Income £000	Expenditure £000
64,025	(60,720)	66,122	(65,812)	310
23,803	(7,987)	28,693	(7,297)	21,396
5,899	(3,865)	2,934	(3,246)	(312)
5,678	(544)	4,234	(651)	3,583
2,241	(104)	2,281	(34)	2,247
191		123		123
2,044	(469)			
	(9,843)			
<b>103,881</b>	<b>(83,532)</b>	<b>104,387</b>	<b>(77,040)</b>	<b>27,347</b>
972	(725)	1,056	(580)	476
2,076	(752)	1,111	(152)	959
	(27,394)		(23,625)	(23,625)
				<b>5,157</b>
				3,401
				16,602
				<b>20,003</b>
				<b>25,160</b>

There were no items of a material nature that required a separate disclosure within Net Cost of Services.

## BALANCE SHEET

As at 31<sup>st</sup> March 2011 & 2012

1st April 2010 (Restated) £000	31st March 2011 (Restated) £000		Notes	31st March 2012 £000
69,337	71,532	Property, Plant & Equipment	17	62,150
15,029	14,917	Investment Property	18	14,270
6,633	6,667	Heritage Assets	20	6,667
474	458	Intangible Assets	22	574
11	11	Long Term Investments	23	11
174	68	Long Term Debtors	27	34
91,658	93,653	<b>Long Term Assets</b>		83,706
5,000	12,000	Short Term Investments	23	7,000
5,405	2,264	Assets Held for Sale	25	3,475
98	83	Inventories	26	103
16,211	9,050	Short Term Debtors	27	9,194
3,670	9,005	Cash & Cash Equivalents	28	6,797
30,384	32,402	<b>Current Assets</b>		26,569
213	730	Cash & Cash Equivalents	28	100
7,506	13,376	Short Term Creditors	29	7,790
2,289	2,488	Provision for Bad Debts	30	2,880
1,143	1,107	Deferred Liability	33/34	993
1,440	1,678	Capital Grants Receipts in Advance	31	1,599
12,591	19,379	<b>Current Liabilities</b>		13,362
25	0	Long Term Creditors	-	0
(32)	87	Provisions	36	83
3,644	3,630	Deferred Liability	33/34	2,807
64,277	30,342	Other Long Term Liabilities	38	46,566
67,914	34,059	<b>Long Term Liabilities</b>		49,456
<b>41,537</b>	<b>72,617</b>	<b>Net Assets</b>		<b>47,457</b>
10,405	11,477	Usable Reserves	35	10,337
31,132	61,140	Unusable Reserves	36	37,120
<b>41,537</b>	<b>72,617</b>	<b>Total Reserves</b>		<b>47,457</b>

The Balance Sheets as at 1<sup>st</sup> April 2010 and 31<sup>st</sup> March 2011 have been restated to reflect the introduction in 2011/12 of the Heritage Assets classification. The restatement is required to show what the position would have been had the requirement to account for Heritage Assets been in place at that time. Further prior year adjustments have been made in respect of IFRIC 4 (Lease Type Arrangements) and capital grants and contributions entries.

## CASHFLOW STATEMENT

2010/11 £000	Notes	2011/12 £000
(8,975)	Net (surplus) or deficit on the provision of services	5,160
(3,221)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 45)	(2,470)
3,947	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities (Note 46)	1,378
<b>(8,249)</b>	<b>Net cash flows from Operating activities</b>	<b>4,068</b>
6,766	Investing Activities (Note 48)	(2,671)
<b>(3,336)</b>	Financing Activities (Note 47)	<b>181</b>
<b>3,430</b>	<b>Net increase or decrease in cash &amp; cash equivalents</b>	<b>(2,490)</b>
(3,456)	Cash & cash equivalents at the beginning of the reporting period	(8,275)
<b>(8,275)</b>	<b>Cash &amp; cash equivalents at the end of the reporting period (Note 28)</b>	<b>(6,697)</b>

## NOTES TO THE ACCOUNTS

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### 1 - ACCOUNTING POLICIES

#### a) GENERAL

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31<sup>st</sup> March 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12, 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 Council 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 Council.
- 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 Council.

- 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 Council'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 Council'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

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Council'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 non-current 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 Council 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 Council. 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 Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income & Expenditure Statement when the Council 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 Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Post 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. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **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 Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing & 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 Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income & 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 Council 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.

## **k) HERITAGE ASSETS**

### **Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

The Council's Heritage Assets fall into the following main categories:

- Museum Exhibits
- War Memorials
- Statues, Sculptures and other works of art
- Listed Buildings

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, and the valuation methods applied are as follows:

- Replacement Cost
- Purchase Cost
- Insurance Valuation

Where it is considered impractical (in terms of cost and/or benefit) to obtain a valuation there is no requirement to do so, but any assets that are treated in this way must be disclosed in the Heritage Assets note.

The carrying amount of Heritage Assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

## **l) 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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income & Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income & Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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.

## **m) INVENTORIES & LONG-TERM CONTRACTS**

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.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works received under the contract during the financial year.

## **n) 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

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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.

## **o) 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 Council has no leases classified as finance leases.

Operating Leases:

Where the Council 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.

### **p) 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 2011/12. 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 defined in the Service Expenditure Reporting Code of Practice 2011/12 and accounted for as separate headings in the Comprehensive Income & Expenditure Statement, as part of Net Expenditure on Continuing Services.

#### **q) 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 1<sup>st</sup> 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.

**r) 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, in this instance Maidstone Leisure Centre.

**s) 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.

**t) 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.

Certain reserves are kept to manage the accounting process for non-current assets, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant properties.

**u) 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.

**v) 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.

**w) 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.

#### **x) 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.

#### **y) 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.

**z) 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 .

## **2 - 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 has been 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.
- A review was undertaken to identify what assets the Council owns could potentially be classified as Heritage Assets. Once a list had been established it was determined which of these met the criteria to be classified as a Heritage Asset, and a further judgement was required to determine the appropriate basis for valuation, or whether details of the asset should be disclosed in the note only.

### **3 - 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 31<sup>st</sup> March 2012 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 £13.035m. However, the assumptions interact in complex ways. A one year decrease in the mortality age rating assumption would result in an increase to the pension liability of £4.391m.

## **Arrears**

### Uncertainties:

At 31<sup>st</sup> March 2012 the Council had a balance of sundry debtors for £9.193m. A review of significant balances suggested that a provision of doubtful debts for £2.496m 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 £1.8m 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 £0.315m. If interest rates had been 1% higher then the interest receivable upon its variable rate investments would have been £63,000 more. If the rates were 1% less this would be reversed.



**4 - ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

International Accounting Standard 8 requires the Council to disclose the expected impact of new standards that have been issued, but not yet adopted. There are no new standards that have been issued, but not yet adopted relevant to this Council.

**5 - 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.

Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

2011/12	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	2,918			2,918
Revaluation losses on Property, Plant & Equipment	4,808			4,808
Movement in the market value of Investment Properties	228			228
Amortisation of intangible assets	183			183
Capital grants and contributions applied	(2,592)			(2,592)
Revenue expenditure funded from capital expenditure under statute	4,018			4,018
Prior Year Adjustments				0
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				0
<b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>				
Statutory provision for the financing of capital investment	(935)			(935)
Capital expenditure charged against the General Fund balance	(2,489)			(2,489)
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>				
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(40)		40	0
Application of grants to capital financing transferred to the Capital Adjustment Account				0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(359)	1,120		761
Use of the Capital Receipts Reserve to finance new capital expenditure		(2,500)		(2,500)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	22	(22)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	12	(12)		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				0
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement				0
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	2,296			2,296
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,674)			(2,674)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
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
<b>Adjustments primarily involving the Accumulated Absences Account</b>				
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	(5)			(5)
<b>Total Adjustments</b>	<b>5,391</b>	<b>(1,414)</b>	<b>40</b>	<b>4,017</b>

Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>2010/11 Comparative Figures (Restated)</b>				
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	1,960			1,960
Revaluation losses on Property, Plant & Equipment				0
Movement in the market value of Held for Sale Assets				0
Amortisation of intangible assets	234			234
Capital grants and contributions applied	(3,613)			(3,613)
Revenue expenditure funded from capital expenditure under statute	4,119			4,119
Prior Year Adjustments	995			995
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
<b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>				
Statutory provision for the financing of capital investment	1,802			1,802
Capital expenditure charged against the General Fund balance	(48)			(48)
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>				
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement			9	9
Application of grants to capital financing transferred to the Capital Adjustment Account			(1)	(1)
<b>Adjustments primarily involving the Capital Receipts Reserve</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(3,577)	3,583		6
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	6	(6)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool				0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				0
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement				0
<b>Adjustments primarily involving the Pensions Reserve</b>				
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)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
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
<b>Adjustments primarily involving the Accumulated Absences Account</b>				
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
<b>Total Adjustments</b>	<b>(3,925)</b>	<b>(486)</b>	<b>8</b>	<b>(4,403)</b>

## 6 - MATERIAL ITEMS OF INCOME & EXPENSE

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

### Income:

- Recognition of capital grants received - £2.435m \*
- Office accommodation recharge for Maidstone House - £1.254m
- IT Recharges - £1.089m

### Expense

- Pension Fund adjustments - £10.215m \*
- Revenue Funding for the Capital Programme - £2.145m
- Revenue Expenditure Funded by Capital Under Statute (Renovation Grants) - £1.344m \*
- Revenue Expenditure Funded by Capital Under Statute (Social Housing Grants) - £1.305m \*

\* 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.

## 7 - OTHER OPERATING EXPENDITURE

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Parish Council precepts	1,044	966
Payments to the Government Housing Capital		
Receipts Pool	12	6
Gains/losses on the disposal of non-current assets	(580)	(725)
	<b>476</b>	<b>247</b>

## 8 - 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.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Interest payable and similar charges	414	376
Pensions interest cost & expected return on pensions assets	697	1,700
Interest receivable and similar income	(316)	(359)
Income & Expenditure in relation to investment properties and changes in their fair value	164	(393)
	<b>959</b>	<b>1,324</b>

## 9 - 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.

	<b>2011/12</b>	<b>2010/11</b>
<b>Restated</b>	<b>£000</b>	<b>£000</b>
Council tax income	14,470	14,267
Non domestic rates	4,868	8,308
Non-ringfenced government grants	1,654	1,206
Capital grants & contributions	2,633	3,613
	<b>23,625</b>	<b>27,394</b>

## 10 - 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.

During 2011/12 the portfolio responsibilities were changed and the number reduced from 6 to 5. As the decisions made in 2010/11 were on the basis of the portfolio structure in place at that time the figures have not been restated to reflect the revised structure that was put in place in 2011/12.

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

Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

<b>Portfolio Holder Income &amp; Expenditure 2011/12</b>	<b>Leader of the Council £000</b>	<b>Community &amp; Leisure £000</b>	<b>Corporate Services £000</b>	<b>Economic Development &amp; Transport £000</b>	<b>Environment £000</b>	<b>Total £000</b>
Fees, charges & other service income	(804)	(862)	(1,305)	(4,238)	(5,206)	<b>(12,415)</b>
Government Grants	(1,076)	(75)	(53,162)	(34)	(47)	<b>(54,394)</b>
<b>Total income</b>	<b>(1,880)</b>	<b>(937)</b>	<b>(54,467)</b>	<b>(4,272)</b>	<b>(5,253)</b>	<b>(66,809)</b>
Employee expenses	1,047	1,835	6,341	2,300	3,963	<b>15,486</b>
Other service expenses	854	7,611	58,842	10,663	10,749	<b>88,719</b>
Support service recharges	572	8	(8,073)	1,270	(3,826)	<b>(10,049)</b>
<b>Total expenditure</b>	<b>2,473</b>	<b>9,454</b>	<b>57,110</b>	<b>14,233</b>	<b>10,886</b>	<b>94,156</b>
<b>Net Expenditure</b>	<b>593</b>	<b>8,517</b>	<b>2,643</b>	<b>9,961</b>	<b>5,633</b>	<b>27,347</b>

<b>Portfolio Holder Income &amp; Expenditure 2010/11 comparative figures (Restated)</b>	<b>Leader of the Council £000</b>	<b>Community Services £000</b>	<b>Corporate Services £000</b>	<b>Environment £000</b>	<b>Leisure &amp; Culture £000</b>	<b>Regeneration £000</b>	<b>Total £000</b>
Fees, charges & other service income	(521)	(465)	(12,114)	(5,060)	(4,519)	(1,287)	<b>(23,967)</b>
Government Grants	(23)	(6)	(49,217)	(508)	0	(539)	<b>(50,293)</b>
<b>Total income</b>	<b>(544)</b>	<b>(471)</b>	<b>(61,332)</b>	<b>(5,569)</b>	<b>(4,519)</b>	<b>(1,826)</b>	<b>(74,260)</b>
Employee expenses	716	601	6,715	4,143	1,594	3,105	<b>16,875</b>
Other service expenses	688	1,706	55,777	16,138	6,425	6,010	<b>86,744</b>
Support service recharges	264	(215)	(7,261)	(4,069)	1,480	790	<b>(9,010)</b>
<b>Total expenditure</b>	<b>1,668</b>	<b>2,093</b>	<b>55,232</b>	<b>16,212</b>	<b>9,500</b>	<b>9,906</b>	<b>94,610</b>
<b>Net Expenditure</b>	<b>1,124</b>	<b>1,621</b>	<b>(6,100)</b>	<b>10,644</b>	<b>4,980</b>	<b>8,080</b>	<b>20,349</b>

**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.

	<b>2010/11</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>
Net Expenditure in Portfolio Analysis	27,347	20,349
Amounts reported below the line on the Net Cost of Services	0	0
<b>Cost of services in Comprehensive Income &amp; Expenditure Statement</b>	<b>27,347</b>	<b>20,349</b>

### 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.



Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

2011/12	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	(12,415)		(12,415)		(12,415)
Interest & investment income			0	(316)	(316)
Income from council tax			0	(14,470)	(14,470)
Government grants and contributions	(54,394)		(54,394)	(9,155)	(63,549)
<b>Total Income</b>	<b>(66,809)</b>	<b>0</b>	<b>(66,809)</b>	<b>(23,941)</b>	<b>(90,750)</b>
Employee expenses	15,486		15,486	697	16,183
Other service expenses	88,719		88,719	164	88,883
Support Service recharges	(10,049)		(10,049)		(10,049)
Depreciation, amortisation and impairment			0		0
Interest Payments			0	414	414
Precepts & Levies			0	1,044	1,044
Payments to Housing Capital Receipts Pool			0	12	12
Gain or Loss on Disposal of Fixed Assets			0	(580)	(580)
<b>Total Expenditure</b>	<b>94,156</b>	<b>0</b>	<b>94,156</b>	<b>1,751</b>	<b>95,907</b>
<b>Surplus or deficit on the provision of services</b>	<b>27,347</b>	<b>0</b>	<b>27,347</b>	<b>(22,190)</b>	<b>5,157</b>

2010/11 comparative figures (Restated)	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)	(752)
Income from council tax			0	(14,267)	(14,267)
Government grants and contributions	(50,293)		(50,293)	(13,125)	(63,418)
<b>Total Income</b>	<b>(74,259)</b>	<b>0</b>	<b>(74,259)</b>	<b>(28,144)</b>	<b>(102,403)</b>
Employee expenses	16,874		16,874	1,700	18,574
Other service expenses	86,745		86,745		86,745
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)
<b>Total Expenditure</b>	<b>94,608</b>	<b>0</b>	<b>94,608</b>	<b>2,321</b>	<b>96,929</b>
<b>Surplus or deficit on the provision of services</b>	<b>20,349</b>	<b>0</b>	<b>20,349</b>	<b>(25,823)</b>	<b>(5,474)</b>

## 11 - 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	2011/12		(Surplus)/	2010/11
	Income	Expenditure	Deficit	
	£000	£000	£000	£000
Market	649	520	(129)	(115)
Parkwood Industrial Estate	363	36	(327)	(378)
Pay & Display Car Parking	1,649	798	(851)	(773)
On-street Car Parking	598	558	(40)	25
MBS Support Crew	140	140	0	0
Building Cleaning	95	95	0	0
Street Cleaning	1,407	1,407	0	0
Parks	1,645	1,645	0	0
<b>Net (Surplus)/ Deficit</b>	<b>6,546</b>	<b>5,199</b>	<b>(1,346)</b>	<b>(1,266)</b>

## 12 - MEMBERS' ALLOWANCES

The total sum of Members Allowances paid during 2011/12 totalled £415,578. (£430,682 in 2010/11).

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

### 13 - OFFICERS' REMUNERATION

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

2011/12	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	106	16	122	14	<b>136</b>
Director of Change, Planning & the Environment	94	5	99	13	<b>112</b>
Director of Regeneration & Communities	94	4	98	13	<b>111</b>
Head of Legal Services	66	4	70	9	<b>79</b>

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

Senior Officers are defined as those who sit on the Corporate Leadership 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	2011/12 No. of employees	2010/11 No. of employees
£50,000 - £54,999	5	3
£55,000 - £59,999	4	5
£60,000 - £64,999	2	1
£65,000 - £69,999	3	3
£70,000 - £74,999	0	0
£75,000 - £79,999	2	2
£80,000 - £84,999	0	0
£85,000 - £89,999	1	1
£90,000 - £94,999	0	0

**Exit Packages**

Although a number of officers were made redundant during 2011/12, none of these redundancies took the form of exit packages. Further details of redundancies are disclosed in note 41 (Termination Benefits)

**14 - 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.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Fees payable with regard to external audit services carried out by the appointed auditor for the year	111	108
Fees payable for the certification of grant claims and returns during the year	29	32
Fees payable in respect of other services provided during the year	(0)	5
<b>Total</b>	<b>140</b>	<b>145</b>

**15 - GRANT INCOME**

The Council has credited the following grants, contributions and donations to the Comprehensive Income & Expenditure Statement in 2011/12:

	<b>2011/2012</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Credited to Taxation &amp; Non Specific Grant Income</b>		<b>Restated</b>
Council tax income	14,470	14,267
Non domestic rates	4,868	8,308
Non-ringfenced government grants	1,654	1,206
Capital grants & contributions	2,633	3,613
<b>Total</b>	<b>23,625</b>	<b>27,394</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy	41,610	38,313
Council Tax Benefits	10,829	10,639
Concessionary Fares	0	467
Growth Point	0	483
Non-Domestic Rates - Cost of Collection	205	208
Housing & Planning Delivery Grant	1,038	0
Other Grants	530	183
<b>Total</b>	<b>54,212</b>	<b>50,293</b>

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:

	<b>31st</b>
	<b>March</b>
	<b>2012</b>
<b>Capital Grants Receipts in Advance</b>	<b>£000</b>
Section 106 Contributions	1,545
Other Contributions	54
<b>Total</b>	<b>1,600</b>

## 16 - 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 10 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 2011/12 is shown in Note 12.

### **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 Director of a company that did business to the value of £43,000 with the Council.

**17 - PROPERTY, PLANT & EQUIPMENT**

**Movements on Balances**

<b>Movements in 2011/12</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Land &amp; Buildings</b>	<b>Plant, Machinery &amp; Equipment</b>	<b>Vehicles</b>	<b>IT &amp; Office Equipment</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant &amp; Equipment</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuations</b>								
At 1st April 2011	5,855	776	62,548	4,240	4,023	4,225	0	81,667
Additions	13	1,443	1,802	413	16	112	0	3,799
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	(4,811)	0	0	0	0	(4,811)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services			(5,774)					(5,774)
Assets Reclassified (to)/from Assets Held for Sale			(10)					(10)
Other movements in cost or valuation	0	(39)	(1,247)	0	0	0	0	(1,286)
At 31st March 2012	5,868	2,180	52,509	4,653	4,039	4,337	0	73,586
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2011	(2,861)	0	(2,303)	(1,357)	(2,455)	(1,159)	0	(10,135)
Depreciation charge	(284)	0	(870)	(369)	(609)	(401)	0	(2,533)
Depreciation written out to the Revaluation Reserve			198					198
Depreciation written out to the Surplus/Deficit on the Provision of Services			965					965
Other movements in depreciation or impairment	0	0	69	0	0	0	0	69
At 31st March 2012	(3,145)	0	(1,941)	(1,726)	(3,064)	(1,560)	0	(11,436)
<b>Net Book Value</b>								
At 31st March 2012	2,723	2,180	50,568	2,927	975	2,777	0	62,150
At 31st March 2011	2,993	776	60,245	2,883	1,569	3,066	0	71,532

<b>Comparative Movements in 2010/11 (Restated)</b>	<b>Infrastructure £000</b>	<b>Community Assets £000</b>	<b>Land &amp; Buildings £000</b>	<b>Plant, Machinery &amp; Equipment £000</b>	<b>Vehicles £000</b>	<b>IT &amp; Office Equipment £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or Valuations</b>								
At 1st April 2010	5,816	479	58,752	3,684	3,977	4,206	0	76,914
Additions	38	297	3,434	556	46	19	0	4,390
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	62,547	4,240	4,023	4,225	0	81,665
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2010	(2,575)	0	(1,369)	(1,016)	(1,849)	(762)	0	(7,571)
Depreciation charge	(286)	0	(1,031)	(341)	(605)	(397)	0	(2,660)
Other movements in depreciation or impairment	0	0	98	0	0	0	0	98
At 31st March 2011	(2,861)	0	(2,302)	(1,357)	(2,454)	(1,159)	0	(10,133)
<b>Net Book Value</b>								
At 31st March 2011	2,993	776	60,245	2,883	1,569	3,066	0	71,532



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 have been reclassified as Heritage Assets as outlined in note 20.

### **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 31<sup>st</sup> March 2012 the Council has entered into a number of contracts in 2012/13 and future years budgeted to cost £3.017m. Similar commitments at 31<sup>st</sup> March 2011 were £7.5m. The major commitments are:

- Relocation of CCTV Control Room: £0.238m
- Mote Park Regeneration Project: £0.916m
- High Street Regeneration Project: £0.712m
- Payments to Housing Associations £1.151m

### **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 externally by Harrison's Chartered Surveyors. 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 1<sup>st</sup> April 2011.

The table also shows the historic cost values of the various asset classes, which were established at 1<sup>st</sup> April 2007 when the current capital accounting requirements came into force.

	Infrastructure Assets £000	Community Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Total £000
Carried at historical cost	2,723	2,179	479	2,926	976	2,777	12,060
Valued at fair value as at:							
31st March 2008			3,434				3,434
31st March 2009			1,904				1,904
31st March 2010			43,409				43,409
31st March 2011			481				481
31st March 2012			862				862
<b>Total Cost or Valuation</b>	<b>2,723</b>	<b>2,179</b>	<b>50,569</b>	<b>2,926</b>	<b>976</b>	<b>2,777</b>	<b>62,150</b>
Historic Cost Valuation	2,700	2,149	36,540	2,916	976	2,777	48,058

### 18 - 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:

	2011/12 £000	2010/11 £000
Rental income from investment property	(649)	(723)
Direct operating expenses arising from investment property	341	330
<b>Net (gain)/loss</b>	<b>(308)</b>	<b>(393)</b>

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:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at start of the year	14,917	15,029
<b>Additions:</b>		
Subsequent expenditure	299	
Disposals	(480)	
Net gains/losses from fair value adjustments	(466)	
Other changes		(112)
Balance at end of year	<b>14,270</b>	<b>14,917</b>

#### 19 – HERITAGE ASSETS: 5 YEAR SUMMARY OF TRANSACTIONS

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance Brought Forward	6,432	6,478	6,548	6,633	6,667
Acquisitions	46	70	84	34	
Disposals					
<b>Balance Carried Forward</b>	<b>6,478</b>	<b>6,548</b>	<b>6,633</b>	<b>6,667</b>	<b>6,667</b>

#### 20 – HERITAGE ASSETS: FURTHER INFORMATION

	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Museum Exhibits	5,478	5,478
War Memorials	450	450
Statues & Sculptures	460	460
Other Items	280	280
	<b>6,667</b>	<b>6,667</b>

#### Museum Exhibits

The exhibits are held in two main locations, the Maidstone Museum & Bentrif Art Gallery, and the Carriage Museum. Further information on the museums and their collections can be seen on their dedicated website:

<http://www.museum.maidstone.gov.uk/>

Maidstone Museum has recently been the subject of a major refurbishment, including the creation of a new extension to the Museum, which has recently opened. This has extended the amount of the collection that is on view to the public, and has also improved the storage facilities for the remainder of the collection.

Included within the total value of £5.478m are a number of significant items:

- A copy of a Lambeth Bible valued at £1m
- A number of Japanese woodblock prints valued in total at £1.2m
- A number of Japanese Netsuke sculptures valued in total at £0.8m
- A number of Japanese Inro exhibits valued in total at £0.6m

The total of £5.478m represents those items that have formally been valued for insurance purposes by a number of reputable auction houses. The value of the total collection is likely to be far higher, and is valued for insurance purposes at £17.5m, but it is considered that it would not be cost-effective or of any significant benefit to formally value the entire collection.

The museums' collections are administered with reference to an Acquisition and Disposal policy approved by the museums' governing body (the Council). This is a requirement of the Museums, Libraries & Archives Council's (MLA) 'Accreditation' Scheme (now operated by Arts Council England). Its purpose is to review the present state and use of the collections and define how artefacts and specimens enter and leave the collections. It ensures material is accepted according to a recognized strategy, serves as a reference document to guide curatorial decisions and encourages public confidence in the Museum as a suitable repository. It covers the recording of artefacts and specimens and through its use determines how widely the collections can be accessed by the general public (e.g. digitisation of the records will enable remote access to the collections via the Internet).

### **War Memorials**

The Council is responsible for two war memorials, one in the Broadway and the other in Brenchley Gardens. A local stone mason has provided a replacement value for the two memorials. Upkeep and maintenance of the memorials is the responsibility of the Council's Property Services section.

### **Statues and Sculptures**

There are a number of statues and sculptures throughout the borough that the Council are responsible for. These are in a number of locations, and have been valued at their purchase cost, where this is known, although none of them individually have a significant value.

### **Other Items**

This relates to two items, the civic regalia used by the Mayor, and the 'Elemental' art installation on the bridge across the River Medway. The civic regalia has been valued by a local jeweller for insurance purposes, and the art installation has been valued at purchase cost.

## Listed Buildings

The Old College complex, comprising the Gateway, the Masters Tower and the Quarterdeck has been classified as a heritage asset. However due to the age and nature of the buildings it would not be possible to ascertain a true and accurate valuation.

## 21 – HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY REQUIRED BY THE CODE OF PRACTICE FOR LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council. As set out in the summary of significant accounting policies, the Council now requires heritage assets to be carried in the Balance Sheet at valuation.

### Heritage Assets

For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the Council were held at valuation as a proxy for historical cost. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Council's summary of significant accounting policies.

In applying the new accounting policy, the Council has identified that a number of community assets that were previously held within property, plant and equipment at a nominal value should now be recognised in heritage assets. These are the collections held at the Maidstone Museum & Bently Art Gallery and the Carriage Museum, two war memorials and the civic regalia. In addition it has been identified that there are number of other assets that were not previously in the Balance Sheet that should be classified as heritage assets. These are mainly statues, sculptures and other works of art. In total heritage assets have been recognised on the Balance Sheet at a value of £6.667m, with a corresponding balance recognised in the Revaluation Reserve. The 1<sup>st</sup> April 2010 and 31<sup>st</sup> March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1<sup>st</sup> April 2010 the carrying amount of Heritage Assets is presented at its valuation at £6.183m. The element of £0.169m that was previously recognised in property, plant and equipment has been written off as non-enhancing capital expenditure. The Revaluation Reserve has increased by £6.218m.
- The fully restated 1<sup>st</sup> April 2010 Balance Sheet is provided on page x. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	Opening Balance 1st April 2010 £000	Re- statement £000	Re- statement to Opening Balance £000
Heritage Assets	0	6,633	6,633
<b>Long-Term Assets</b>	<b>85,025</b>	<b>6,633</b>	<b>91,658</b>
<b>Total Net Assets</b>	<b>34,904</b>	<b>6,633</b>	<b>41,537</b>
Unusable Reserves	24,499	6,633	31,132
<b>Net Worth/Total Reserves</b>	<b>34,904</b>	<b>6,633</b>	<b>41,537</b>

The resulting restated Balance Sheet for 31<sup>st</sup> March 2011 is provided on page 27. The adjustments that have been made to the version published in the 2010/11 Statement of Accounts are as follows:

	As previously stated 31st March 2011 £000	As restated 31st March 2011 £000	Re- statement 2011 £000
Heritage Assets	0	6,667	6,667
<b>Long-Term Assets</b>	<b>86,986</b>	<b>93,653</b>	<b>6,667</b>
<b>Total Net Assets</b>	<b>69,950</b>	<b>76,617</b>	<b>6,667</b>
Unusable Reserves	57,975	6,667	6,667
<b>Net Worth/Total Reserves</b>	<b>69,950</b>	<b>76,617</b>	<b>6,667</b>

## 22 - 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 £0.183m charged to revenue in 2011/12

was charged to the IT Administration cost centre (included in Central Services to the Public) 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:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at start of year:</b>		
Gross carrying amount	1,403	1,185
Accumulated amortisation	(945)	(711)
Net carrying amount at start of year	458	474
Additions	299	218
Amortisation for the period	(183)	(234)
Net carrying amount at end of year	<b>574</b>	<b>458</b>

## 23 - FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

	<b>Long-term</b>		<b>Current</b>	
	<b>31st March</b>	<b>31st March</b>	<b>31st March</b>	<b>31st March</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Investments</b>				
Loans & receivables	0	0	7,000	21,005
Available-for-sale financial assets	11	11	0	0
	11	11	7,000	21,005
Bank Overdraft	0	0	(77)	730
<b>Debtors</b>				
Loans & receivables	34	68	5,477	7,136
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	4,868	12,228

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

The financial liabilities are all due to be settled within one year.

## Income & Expense

	Long-Term		Short Term	
	31st March	31st March	31st March	31st March
	2012	2011	2012	2011
	£000	£000	£000	£000
<b>Income:</b>				
Loans & Receivables	0	0	312	349
Available-for-sale Financial Assets	0	0	0	0
Other Interest	0	0	4	10
<b>Total</b>	<b>0</b>	<b>0</b>	<b>316</b>	<b>359</b>

## 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.

## 24- 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 2<sup>d</sup> 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 2011/12 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 2011/12**

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 £3m being invested for 1 year if the funds become available and the rates are favourable.
- Only using UK institutions with the exception of a notice account with Svenska Handelsbanken who have a AA credit rating.

### **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 31<sup>st</sup> March 2012 the investments were held with the following institutions:

	<b>31st March 2012</b>	<b>31st March 2011</b>
	<b>£000</b>	<b>£000</b>
AAA rated Institutions	0	2,000
AA rated Institutions	0	11,005
A rated Institutions	13,620	0
Unrated Building Societies	0	8,000
UK Government	11	11
<b>Total</b>	<b>13,631</b>	<b>21,016</b>

### 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.

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
Call Accounts	1,620	7,005
Receivables	12,000	14,000
Available-for-Sale Financial Assets	11	11
<b>Total</b>	<b>13,631</b>	<b>21,016</b>

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.

## 25 - ASSETS HELD FOR SALE

All assets held for sale are non-current assets. Assets classified under this heading would normally be expected to be disposed of within a year, as per the Code of Practice for Local Authority Accounting in the United Kingdom. However, due to the current economic situation the Council has been unable to dispose of these assets for a number of years now. However, they continue to be marketed with a reasonable expectation of disposal, and at the Balance Sheet date negotiations with prospective buyers were at an advanced stage, therefore it was considered appropriate to continue to classify them as held for sale.

	2011/12 £000	2010/11 £000
<b>Balance outstanding at start of year</b>	<b>2,264</b>	<b>5,405</b>
Assets newly classified as held for sale:		
Property, Plant & Equipment	10	
Investment Properties		2,119
Revaluation gains	1,210	
Impairment losses		(2,395)
Assets sold	(10)	(2,865)
<b>Balance outstanding at year-end</b>	<b>3,475</b>	<b>2,264</b>

## 26 – 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.

	2011/12 £000	2010/11 £000
Stores	102	81
Stamps & Franks	1	2
<b>Total</b>	<b>102</b>	<b>83</b>

## 27 – DEBTORS

### Long Term

	2011/12 £000	2010/11 £000
Loans to Outside Bodies	0	0
Mortgages	33	67
Housing Act Advances	1	1
Cobtree Trust	0	0
<b>Total</b>	<b>34</b>	<b>68</b>

**Short Term**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	244	278
Other local authorities	350	701
Other entities and individuals	8,600	8,071
<b>Total</b>	<b>9,194</b>	<b>9,050</b>

Other entities and individuals is broken down as follows:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Council Tax payers	1,454	952
Non-domestic rate payers	1,396	1,544
Capital debtors	1,094	1,102
General debtors	3,438	3,335
Payments in Advance	596	592
Other miscellaneous amounts	622	546
<b>Total</b>	<b>8,600</b>	<b>8,071</b>

**28 - CASH & CASH EQUIVALENTS**

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Cash held by the Council	177	9
Bank current accounts	(100)	(739)
Short-term deposits	6,620	9,005
<b>Total</b>	<b>6,697</b>	<b>8,275</b>

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

## 29 – CREDITORS

### Short Term

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	374	6,272
Other local authorities	80	415
Other entities and individuals	7,336	6,689
<b>Total</b>	<b>7,791</b>	<b>13,376</b>

The movement in the balances for Central Government bodies is a reflection of changes to amounts due to the Government in respect of Housing Benefits and Business Rates.

Other entities and individuals is broken down as follows:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
General creditors	3,252	3,420
Capital creditors	1,161	870
Council tax payers	179	461
Non-domestic rate payers	305	223
Receipts in advance	2,040	1,201
Deposits	270	402
Retentions	129	112
<b>Total</b>	<b>7,336</b>	<b>6,689</b>

## 30 - PROVISION FOR BAD DEBTS

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Excess Charges Provision	384	311
Sundry Bad Debts Provision	2,496	2,177
<b>Total</b>	<b>2,880</b>	<b>2,488</b>

### 31 - 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.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>(Restated)</b>
		<b>£000</b>
<b>Balance at start of year:</b>	1,678	1,440
Grants Received	2,513	3,816
Funding used for capital expenditure	(2,592)	(3,578)
<b>Balance at end of year:</b>	<b>1,599</b>	<b>1,678</b>

### 32 - 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 2011/12 totalled £205,763 (£314,807 in 2010/11). Gross income in 2011/12 totalled £306,760 (£345,005 in 2010/11). The reduction in gross expenditure was a reflection of a major property repair that was undertaken in 2010/11.

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Fixed Assets:</b>		
Cobtree Golf Course	501	501
Cobtree Manor Park	936	936
Investments	1,328	1,352
	<b>2,765</b>	<b>2,789</b>
<b>Current Assets:</b>		
Maidstone Borough Council	83	20
<b>Current Liabilities:</b>		
Auditors	4	4
	<b>4</b>	<b>4</b>
<b>Total assets less current liabilities</b>	<b>2,844</b>	<b>2,805</b>
<b>Total Charitable Funds</b>	<b>2,844</b>	<b>2,805</b>

### 33 - 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

	2011/12 £000	2010/11 £000
Balance outstanding at start of year	3,347	2,852
Value of capital works	0	921
Repayment of principal	(391)	(426)
<b>Balance outstanding at end of year</b>	<b>2,956</b>	<b>3,347</b>

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.

### 34 - 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.

	2011/12 £000	2010/11 £000
Balance outstanding at start of year	1,390	1,935
Value of assets in use	0	0
Repayment of principal	(544)	(545)
<b>Balance outstanding at end of year</b>	<b>846</b>	<b>1,390</b>

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.

### 35 - 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.

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
<b>Balance at 1st April</b>	<b>1,468</b>	<b>1,955</b>
Capital Receipts Received	1,086	3,583
Capital Receipts Applied	(2,500)	(4,063)
Pooled Capital Receipts		(6)
<b>Balance at 31st March</b>	<b>54</b>	<b>1,469</b>

### 36 - UNUSABLE RESERVES

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
<b>Restated</b>		
Revaluation Reserve	21,895	25,493
Capital Adjustment Account	61,841	66,009
Deferred Capital Receipts Reserve	33	67
Pensions Reserve	(46,566)	(30,342)
Collection Fund Adjustment Account	0	0
Accumulated Absences Account	(83)	(87)
<b>Total Unusable Reserves</b>	<b>37,120</b>	<b>61,140</b>

#### 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 1<sup>st</sup> 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.

	<b>31st March 2012 £000</b>	<b>31st March 2011 (Restated) £000</b>
<b>Balance at 1st April</b>	<b>25,494</b>	<b>25,100</b>
Upward revaluation of assets	1,317	432
Downward revaluation of assets	(4,720)	0
Difference between fair value de preciation and historical cost depreciation	(196)	(38)
<b>Balance at 31st March</b>	<b>21,895</b>	<b>25,494</b>

#### **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 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	31st March 2012 £000	31st March 2011 (Restated) £000
<b>Balance at 1st April</b>	<b>66,009</b>	<b>70,241</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Sums set-aside for Debt Repayment	935	(1,802)
Charges for depreciation & impairment of non-current assets	(2,917)	(3,055)
Amortisation of intangible assets	(183)	(234)
Prior Year Adjustments	(491)	271
Revenue expenditure funded from capital under statute	(3,848)	(4,094)
Write-off of non-enhancing capital expenditure	(167)	(24)
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	(238)	(2,865)
	<b>(6,909)</b>	<b>(11,804)</b>
Adjusting amounts written out of the Revaluation Reserve	(4,612)	38
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(11,521)</b>	<b>(11,766)</b>
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,500	4,063
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	2,592	3,423
Application of grants to capital financing from the Capital Grants Unapplied Account		
Capital expenditure charged against the General Fund balance	2,489	48
	<b>7,581</b>	<b>7,534</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(228)	0
<b>Balance at 31st March</b>	<b>61,841</b>	<b>66,009</b>

**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.

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
<b>Balance at 1st April</b>	30,342	64,277
Actuarial gains or losses on pension assets and liabilities	16,602	(25,094)
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	2,296	(5,598)
Employer's pension contributions and direct payments to pensioners payable in the year	(2,674)	(3,243)
<b>Balance at 31st March</b>	<b>46,566</b>	<b>30,342</b>

**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.

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
<b>Balance at 1st April</b>	67	83
Transfer to the Capital Receipts Reserve upon receipt of cash	(34)	(16)
<b>Balance at 31st March</b>	<b>33</b>	<b>67</b>

**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.

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
<b>Balance at 1st April</b>	0	15
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)
<b>Balance at 31st March</b>	<b>0</b>	<b>0</b>

**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 31<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
<b>Balance at 1st April</b>	(87)	(32)
Settlement of cancellation of accrual made at the end of the preceding year	87	32
Amounts accrued by the end of the current year	<u>0</u>	<u>0</u>
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	(83)	(87)
<b>Balance at 31st March</b>	<b><u>(83)</u></b>	<b><u>(87)</u></b>

### 37 - 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.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Capital Investment</b>		
Property, Plant & Equipment	3,435	3,447
Investment Properties	0	0
Intangible Assets	297	218
Revenue Expenditure Funded from Capital Under Statute	3,848	4,094
	<b>7,581</b>	<b>7,759</b>
<b>Sources of Finance</b>		
Capital receipts	2,500	4,063
Government grants & other contributions	2,592	3,648
Direct Revenue Contributions	2,489	48
	<b>7,581</b>	<b>7,759</b>

### 38 - 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:



	2011/12 £000	2010/11 £000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
Cost of Services:		
- Current service cost	1,825	2,547
- Past service costs	0	(9,843)
- Settlements & curtailments	226	(2)
Financing and Investment Income & Expenditure:		
- Interest cost	5,456	6,167
- Expected return on scheme assets	(4,759)	(4,467)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>2,748</b>	<b>(5,598)</b>
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement:		
- Actuarial gains & losses	-	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>2,748</b>	<b>(5,598)</b>
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	2,296	5,594
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(2,674)	3,161

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income & Expenditure Statement to 31<sup>st</sup> March 2012 is a loss of £16.602m.

**Assets and Liabilities in Relation to Post-employment Benefits**

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1st April	100,553	126,515
Current service cost	1,825	2,547
Interest cost	5,456	6,167
Contributions by scheme participants	636	696
Actuarial gains & losses	13,385	(21,071)
Benefits paid	(5,250)	(4,179)
Past service costs	0	(9,843)
Entity combinations	(196)	(197)
Curtailments	241	41
Settlements	(115)	(123)
<b>Closing balance at 31st March</b>	<b>116,535</b>	<b>100,553</b>

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 £1.711m. (2010/11: £5.493m)

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1st April	70,211	62,238
Expected Rate of Return	4,759	4,467
Actuarial gains & losses	(3,049)	4,023
Employer Contributions	2,958	3,243
Contributions by scheme participants	636	696
Benefits paid	(5,446)	(4,376)
Payment of Bulk Transfer Values	(100)	(80)
<b>Closing balance at 31st March</b>	<b>69,969</b>	<b>70,211</b>

### Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of assets in the Local Government Pension Scheme	57,520	46,350	62,238	70,211	69,969
Fair value of assets in the Local Government Pension Scheme	86,370	83,960	126,515	100,553	116,535
<b>Surplus/(Deficit) in the scheme</b>	<b>(28,850)</b>	<b>(37,610)</b>	<b>(64,277)</b>	<b>(30,342)</b>	<b>(46,566)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £46.566m 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 31<sup>st</sup> March 2012 are £1.825m.

### 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 31<sup>st</sup> March 2010.

The principal assumptions used by the actuary have been:

	2011/12	2010/11
<b>Long-term expected rate of return of assets in the scheme:</b>		
Equity investments	6.3%	7.4%
Gilts	3.3%	4.4%
Other Bonds	4.6%	5.5%
Property	4.3%	5.4%
Cash	3.0%	3.0%
Target Return Portfolio	4.7%	n/a
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners:		
- Men	20.0	19.8
- Women	24.0	23.9
Longevity at 65 for future pensioners:		
- Men	22.0	21.9
- Women	25.9	25.8
Rate of inflation	3.3%	3.5%
Rate of increase in salaries	4.7%	5.0%
Rate of increase in pensions	2.5%	2.7%
Rate of discounting scheme liabilities	4.6%	5.5%

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed in the following categories, measured as a percentage of assets and liabilities at 31<sup>st</sup> March 2012:

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Difference between the expected and actual return on assets	-21.1	-33.0	21.1	5.7	-4.4
Experience gains and losses on liabilities	3.1	0.0	0.4	8.0	0.0

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

	31st March 2012		31st March 2011	
	£000	%	£000	%
Equities	51,777	74	53,361	76
Gilts	700	1	702	1
Other Bonds	6,997	10	8,425	12
Property	6,297	9	6,319	9
Cash	2,799	4	1,404	2
Target Return Portfolio	1,399	2	0	0
<b>Total</b>	<b>69,969</b>	<b>100</b>	<b>70,211</b>	<b>100</b>

### 39 - LEASES

#### Finance Leases – Council as Lessee

The Council currently has a number of arrangements which it classifies as finance leases, covering the operation of the leisure centre, and vehicles used in the delivery of the waste collection and park & ride contracts.

The future minimum lease payments due under these arrangements in future years are:

	31st March 2012 £000	31st March 2011 £000
Not more than 1 year	1,036	1,107
Later than 1 year and not later than 5 years	2,147	2,894
Later than 5 years	4,073	4,073
	<b>7,256</b>	<b>8,074</b>

#### Operating Leases – Council as Lessee

The Council has a number of operating 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:

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
Not more than 1 year	38	18
Later than 1 year and note later than 5 years	89	74
Later than 5 years	0	0
	<b>127</b>	<b>92</b>

The expenditure charged to the Comprehensive Income & Expenditure Statement for 2011/12 in relation to these leases was as follows:

- Cultural, Environmental, Regulatory & Planning Services - £54,414
- Central Services - £86,035
- **Total - £140,449**

#### **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:

	<b>31st March 2012 £000</b>	<b>31st March 2011 £000</b>
Not more than 1 year	108	193
Later than 1 year and note later than 5 years	74	72
Later than 5 years	747	735
	<b>928</b>	<b>1,000</b>

#### **40 - IMPAIRMENT LOSSES**

During 2011/12 the Council did not identify any losses as a result of impairment.

#### **41 - TERMINATION BENEFITS**

The Council terminated the contracts of 28 employees in 2011/12, incurring liabilities of £0.532m (£0.186m in 2010/11). 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.

#### **42 - 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.

#### **43 - 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. Claims may be made up to 4 years retrospectively. 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 final payment was received in 2011/12, which included 'simple' interest. There is an outstanding claim which relates to compound interest, expected to be in the region of £1.485m. 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.

#### **44 – EVENTS AFTER THE BALANCE SHEET DATE**

There are no events to report.

**45 – CASHFLOW STATEMENT - ADJUSTMENTS MADE TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Depreciation	(2,533)	(1,953)
Impairment	(6,086)	(1,095)
Amortisation of Intangible Assets	(183)	(234)
Movement in impairment for provision of bad debts	(392)	(199)
Movement in Creditors	5,788	(5,870)
Movement in Debtors	109	(4,494)
Movement in Inventories	19	(16)
Movement in Pension Liabilities	378	8,755
Carrying amount of Non-Current Assets sold	(490)	(2,865)
Other Non-Cash items	920	4,750
	<b>(2,470)</b>	<b>(3,221)</b>

**46 – CASHFLOW STATEMENT - ADJUSTMENTS FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING & FINANCING ACTIVITIES**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Proceeds from Short and Long-Term Investments	314	357
Proceeds from sale of Property, Plant & Equipment	1,064	3,590
	<b>1,378</b>	<b>3,947</b>



**47 - CASH FLOW STATEMENT – OPERATING ACTIVITIES**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Interest received	314	357
Interest paid	0	0
Dividends received	0	0
	<b>314</b>	<b>357</b>

**48 - CASH FLOW STATEMENT – INVESTING ACTIVITIES**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Purchase of property, plant & equipment, investment property and intangible assets	3,707	3,713
Purchase of short-term and long-term investments	33,000	36,000
Other payments for investing activities	0	217
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(1,064)	(3,807)
Proceeds from short-term and long-term investments	(38,314)	(29,357)
Other receipts for investing activities		
<b>Net cash flows from investing activities</b>	<b>(2,671)</b>	<b>6,766</b>

**49 - CASH FLOW STATEMENT – FINANCING ACTIVITIES**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Cash receipts of short & long-term borrowing		
Other receipts from financing activities		(3,383)
Cash payments for the reduction of outstanding liabilities relating to finance leases		
Repayments of short & long-term borrowing		
Other payments for financing activities	181	47
<b>Net cash flows from financing activities</b>	<b>181</b>	<b>(3,336)</b>

## COLLECTION FUND STATEMENT & NOTES

2010/11 £000		2011/12 £000	2011/12 £000
<b>INCOME</b>			
79,930	Income From Council Tax	80,733	
9,895	Transfers From General Fund Council Tax Benefit	10,080	90,813
50,389	Income From Non-Domestic Rates (Note 2)		52,144
<b>140,214</b>	<b>Total Income</b>		<b>142,957</b>
<b>EXPENDITURE</b>			
Precepts and Demands			
62,621	Kent County Council	63,184	
8,288	Kent Police Authority	8,363	
14,247	Maidstone Borough Council	14,455	
4,061	Kent & Medway Towns Fire Authority	4,098	90,100
Non-Domestic Rates			
50,181	Payments To National Pool	51,940	
208	Cost of Collection Allowance	205	52,145
Bad and Doubtful Debts			
99	Write Off	154	
479	Additional / (Reduced) Provision For Non Payment	345	499
77	Contribution toward previous year's Collection Fund surplus		97
<b>140,261</b>	<b>Total Expenditure</b>		<b>142,841</b>
(47)	Surplus/(Deficit) For Year		116
83	Surplus Brought Forward From Previous Years		36
<b>36</b>	<b>Surplus as at 31st March 2012</b>		<b>152</b>

## 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: 60,303.1 for 2011/12 (59,765.2 for 2010/11) (see table below)]. This basic amount of council tax for a Band D property £1,476.80 for 2011/12 (£1,476.80 for 2010/11) 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	3,243.00	6/9	2,162.0
Band B	7,004.50	7/9	5,447.9
Band C	15,520.75	8/9	13,796.2
Band D	15,484.25	9/9	15,484.3
Band E	8,219.00	11/9	10,045.4
Band F	4,786.50	13/9	6,913.8
Band G	3,476.00	15/9	5,793.3
Band H	290.00	18/9	580.0
Other			78.9
			<b>60,303.1</b>

Council tax income as follows:

	£000
Initial Accounts	100,022
Additional Accounts	70,522
Less: Reduced Accounts	(69,578)
	<b>100,966</b>
Less: Amounts written off	(10,153)
<b>Net Income to Fund</b>	<b>90,813</b>

**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:

	<b>£000</b>
Non-Domestic Rateable Value £139.904m <i>(£140.845m in 2010/11)</i>	58,698
Non-Domestic Rate Multiplier 43.3p <i>(41.4p in 2010/11)</i>	
Small Business Multiplier 42.6p <i>(40.7p in 2010/11)</i>	
Less: Allowances and adjustments during the year	(6,553)
<b>Net Income to Fund</b>	<b>52,145</b>

**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 2010/11 given in the tables below is of a surplus.

Appendix A - Maidstone Borough Council – Statement of Accounts 2011/12

Surplus at 31st March 2011 (£000)		
<b>Distribution:</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Maidstone Borough Council	3	
Kent County Council	15	
Kent Police Authority	2	
Kent & Medway Towns Fire Authority	1	
	<b>22</b>	

2011/12 Surplus (£000)		
<b>Distribution:</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Maidstone Borough Council		107
Kent County Council		14
Kent Police Authority		25
Kent & Medway Towns Fire Authority		7
		<b>153</b>

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:

	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Council Tax	152	99	154
Non-Domestic Rates	506	499	380
Community Charge			
	<b>658</b>	<b>598</b>	<b>534</b>

## **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.

## **HERITAGE ASSETS**

Heritage Assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge or culture.

## **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**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL**

To follow at the conclusion of the audit.