STATEMENT OF ACCOUNTS

2011/2012

Sevenoaks
DISTRICT COUNCIL

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EXPLANATORY FOREWORD

The explanatory foreword relates to the Statement of Accounts.

1. Layout of the Statement of Accounts

The Statement of Accounts consists of the following:

- **The Statement of Responsibilities**, setting out the general responsibilities of both the District Council, and of the Deputy Chief Executive and Director of Corporate Resources, in making proper financial arrangements and in maintaining financial records.

- **The Independent Auditor's report.** The Council's external auditors provide an independent opinion on whether the financial statements present a "true and fair view" of the financial position of the Council at the Balance Sheet date and its income and expenditure for the year. They also report on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources

- The core financial statements:

    i. **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the authority, 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 authority'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 tax setting purposes. The line entitled 'Net Increase / Decrease before Transfers to Earmarked Reserves' shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the authority.

    ii. **The Comprehensive Income and Expenditure 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. Authorities raise taxation to cover expenditure in accordance with regulations, and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

    iii. **The Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority 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 are those that the authority 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.'

iv. **The Cash Flow Statement** shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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. borrowing) to the authority.

v. **Notes to the core financial statements** provide further detailed information.

vi. **The Collection Fund Statement**, together with notes to this account.

2. Accounting Practice

The authority has always adopted best practice in the presentation of its accounts as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

These accounts also reflect the CIPFA Service Reporting Code of Practice and, in particular, the service spend analysis shown within the Comprehensive Income and Expenditure Statement is based on this code.

3. Comparison of Outturn to Budget

The original budget approved by Council on 16 December 2010 was a balanced budget with no planned contribution to or from the General Fund Reserve. During 2011/12 a supplementary estimate of £14,000 was approved for Christmas car parking.

The final outturn position is a surplus of £0.518m. As approved by Cabinet, this balance was transferred to the Budget Stabilisation Reserve to support future budgets, leaving a nil movement on the General Fund.

The table below shows a comparison of budget and outturn figures in 2011/12

	Original Budget	Revised Budget	Revised Outturn
	£'000	£'000	£'000
Net Service Expenditure	13,771	13,785	12,784
VAT Refund	-	-	(552)
MMI Provision	-	-	211
Appropriation to/from Reserves	722	708	1,581
Interest Receipts	(153)	(153)	(308)
Landsbanki investment impairment	-	-	128
Government Support	(5,141)	(5,141)	(5,141)
*Council Tax	(9,199)	(9,199)	(9,221)
Contribution from/(to) GF reserve	-	-	-
Contribution from/(to) Budget Stabilisation Reserve	-	-	(518)
(Favourable)/Adverse variance	0	0	0

*The Council Tax figure is the Demand on the Collection Fund in the Income and Expenditure Account less Parish Council Precepts.

The main areas of variance in the year were as follows:-

- VAT refund (£552,000 income): The council received a refund in respect of overpaid VAT relating to the period prior to 1996 for Trade Refuse. The refund includes statutory interest which is payable in cases of official error.

- A Provision (£211,000) was set up to allow for claims from Municipal Mutual Insurance.

- Pay costs (£257,000 underspent): Almost all services showed an underspend; in some cases these are offset by agency costs (particularly Direct Services).

- Income (£555,000 favourable): Part of that variance refers to the VAT refund explained above. In total, income received from fees and charges was close to budget, but on the main income sources, Development Control, Building Control and Legal income, the position was very difficult during 2011/12.

- Direct Service Trading Accounts had a year end deficit of £21,000 (including capital charges of £47,000), which was worse than the budgeted surplus of £73,500 and was due mainly to increased fuel costs. (See also Note 25)

- Interest and Investment Income was £122,000 better than budget (excluding interest relating to the VAT refund). This was due to the Council holding higher balances than budgeted, which has increased investment income.

- In 2010/11 an accumulated impairment of £284,000 was charged to the General Fund within the Movement in Reserves statement. That impairment represented the anticipated loss on the Icelandic investment based on information received during 2010/11. Based upon updated information, this impairment has been reduced by £128,000 and that sum is reflected in the Comprehensive Income and Expenditure statement.

- The impairment of the Landsbanki investment has been charged to the General Fund. Further details are included in Note 12 to the accounts.

4. Assets

Expenditure on non current assets during the year centred on Hever Road Gypsy Site, IT equipment and commercial vehicle replacements.

5. Pension Fund

The accounts fully comply with IAS 19 (formerly FRS 17) including appropriate adjustments to the Comprehensive Income and Expenditure Statement and Balance Sheet. The pension liability based on IAS 19 is estimated at £49.6m at 31 March 2012, compared to £34.5m at 31 March 2011.

IAS 19 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. 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 last actuarial valuation of the pension fund was at March 2010. At that time the District Council's share of the overall deficit was £23m.

6. Internal and External Sources of Finance Available / Borrowing Requirements

At the end of the year, the Council held some £0.7m of capital receipts which could be used to finance future capital spending. The Council is debt-free.

Earmarked reserves have increased by £2.1m leaving a balance of £16.1m. £2.8m of this is in the new Budget Stabilisation Reserve.

7. Other Significant Items

In October 2008 a number of Icelandic banks went into administration. At that time, Sevenoaks District Council had £1m invested with Landsbanki Islands hf. Following the successful outcome of legal test cases in the Icelandic Supreme Court in late 2011, the deposits made by local authorities will rank as priority claims. The administrators have now commenced the process of dividend payments. The latest assumption is that 100% of the Council's investment (and interest up to 22 April 2009) will be recovered.

8. Impact of Current Economic Climate

Economic downturn has had a major impact on financial performance and financial planning. Several income streams have experienced reduced returns, such as from Development Services and Interest from Investments, whilst there is higher demand for housing benefits for example.

Future spending plans have taken into account the likely impact of a continued period of low economic growth, combined with the anticipated scale of grant reduction for local authorities. Large scale budgetary savings are essential in these circumstances and Sevenoaks District Council planned to make £4million of savings over four years starting in 2011/12. Operational efficiency and joint working are a major part of this financial strategy, which aims to ensure that the council can maintain services in the face of cuts and set sustainable budgets in future years.

In trying to ensure the Council has adequate reserves to withstand future financial pressures in the shorter term, a budget stabilisation reserve was created with surplus funds in 2009/10. This is required to manage the impact of significant reductions in grant support in future years.

9. Material Events After the Reporting Date

There have been no material events after the reporting date.

STATEMENT OF RESPONSIBILITIES FOR THE

STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority 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 this Authority, that officer is the Deputy Chief Executive and Director of Corporate Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Deputy Chief Executive and Director of Corporate Resources' Responsibilities

The Deputy Chief Executive and Director of Corporate Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Deputy Chief Executive and Director of Corporate Resources has:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Deputy Chief Executive and Director of Corporate Resources has also:

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

Deputy Chief Executive and Director of Corporate Resources' Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2012 required by the Accounts and Audit (England) Regulations 2011 gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year.

DR PAV RAMEWAL
Deputy Chief Executive and Director of Corporate Resources
29 June 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVENOAKS DISTRICT COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Sevenoaks District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Sevenoaks District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Resources (Deputy Chief Executive) and auditor

As explained more fully in the Statement of the Director of Resources (Deputy Chief Executive's) Responsibilities, the Director of Resources (Deputy Chief Executive) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources (Deputy Chief Executive); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Sevenoaks District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Sevenoaks District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Sevenoaks District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack
District Auditor
Audit Practice,
Audit Commission
1st Floor
Millbank Tower
Millbank
London SW1P 4HQ

18 September 2012

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the authority, 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 authority'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 the purpose of setting council tax. 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.

	General Fund Balance	Earmarked Reserves Balance	Capital Grants Unapplied	Capital Receipts Reserve	**Total Usable Reserves**	Total Unusable Reserves	**Total Authority Reserves**
	£000	£000	£000	£000	**£000**	£000	**£000**
Balance at 31 March 2010	3,713	14,516	-	537	**18,766**	(40,256)	**(21,490)**
Movement in reserves during 2011/12							
Surplus or (deficit) on the provision of services	7,331				7,331		7,331
Other Comprehensive Income and Expenditure				15	15	17,952	17,967
Total Comprehensive Income and Expenditure	**7,331**			**15**	**7,346**	**17,952**	**25,298**
Adjustments between accounting basis & funding basis under regulations (note 8)	(7,849)			211	**(7,638)**	7,638	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(518)**			**226**	**(292)**	**25,590**	**25,298**
Year end balance transferred (to)/from Budget Stabilisation Reserve	(419)	419					
Other transfers to/from the Earmarked Reserve	937	(937)					
Transfers (to)/from Earmarked Reserves (note 9)	518	(518)			-		-
Increase/(Decrease) in 2010/11	**-**	**(518)**		**226**	**(292)**	**25,590**	**25,298**
Balance at 31 March 2011	**3,713**	**13,998**	**-**	**763**	**18,474**	**(14,666)**	**3,808**

	General Fund Balance	Earmarked Reserves Balance	Capital Grants Unapplied	Capital Receipts Reserve	**Total Usable Reserves**	Total Unusable Reserves	**Total Authority Reserves**
	£000	£000	£000	£000	**£000**	£000	**£000**
Balance at 31 March 2011	3,713	13,998	-	763	**18,474**	(14,666)	**3,808**
<u>Movement in reserves during 2011/12</u>							
Surplus or (deficit) on the provision of services	1,942				1,942		1,942
Other Comprehensive Income and Expenditure				13	13	(14,839)	(14,826)
Total Comprehensive Income and Expenditure	**1,942**			**13**	**1,954**	**(14,839)**	**(12,884)**
Adjustments between accounting basis & funding basis under regulations (note 8)	157			(68)	**89**	(89)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**2,099**			**(55)**	**2,044**	**(14,928)**	**(12,884)**
Year end balance transferred (to)/ from Budget Stabilisation Reserve	(518)						
Other transfers to/from Earmarked Reserves	(1,581)						
Total transfers (to)/from Earmarked Reserves (note 9)	(2,099)	2,099			-		-
Increase/(Decrease) in 2011/12	**-**	**2,099**		**(55)**	**2,044**	**(14,929)**	**(12,884)**
Balance at 31 March 2012	**3,713**	**16,097**	**-**	**708**	**20,518**	**(29,594)**	**(9,076)**

COMPREHENSIVE INCOME AND 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.

2010/11 Gross Exp Restated	2010/11 Gross Income Restated	2010/11 Net Exp Restated	Note		2011/12 Gross Exp	2011/12 Gross Income	2011/12 Net Exp
£000	£000	£000			£000	£000	£000
12,189	(8,128)	4,061		Central services to the public	11,340	(8,175)	3,165
1,609	(520)	1,089		Cultural and related services	1,261	(27)	1,234
7,683	(1,670)	6,013		Environmental and regulatory services	6,157	(1,408)	4,749
			6	Exceptional item – VAT Refund	23	(575)	(552)
5,567	(1,834)	3,733		Planning services	5,216	(1,960)	3,256
1,634	(2,635)	(1,001)		Highways and transport services	1,001	(2,718)	(1,717)
28,037	(25,343)	2,694		Housing services	29,089	(26,638)	2,451
36	-	36		Non Distributed Costs	178	-	178
-	-	-		Exceptional Item: Provision for MMI costs	211	0	211
(8,251)	-	(8,251)	35	Exceptional Item: Pension fund change from RPI to CPI		-	-
48,504	**(40,130)**	**8,374**	**24**	**Net Cost of Services**	**54,476**	**(41,501)**	**12,975**
		(222)		Loss/(Gain) on Disposal of Fixed Assets			40
		(64)	25	Net (Surplus)/Deficit from Trading Operations			(26)
		3,273		Parish Council Precepts			3,366
		10		Contributions of housing capital receipts into Government Pool			6
		2,997		**Other Operating Expenditure**			**3,386**
		313	11	Movement in Fair Value of Investment Property			207
		(40)		Interest Payable and similar charges			(128)
		1,972	35	Pensions Interest Cost and expected return on pensions assets			1,091
		(449)		Interest and Investment Income			(416)
		1,796		**Financing and Investment Income and Expenditure**			**754**

Continued overleaf

2010/11 Gross Exp Restated	2010/11 Gross Income Restated	2010/11 Net Exp Restated	Note		2011/12 Gross Exp	2011/12 Gross Income	2011/12 Net Exp
		(1,669)	29	Capital Grants and Contributions			(1,069)
		(12,445)		Council Tax			(12,511)
		(5,543)	29	National Non Domestic Rates Redistribution			(3,752)
		(841)	29	Non Service Related Government Grants			(1,725)
		(20,498)		**Taxation and Non Specific Grant Income**			**(19,057)**
		(7,331)		**(Surplus) or Deficit on the Provision of Services**			**(1,942)**
		(787)	10	(Surplus) or deficit on the revaluation of property, plant & equipment assets			(181)
		(17,180)	35	Actuarial (gains)/losses on pension assets/liabilities			15,007
		(25,298)		**Total Comprehensive Income and Expenditure**			**(12,884)**

<u>BALANCE SHEET</u>

1 April 2010 £000	31 March 2011 £000	Note		31 March 2012 £000
			Long Term Assets	
17,339	16,584	10,31	Property, Plant and Equipment	17,083
-	-	38	Heritage Assets	-
1,260	3,047	11	Investment Property	2,835
-	-		Intangible Assets	-
-	-	16	Assets held for sale	-
742	2,560	12	Long Term Investments	404
611	570	14	Long Term Debtors	520
19,952	22,761		**Total Long Term Assets**	20,842
			Current Assets	
13,160	13,257	12	Short Term Investments	15,277
5,533	5,828	15	Cash and Cash Equivalents	8,772
22	36	13	Inventories	55
6,211	3,226	14	Short Term Debtors	1,965
190	171		Payments in Advance	139
25,116	22,518		**Total Current Assets**	26,208
			Current Liabilities	
(575)	(758)	17	Receipts in Advance	(789)
(2,651)	(2,626)	17	Short Term Creditors	(3,219)
(152)	(238)	18	Short Term Provisions	(187)
(3,378)	(3,622)		**Total Current Liabilities**	(4,195)
21,738	18,896		**Net Current Assets**	22,013
			Long Term Liabilities	
(371)	(370)	17	Long Term Creditors	(368)
(2,469)	(2,481)	18	Long Term Provisions	(1,757)
(58,904)	(34,512)	35	Net Pensions Liability	(49,641)
(1,436)	(486)	29	Capital Grants Receipts in Advance	(164)
(63,180)	(37,849)		**Total Long Term Liabilities**	(51,930)
(21,490)	3,808		**Total Net Assets**	(9,075)

continued overleaf

1 April 2010 £000	31 March 2011 £000	Note	continued from previous page	31 March 2012 £000
		19	**Usable Reserves**	
537	763		Usable Capital Receipts Reserve	708
14,516	13,998	9	Earmarked Reserves	16,098
3,713	3,713		General Fund	3,713
		20	**Unusable Reserves**	
15,298	15,592		Capital Adjustment Account	15,702
3,449	4,161		Revaluation Reserve	4,322
(152)	(152)		Accumulated Absences Account	(152)
(211)	-		Financial Instruments Adj Account	-
-	-		Collection Fund	(54)
(58,904)	(34,512)	35	Pensions Reserve	(49,641)
264	245		Deferred Capital Receipts	229
(21,490)	3,808		**Total Reserves**	(9,075)

These financial statements replace the unaudited financial statements authorised at the meeting of the Performance and Governance Committee on 18 September 2012.

Dr Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources
08 September 2012

COUNCIL APPROVAL

The Performance and Governance Committee, at its meeting on 18 September 2012, approved the Statement of Accounts for the year ended 31 March 2012 in accordance with the Accounts and Audit (England) Regulations 2011.

Councillor M. Fittock
Chairman of the Performance and Governance Committee
18 September 2012

THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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. borrowing) to the authority.

2010/11 £000	Note		2011/12 £000
(7,331)		Net (surplus) or deficit on the provision of services	(1,942)
3,702	21	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(1,951)
579	21	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	279
(3,050)	21	Net Cash flows from Operating Activities	(3,614)
2,759	22	Investing Activities	674
(4)	23	Financing Activities	(4)
(295)		Net (increase) or decrease in cash and cash equivalents	(2,944)
5,533		Cash and Cash Equivalents at the beginning of the reporting period	5,828
5,828	15	**Cash and Cash Equivalents at the end of the reporting period**	**8,772**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) 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 United Kingdom 2011/12 and the Service Reporting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

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

b. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of 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. Exceptions to this are payments of regular quarterly accounts (e.g., telephones, electricity) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

c. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. The officer responsible for Treasury Management has categorised items on the balance sheet as cash equivalents on this basis.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

d. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a 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 and future years affected by the change and do not give rise to a prior period adjustment.

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

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

e. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisation.

f. 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 such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-employment Benefits
Employees of the Authority are members of the Local Government Pension Scheme, administered by Kent County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Kent County Council Pension Fund attributable to the Authority 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 projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 4.6% (based on the yield on the iboxx AA rated over 15 year corporate bond index as at 31 March 2012).

- The assets of the Kent County Council Pension Fund attributable to the Authority 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 the 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 Comprehensive Income and Expenditure Statement to the 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed costs.

  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- actuarial gains or 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 Pensions Reserve.

- contributions paid to the Kent County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

g. Events After the Reporting Period

Events after the reporting period 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.

h. Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. This includes trade creditors and loans.

Financial assets are classified as loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market. This includes investments, trade debtors and loans.

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing, and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Investments are carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

i. Government Grants and Contributions

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

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

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

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

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

j. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. 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.

The Council writes off the entire cost to the Comprehensive Income and Expenditure Statement in the year the cost is incurred.

k. Inventories

Stocks are valued at cost. This is a departure from the requirements of the Code which require inventories to be shown at cost or net realisable value if lower; the effect of the different treatment is immaterial.

l. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually, except when the net book value is under £100,000, to ensure that the carrying value reflects market/fair value. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

m. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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 and 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 Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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 and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally 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 authority at the end of the lease period).

The Authority 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 and Expenditure Statement as an expense of the services benefitting from 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 payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and 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 (e.g. there is a premium paid at the commencement of the lease). 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.

n. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and 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 and impairment losses chargeable on Assets Held for Sale.

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

o. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. A de-minimis level of £15,000 has been applied.

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 the manner intended by management

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

- infrastructure, community assets and assets under construction – depreciated historical costs.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- 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 five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and 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 and Expenditure Statement.

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

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 the 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 that balance (up to the amount of the accumulated gains),

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their 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 basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Disposals and 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 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 and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously 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 reclassified 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 and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and 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 and 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. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be 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.

p. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

The specific purposes of the Council’s provisions are explained in a note to the Core Financial Statements.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probably that there will be an inflow of economic benefits or service potential.

q. 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 and 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 processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

r. 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 a non-current asset (for example, Disabled Facilities Grants) has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

s. VAT

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

t. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in policy 1.o.

At present the Council has no material heritage assets.

2. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets), which will need to be adopted fully by the authority in the 2012/13 financial statements.

3. Critical Judgements in Applying Accounting Policies

There are no significant critical judgements included in these accounts.

4. Prior Period Adjustment

There are no prior period adjustments.

5. Assumption Made About the Future and Other Major Sources of Estimation Uncertainty

In October 2008 a number of Icelandic banks went into administration. At that time, Sevenoaks District Council had £1m invested in Landsbanki Islands hf at an interest rate of 6.32% and a maturity date of 25 June 2009. Action in the Icelandic courts resulted in a decision that the deposits made by local authorities (including interest up to the bankruptcy reference date of 22 April 2009) rank as priority claims. The latest information from the bank's Winding Up Committee is that the investment and interest will be returned in full by 2019.

6. Material Items of Income and Expense

A VAT refund of £552,000 has been received in respect of overpaid VAT relating to the period prior to 1996 for Trade Refuse. This was a one-off opportunity. The refund includes statutory interest which is payable in cases of official error.

7. Events After the Balance Sheet Date

The Statement of Accounts were authorised for issue by the Deputy Chief Executive and Director of Corporate Resources on 18 September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

General Fund Balance

The General Fund is the statutory fund which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2011/12

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	920			(920)
Movements in the market value of Investment Properties	207			(207)
Capital grants and contributions applied	(1,069)			1,069
Non Specific Capital Grants	-			-
Revenue expenditure funded from capital under statute	1,018			(1,018)
Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement	40	57		(97)
Amount by which finance cost calculated in accordance with the Code are different from the amount of Finance Costs calculated in accordance with statutory requirements.	-			-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:				
Capital expenditure charged against the General Fund Balance	(1,144)			1,144
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-		-	
Application of grants to capital financing transferred to the Capital Adjustment Account			-	-
Finance Lease SI454 Income	4			(4)

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in UnUsable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure		(119)		119
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	6	(6)		
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	3,021			(3,021)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,899)			2,899
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	53			(53)
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	-			-
Total Adjustments	157	(68)	-	89

2010/11 Comparative Figures

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	996			(996)
Movements in the market value of Investment Properties	313			(313)
Capital grants and contributions applied	(1,669)			1,669
Non Specific Capital Grants	26			(26)
Revenue expenditure funded from capital under statute	1,095			(1,095)
Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement	(223)	361		(138)
Amount by which finance cost calculated in accordance with the Code are different from the amount of Finance Costs calculated in accordance with statutory requirements.	(211)			211
Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:				
Capital expenditure charged against the General Fund Balance	(978)			978
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-		-	
Application of grants to capital financing transferred to the Capital Adjustment Account			-	-
Finance Lease SI454 Income	4			(4)

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in UnUsable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure		(140)		140
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	10	(10)		
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,756)			3,756
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,456)			3,456
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-			-
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	-			-
Total Adjustments	(7,849)	211	-	7,638

9. **Transfers To/From Earmarked Reserves**

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11 and 2011/12.

	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31Mar 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	**Balance at 31Mar 2012 £000**
General Fund:							
Financial Plan	-	-	-	-	-	5,812	**5,812**
Budget Stabilisation	1,846	-	419	2,265	(362)	863	**2,766**
Housing Benefit Subsidy	851	-	341	1,192		159	**1,351**
Asset Maintenance	4,721	(666)	260	4,315	(3,387)	72	**1,000**
First Time Sewage	-	-	-	-	-	915	**915**
Local Plan/ LDF	538	(143)	179	574	(71)	62	**565**
Re-organisation	359	(19)	18	358	(21)	141	**478**
Community Development	448	(55)	25	418	(6)	58	**470**
Pension Fund Valuation	-	-	-	-	-	349	**349**
Action & Development	349	(35)	-	314	(19)	-	**295**
Vehicle Renewal	608	(522)	478	564	(803)	531	**292**
Vehicle Insurance	246	(12)	30	264	-	23	**287**
Carry forward Items	240	(66)	167	341	(224)	105	**222**
New Homes Bonus	-	-	-	-	(120)	335	**215**
Rent Deposit / Guarantee	178	-	1	179	(15)	18	**182**
Homelessness	64	(4)	-	60	(7)	81	**134**
IT Asset	-	-	-	-	-	121	**121**
Big Community	-	-	-	-	(17)	120	**103**
Local Strategic Partnership	148	(37)	-	111	(29)	-	**82**
Housing Benefit	65	(13)	37	89	(23)	-	**66**
Economic Dev.	-	-	-	-	-	60	**60**
District Elections	66	-	16	82	(45)	16	**53**
Transportation	80	-	-	80	(80)	-	**-**
Pension Fund Deficit	3,511	(942)	-	2,569	(2,569)	-	**-**
Other Reserves (under £50,000)	198	(33)	58	223	(9)	65	**279**
Total	**14,516**	**(2,547)**	**2,029**	**13,998**	**(7,807)**	**9,906**	**16,097**

The purpose of these earmarked reserves are shown below:

- Financial Plan – Funds moved from the Asset Maintenance Reserve and Pension Fund Deficit Reserve to support the 10-year budget strategy.
- Budget Stabilisation - To support decisions required to continue to produce a balanced budget in future years in spite of expected funding reductions.
- Housing Benefit Subsidy - Provides a cushion against large movements in reclaimable sums in any year.
- Asset Maintenance – To fund emergency asset maintenance works.
- First Time Sewerage – Transferred from a provision for potential liabilities relating to earlier sewerage installations.
- Local Plan / LDF - To help support the Local Plan and LDF.
- Re-organisation - To fund actions taken to achieve annual budget savings.
- Community Development - To fund ongoing and future projects.
- Pension Fund Valuation - To contribute towards the expected downturn at the next pension fund actuarial valuation.
- Action and Development - To fund ad hoc expenditure e.g. resulting from an emergency.
- Vehicle Renewal - Funding for future commercial vehicle replacements.
- Vehicle Insurance - Provides own damage cover on the council's commercial vehicle fleet.
- Carry Forward Items - For specific items agreed by cabinet.
- New Homes Bonus - Due to the uncertainty of future Government funding an element of the New Homes Bonus is being kept separate until further information is received.
- Rent Deposit / Guarantee - To support the homeless etc, by providing their initial deposit and guarantee for a property.
- Homelessness Prevention – For preventing homelessness.
- IT Asset Maintenance – To fund future IT asset maintenance costs.
- Big Community – To fund to local projects.
- Local Strategic Partnership - Grant received for the Local Area Agreement to be passed on to Local Strategic Partnerships.
- Housing Benefit Section – To meet the varying demand of administering Housing Benefits.
- District Elections - To finance local elections.
- Economic Development - To support economic development
- Transportation - For uncertainty relating to concessionary fares transfer to KCC.
- Pension Fund Deficit - To meet some of the back funding element. The remaining balance has been moved into the Financial Plan Reserve.
- Other - Other small reserves set aside.

10. Property, Plant and Equipment

Movements on Balances

Movements in 2011/12:

	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Total Property, Plant Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2011	19,321	7,465	383	949	28,118
Additions	451	879	-	-	1,330
Revaluation increases/ (decreases) recognised in:					
- Revaluation Reserve	118	-	-	-	118
- Surplus or Deficit	-	-	-	-	-
Derecognition – Disposals	-	(574)	-	-	(574)
Derecognition - Other	-	-	-	-	-
Reclassifications	949	-	-	(949)	-
At 31 March 2012	20,839	7,770	383	-	28,992
Accumulated Depreciation and Impairment					
At 1 April 2011	(6,241)	(5,294)	-	-	(11,535)
Depreciation Charge	(197)	(723)	-	-	(920)
Depreciation written out to the					
- Revaluation Reserve	63	-	-	-	63
- Surplus/ Deficit on the Provision of Service	-	-	-	-	-
Derecognition – Disposals	-	483	-	-	483
Derecognition - Other	-	-	-	-	-
At 31 March 2012	(6,375)	(5,534)	-	-	(11,909)
Net Book Value					
As at 31 March 2011	13,080	2,171	383	949	16,583
As at 31 March 2012	14,464	2,236	383	-	17,083

Comparative Movements in 2010/11:

	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Total Property, Plant Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2010	20,705	7,654	383	-	28,742
Additions	123	620	-	949	1,692
Revaluation increases/ (decreases) recognised in:					
- Revaluation Reserve	767	-	-	-	767
- Surplus or Deficit	(33)	-	-	-	(33)
Derecognition – Disposals	(141)	(5)	-	-	(146)
Derecognition - Other	-	(804)	-	-	(804)
Reclassifications	(2,100)	-	-	-	(2,100)
At 31 March 2011	19,321	7,465	383	949	28,118
Accumulated Depreciation and Impairment					
At 1 April 2010	(6,015)	(5,388)	-	-	(11,403)
Depreciation Charge	(253)	(710)	-	-	(963)
Depreciation written out to the					
- Revaluation Reserve	20	-	-	-	20
- Surplus/ Deficit on the Provision of Service					
Derecognition – Disposals	7	-	-	-	7
Derecognition - Other	-	804	-	-	804
At 31 March 2011	(6,241)	(5,294)	-	-	(11,535)
Net Book Value					
As at 31 March 2010	14,690	2,266	383	-	17,339
As at 31 March 2011	13,080	2,171	383	949	16,583

Depreciation

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

- Buildings - up to 60 years
- Vehicles - up to 7 years
- Equipment - up to 5 years

Capital Commitments

At 31 March 2012, there were no significant sums outstanding on capital contracts.

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years.

The freehold and leasehold properties which comprise the Authority's property portfolio have been valued as at 31st March 2012, by external independent valuers, I. Dewar FRICS IRRV MCIArb, R. Messenger BSc FRICS IRRV MCIArb, S. Layfield FRICS IRRV and A. Williams Dip BSc (Hons) MRICS IRRV of Wilks, Head and Eve, Chartered Surveyors. Valuations have been made on the undermentioned bases in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors, except that not all the properties were inspected. This was neither practicable nor considered by the valuer to be necessary for the purpose of the valuation.

Plant and machinery that forms part of a building is included in the valuation.

Properties regarded by the Authority as operational were valued on the basis of Existing Use Value or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. Useful economic lives for these properties are generally 35 years.

Properties regarded by the Authority as investment properties have been valued on the basis of market value, again with useful economic lives of generally 35 years.

Vehicles, plant and equipment in the balance sheet relate to the Council's commercial vehicle fleet, computer equipment, fitness equipment in the leisure centres, air quality monitoring equipment, CCTV equipment and playground equipment. Most equipment is depreciated over 5 years, with some larger commercial vehicles over 7 years.

The following statement shows the progress on the Council's rolling programme for the revaluation of Property, Plant and Equipment:

	Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	TOTAL
	£000	£000	£000	£000	£000
Carried at historical cost	187	7,770	383	-	8,340
Valued at current value in:					
2011/12	2,275	-	-	-	2,275
2010/11	1,039	-	-	-	1,039
2009/10	9,401	-	-	-	9,401
2008/09	3,892	-	-	-	3,892
2007/08	4,043	-	-	-	4,043
Total	20,837	7,770	383	-	28,990

11. Investment Properties

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

	2011/12	2010/11
	£000	£000
Rental income from investment property	**81**	80
Direct operating expenses from investment property	**-**	-
Net gain/(loss)	**81**	80

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and proceeds of disposal. The Authority 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:

	2011/12	2010/11
	£000	£000
Balance at start of the year	**3,047**	1,260
Disposals	**(5)**	-
Net Gains/ (losses) from fair value adj	**(207)**	(313)
Transfers from Property, Plant & Equipment	**-**	2,100
Other Changes	**-**	-
Balance at end of the year	**2,835**	3,047

12. Financial Instruments

The investment figures are made up mainly of surplus capital and revenue reserve balances. The investments are placed with recognised financial institutions. These are classified in the loans and receivables category of financial instruments, having fixed or determinate payments and not quoted in an active market.
The balances, which include the principal and the interest accrued, at the year end can be analysed as follows:

	2011/12	2010/11
	£000	£000
Long-term Investments:		
Financial Institutions	**404**	2,560
Building Societies	**-**	-
Other Local Authorities	**-**	-
	404	2,560
Short-term Investments:		
Financial Institutions	**8,266**	7,242
Building Societies		4,009
Other Local Authorities	**7,011**	2,006
	15,277	13,257
Total Investments	**15,681**	15,817

Short-term investments are those that were placed for a period in excess of three months and fall to be repaid within one year of the balance sheet date. Long-term investments were placed for over one year. Investments placed for less than three months are treated as cash or cash equivalents.

Fair value of assets carried at amortised cost

Financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Market rates at 31 March 2012 for comparable instruments with the same duration,
- An impairment has been recognised for the investment with Landsbanki Islands hf.

	31 March 2012		31 March 2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000	**£000**	£000	£000
Loans and receivables	**23,692**	**23,807**	22,131	22,159

The fair value is higher than the carrying amount because the Authority's portfolio of investments includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

Disclosure of nature and 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 Council.
- Liquidity risk – the possibility that the Council might not have the funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

The Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. Risk management is carried out by the Council in the following ways:

- Formal adoption of the requirements of the CIPFA Treasury Management Code of Practice and Treasury Policy Statement.
- Approving annually in advance prudential and treasury indicators for the following three years and an Annual Treasury Management Strategy.

These policies are implemented by treasury management officers and the Council maintains 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.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy. The Council uses the creditworthiness service provided by its treasury management consultant. Deposits are not made with banks and financial institutions unless they comply with the sophisticated modelling approach that combines credit ratings as the core element with other subjective overlays. In addition, the Council has the following policies:

- Minimum long term credit rating, as assessed by Fitch, of A.

- Maximum investment period of one year.

- Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies

- Total investments in any one EU country outside of the UK is limited to 15% of the total fund.

- Investment in other foreign countries is no longer permitted.

- No more than £5m (or £6m including call accounts) per counterparty.

The Strategy also permits investment with other local authorities and the UK Government's Debt Management Office for periods up to 1 year and six months respectively.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £12.9m at 31 March 2012 cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each institution. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2012 that this was likely to crystallise.

The only historical experience of default relates to the Landsbanki Islands hf investment detailed below. Currently, investments are only being made with UK institutions. In all cases to date, the Government and/or another building society or bank has stepped in to rescue a failing institution, leading to no defaults by UK institutions.

Icelandic Bank Defaults

In October 2008 a number of Icelandic banks went into administration. At that time, the Council had £1m invested with Landsbanki Islands hf as follows:

	Date invested	Maturity date	Amount invested £000	Interest rate %	Carrying amount £000	Impairment £000	Principal default %
Landsbanki	25/6/07	25/6/09	1,000	6.32	594	156	0

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators/receivers. The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest available information, the Council considers it appropriate to make an impairment adjustment for the deposit and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of future payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Following the decision of the Icelandic Supreme Court to grant Priority status to UK local authorities, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest at a rate of 3.35%. This element of the distribution has been retained in Iceland due to currency controls operating there and, as a result, is subject to exchange rate risk, over which the Council has no control. The value of the escrow account has been estimated to be just over £7,000 as at the balance sheet date.

The current position on estimated future payouts is as shown in the following table and the Council has used these estimates to calculate a likely impairment based on recovering 100p in the £.

Date	Repayment
Received in 2011-12	30.00%
Received in May 2012	12.20%
December 2012	7.00%
December 2013	7.00%
December 2014	7.00%
December 2015	7.00%
December 2016	7.00%
December 2017	7.00%
December 2018	7.00%
December 2019	8.80%

Recovery is subject to the following uncertainties and risks:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and the settlement of the Council's claim, which may be denominated wholly or partly in currencies other than sterling.

Recoveries are expressed as a percentage of the Council's claim in administration, which validly includes interest accrued up to the bankruptcy date of 22 April 2009.

The total impairment (principal plus interest not received) in the financial years up to and including 2011/12 has been recognised in the Income and Expenditure Account. As at 31 March 2011 the impairment was £284k and at 31 March 2012 this had reduced to £156k. This impairment has been calculated by discounting the assumed cash flows at the effective rate of interest of the original deposit in order to recognise the anticipated loss of interest to the Council until monies are recovered. Adjustments to the assumptions will be made in future years' accounts as more information becomes available.

Liquidity Risk

The Council ensures that it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its service objectives.

The Council is also required to provide a balanced budget by the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus, there is no significant risk that it will be unable to raise finance to meet its commitments.

The treasury management team monitors cash flow on a daily basis and takes into account known future spending patterns.

The maturity analysis of financial assets (excluding the Icelandic investment) is as follows:

	31 March 2012	31 March 2011
	£000	£000
Less than 1 year	**24,231**	19,300
Between 1 and 2 years	-	2,000

Refinancing and Maturity Risk

This risk relates to the maturing of both longer term financial liabilities and longer term financial assets. As the Council does not currently have any debt and does not lend for periods in excess of one year, this risk is not considered significant.

Market Risk

Interest Rate Risk

Upwards or downwards movements in interest rates may have a complex impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall (but no impact on revenue balances).

The treasury management team has an active strategy for assessing interest risk exposure that feeds into the setting of the annual budget.

By way of example, if interest rates on fixed deposits had been 1% higher during 2011/12 (with all other variables held constant), the financial effect would have been to increase investment income by £319,000

Price Risk

The Council does not invest in equity shares or marketable bonds and is not, therefore, exposed to losses arising from movements in prices.

Foreign Exchange Risk

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

Foreign Exchange Risk in relation to Icelandic Deposits

The Council has foreign exchange exposure resulting from an element of the settlement received from Landsbanki Islands hf. This is being held in Icelandic Kroner in an escrow account due to the imposition of currency controls in Iceland.

13. Inventories

	2011/12	2010/11
	£000	£000
Balance outstanding at start of the year	36	22
Purchases	502	511
Recognised as an expense in the year	(483)	(497)
Balance outstanding at end of the year	55	36

14. Debtors

	31/03/12	31/03/11
	£000	£000
Long Term Debtors		
Employee Car Loans	100	106
Loan to Sencio	156	181
Finance lease	201	205
Other	63	78
Total Long Term Debtors	520	570
Short Term Debtors		
Collection Fund (CF)		
Central Government (NNDR)	-	1,253
Council Tax Payers	1,060	916
Bad Debt provision	(381)	(340)
General Fund		
DWP – Housing Benefit Grant	-	-
Housing Benefit Overpayments	1,194	856
Partnership working	477	-
Performance Reward Grant	-	-
Moat Housing Association	-	-
VAT	91	701
Other	472	516
Bad Debt provision	(948)	(676)
Total Short term debtors	1,965	3,226

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to exchange assets).

15. Cash and Cash Equivalents

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

	31/03/12 £000	31/03/11 £000
Cash held by the Authority	**1**	1
Bank current accounts	**761**	4,826
Short-term deposits with:		
• Banks	**3,008**	-
• Building Societies	**-**	1,001
• Other Local Authorities	**5,002**	-
Total Cash and Cash Equivalents	**8,772**	5,828

16. Assets Held for Sale

No assets are classified as held for sale

17. Creditors and Receipts in Advance

.

	31/03/12 £000	31/3/11 £000
Receipts in Advance		
Tax Payers	**(170)**	(153)
s.106 receipts	**(384)**	(346)
Other Receipts in advance	**(235)**	(259)
Total Receipts in Advance	**(789)**	(758)
Short Term Creditors		
DWP – Housing Benefit Grant	**(83)**	(665)
Central Government (NNDR)	**(1,100)**	-
Deposits	**-**	-
Council Taxpayers	**(45)**	(136)
Capital	**(139)**	(128)
Insurance	**(168)**	(164)
HMRC	**(674)**	(563)
Kent County Council	**(613)**	(423)
Other General Fund	**(397)**	(547)
Total Short Term Creditors	**(3,219)**	(2,626)
Long Term Creditors		
Long Term Creditor (Quakers Hall Allotments	**(368)**	**(370)**

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to settle liabilities).

18. Provisions

The following provisions have been made by the Council:

	Long Term		Short Term			
	First time Sewerage Schemes	Edenbridge Relief Road	MMI	Accumulated Absences	Other Provisions	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011	915	1,566	-	152	85	2,718
Additional Provisions made during year	-	7	211	-	-	218
Amounts Used during the year	(915)	(27)	-	-	(51)	(993)
Balance at 31 March 2012	-	1,546	211	152	34	1,943

The First Time Sewerage provision is to meet the liabilities of guarantee payments on schemes carried out in prior years. The limitation periods ran out in 2012, therefore there is no longer the requirement for a provision. However, the remaining balance has been moved to a First Time Sewerage Reserve in case there is a later call on this amount.

The Edenbridge Relief Road provision is to meet the liabilities of land and other compensation claims in relation to the road scheme which was completed in December 2004. The movement during the year consists of a compensation payment and an increase to reflect the longer period of time that any claims would cover. Also see note 36 for further information about the Edenbridge Relief Road.

Municipal Mutual Insurance Limited (MMI) – MMI was the main local authority insurer for many years up until 1992 when the company failed and went into “run off”. A Scheme of Arrangement was approved in 1994 with the aim of meeting all claims and achieving a solvent run-off. For a number of years the Administration and Creditors Committee reported that a solvent run-off was likely to be achieved and sought to sell the business to another insurer to bring the arrangement to a conclusion.

Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of others rather than MMI. This increased the risk that a solvent run-off would not be achieved which would result in councils (and others, such as housing associations) being liable to clawback of monies paid out to settle claims. Due to this uncertainty, the Council has shown this risk as a Contingent Liability in the Statement of Accounts in recent years.

Since March, more information has become available following the outcome of a Supreme Court Judgement which has made it more likely that this council will incur additional expenditure. Therefore, a Provision has now been included in the accounts rather than a Contingent Liability.

The Accumulated Absences Provision is the opposite of the Accumulated Absences Account included in Unusable Reserves. This absorbs the difference 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 March.

Other provisions include:

- Redundancies that were agreed before 31 March 2011 but did not occur during 2011/12.
- A provision to cover potential restitutionary claims in respect of personal search fees of the land register.

19. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and note 8.

20. Unusable Reserves

	31/03/12	31/03/11
	£000	£000
Capital Adjustment Account	**15,702**	15,592
Revaluation Reserve	**4,322**	4,161
Accumulated Absences Account	**(152)**	(152)
Financial Instruments Adjustment Account	**-**	-
Collection Fund Adjustment Account	**(54)**	-
Pensions Reserve	**(49,641)**	(34,512)
Deferred Capital Receipts Reserve	**229**	245
Total Unusable Reserves	**(29,594)**	(14,666)

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 and 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 Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11		2011/12	
£000		£000	£000
15,298	Balance at 1 April		15,592
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(996)	Charges for depreciation and impairment of non current assets	(920)	
(2)	Revaluation Losses on Property, Plant and Equipment	-	
(1,095)	Revenue expenditure funded from capital under statute	(1,018)	
-	Deferred Capital Receipts movement	-	
(93)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(97)	
(2,184)			(2,035)
30	Adjusting Amounts written out of the Revaluation Reserve		20
(2,154)	Net Written out amount of the cost of non current assets consumed in the year		(2,015)
	Capital Financing applied in the year:		
140	Use of the Capital Receipts Reserve to finance new capital expenditure	119	
	Capital Grants and contributions credited		
1,669	to the Comprehensive Income and expenditure statement that have been applied to capital financing	1,069	
(26)	Non-specific capital grant	-	
-	Application of Grants to capital financing from the Capital Grants Unapplied Account	-	
-	Statutory provision for the financing of capital investment charged against the General Fund	-	
978	Capital Expenditure charged against the General Fund	1,145	
2,761			2,333
(313)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement		(207)
15,592	Balance at 31 March		15,702

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and 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 revaluation gains accumulated since 1 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.

2010/11		2011/12	
£000		£000	£000
3,449	Balance at 1 April		4,161
787	Upward Revaluation of Assets	181	
	Downward Revaluation of Assets and impairment losses not charged to Surplus Deficit on the Provision of Services		
4,236	Surplus/(Deficit) on revaluation of non- current assets not posted to the Surplus or Deficit on Provision of Services		181
(30)	Difference between fair value depreciation and historical cost depreciation	(20)	
(45)	Accumulated gains on assets sold or scrapped	-	
(75)	Amount written off to the Capital Adjustment Account		(20)
4,161	Balance at 31 March		4,322

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

2010/11		2011/12	
£000		£000	£000
(152)	Balance at 1 April		(152)
	Settlement or cancellation of accrual made at the end		
-	Amounts accrued at the current year end	-	
-	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		-
(152)	Balance at 31 March		(152)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

2010/11		2011/12	
£000		£000	£000
(211)	Balance at 1 April		-
40	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	
171	Impairment of Landsbanki investments as required by regulations	-	
-	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-	
211	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		-
-	Balance at 31 March		-

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and 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.

2010/11		2011/12
£000		£000
-	Balance at 1 April	-
-	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(54)
-	Balance at 31 March	(54)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements or accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the 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 Authority 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 the Authority 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.

2010/11 £000		2011/12 £000
(58,904)	Balance at 1 April	(34,512)
17,180	Actuarial Gains/(Losses) on pensions assets and liabilities	(15,007)
3,756	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,021)
3,456	Employer's pensions contributions and direct payments to pensioners payable in the year	2,899
(34,512)	Balance at 31 March	(49,641)

Deferred Capital Receipts Reserve

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

2010/11 £000		2011/12 £000
264	Balance at 1 April	245
(4)	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	(4)
(15)	Transfer to the Capital receipts reserve upon receipt of cash	(12)
245	Balance at 31 March	229

21. Cash Flow Statement – Operating Activities

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

2010/11 £000		2011/12 £000
(963)	Depreciation	(920)
(315)	Impairment and downward valuations	(354)
-	Amortisation	-
-	Increase in impairment provision for bad debts	-
(158)	(Increase)/Decrease in creditors	(2,096)
(3,004)	Increase/(Decrease) in debtors	255
14	Increase/(Decrease) in stock	19
7,212	Pension liability	(1,876)
93	Carrying amount of non-current assets sold	97
823	Other non-cash items charged to the net surplus or deficit on the provision of services	2,924
3,702		(1,951)

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

2010/11 £000		2011/12 £000
-	Purchase of short-term and long-term investments	-
449	Proceeds from short-term and long-term investments	416
130	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(137)
579		279

The cash flows for operating activities include the following items:

2010/11 £000		2011/12 £000
337	Interest received	308
-	Interest paid	-
-	Dividends received	-

22. Cash Flow Statement – Investing Activities

2010/11 £000	Investing Activities	2011/12 £000
1,691	Purchase of property, plant & equipment, investment property and intangible assets	1,330
1,915	Purchase of short term and long term investments	(136)
-	Other payments for investing activities	-
(375)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(70)
(449)	Proceeds from sale of short-term and long-term investments	(416)
(23)	Other receipts from investing activities	(34)
2,759	Net Cash Flow from investing activities	674

23. Cash Flow Statement – Financing Activities

20010/11 £000	Financing Activities	2011/12 £000
-	Net increase / (decrease) in short- and long term deposits	-
-	Other receipts from financing activities	-
(4)	Cash payments for finance leases	(4)
-	Other payments for financing activities	-
(4)	Net Cash Flow from Financing activities	(4)

24. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across Heads of Service. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on support services is budgeted for centrally and not charged to Heads of Service.

The income and expenditure of the Authority's services recorded in the budget reports for the year is as follows:

Heads of Service Income and Expenditure 2011/12	Community Development	Development Services	Environmental and Operations	Housing & Communications	Finance & Human Resources	IT & Facilities Management	Legal & Democratic Services	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Service Income	(308)	(525)	(4,879)	(279)	(1,692)	(359)	(354)	(8,396)
Government Grants	(76)	-	-	(99)	(33,212)	-	-	(33,386)
Total Income	(385)	(525)	(4,879)	(378)	(34,903)	(359)	(354)	(41,783)
Employee Expenses	555	1,750	2,373	717	2,700	824	1,249	10,167
Other Service Expenses	970	188	5,034	605	36,931	1,129	468	45,324
Total Expenditure	1,525	1,938	7,406	1,321	39,630	1,954	1,717	55,491
Net Expenditure	1,140	1,413	2,528	944	4,727	1,595	1,363	13,709

Heads of Service Income and Expenditure 2010/11	Community Development	Development Services	Environmental and Operations	Housing & Communications	Finance & Human Resources	IT & Facilities Management	Legal & Democratic Services	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Service Income	(886)	(612)	(4,134)	(168)	(856)	(308)	(356)	(7,320)
Government Grants	(99)	(23)	(59)	(90)	(32,541)	-	(34)	(32,846)
Total Income	(985)	(635)	(4,193)	(258)	(33,397)	(308)	(390)	(40,166)
Employee Expenses	686	1,968	2,528	802	1,893	896	1,502	10,275
Other Service Expenses	1,186	339	5,549	470	37,189	1,116	452	46,301
Total Expenditure	1,872	2,307	8,077	1,272	39,082	2,012	1,954	56,576
Net Expenditure	887	1,672	3,884	1,014	5,685	1,704	1,564	16,410

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

The reconciliation shows how the figures in the analysis of income and expenditure related to the amounts included in the Comprehensive Income and Expenditure Statement.

	2011/12 £000	2010/11 £000
Net Expenditure in Directorate Analysis	13,709	16,410
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(734)	(8,036)
Amounts included in the analysis not included ir the Comprehensive Income and Expenditure Statement.	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	12,975	8,374

Reconciliation to Subjective Analysis

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

2011/12	Heads of Service Analysis	Amounts not reported management	Amounts not included in I&E	Cost of Servic	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, Charges & Othe Service Income	(8,396)			(8,396)		(8,396)
Interest and Investment Income					(416)	(416)
Income from Council Tax and NNDR					(16,263)	(16,263)
Government Grants and Contributions	(33,386)			(33,386)	(2,794)	(36,180)
Total Income	(41,782)	-	-	(41,782)	(19,473)	(61,255)
Employee Expenses	10,167	-		10,167		10,167
Other Service Expenses	45,324	(734)		44,590	1,105	45,695
Support service recharges						-
Depreciation, amortisation and Impairment		-	-	-	207	207
Interest Payments					(128)	(128)
Precepts & Levies					3,366	3,366
Payments to Housing Capital Receipts Pool					6	6
Gain or loss on disposal of non-currer assets						-
Total Expenditure	55,491	(734)	-	54,757	4,556	59,313
(Surplus) or deficit on the provision of services	13,709	(734)	-	12,975	(14,917)	(1,942)

2010/11 Comparative Figures	Heads of Service Analysis	Amounts not reported management	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, Charges & Othe Service Income	(7,320)			(7,320)		(7,320)
Interest and Investment Income					(449)	(449)
Income from Council Tax and NNDR					(17,988)	(17,988)
Government Grants and Contributions	(32,846)			(32,846)	(2,510)	(35,356)
Total Income	(40,166)	-	-	(40,166)	(20,947)	(61,113)
Employee Expenses	10,274	-		10,274		10,274
Other Service Expenses	46,302	(8,036)		38,266	1,687	39,952
Support service recharges						-
Depreciation, amortisation and Impairment		-	-	-	313	313
Interest Payments					(40)	(40)
Precepts & Levies					3,273	3,273
Payments to Housing Capital Receipts Pool					10	10
Gain or loss on disposal of non-current assets						-
Total Expenditure	56,576	(8,036)	-	48,540	5,242	53,782
(Surplus) or deficit or the provision of services	16,410	(8,036)	-	8,374	(15,705)	(7,331)

25. Trading Operations

Trading Accounts are operated for Direct Services, which includes two major services, Refuse Collection and Street Cleaning.

The following table sets out the financial trading accounts for 2011/12:

	Income £000	Expenditure £000	(Surplus)/Deficit £000	2010/11 £000
Direct Services				
Refuse Collection	(2,060)	2,086	26	(1)
Street Cleansing	(1,153)	1,205	52	80
Other Operational Accts	(1,962)	1,891	(71)	(113)
Overhead Accounts	(1,092)	1,059	(33)	(30)
	(6,267)	6,241	(26)	(64)

Other Operational Accounts include vehicle workshop and premises cleaning. Overhead Accounts include transport fleet and depot.

In order to satisfy the requirements of competition law, recharges for internal work completed by the trading accounts have been priced to include a cost of capital recovery. The Code of Practice does not permit charges for cost of capital to be debited to trading accounts. The following table sets out the position if capital charges had been made:

	Income £000	Expenditure £000	(Surplus)/Deficit £000	2010/11 £000
Direct Services				
Refuse Collection	(2,060)	2,111	51	19
Street Cleansing	(1,153)	1,219	66	93
Other Operational Acts	(1,962)	1,899	(63)	(99)
Overhead Accounts	(1,092)	1,059	(33)	(30)
	(6,267)	6,288	21	(17)

26. Members' Allowances

The authority paid the following amounts to Members of the Council during the year:

	2011/12	2010/11
	£000	£000
Allowances	**273**	275
Expenses	**16**	16
Total	**289**	291

27. Officers' Remuneration

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

		Salary	Bonuses	Expenses	Pension Contribution	Other Benefits/ Payments	Total
		£	£	£	£	£	£
Chief Executive (Hales, R)							
	2011/12	133,683		372	19,222	12,626	165,903
	2010/11	133,683		392	20,594	3,487	158,156
Director of Community & Planning Services							
	2011/12	112,300		286	14,686		127,272
	2010/11	112,300		275	16,830		129,405
Director of Corp Resources							
	2011/12	112,300		265	14,686		127,251
	2010/11	112,300		296	16,830		129,426
Monitoring Officer							
	2011/12	66,564	1,664	13	9,397		77,638
	2010/11	66,564	1,796	23	10,732		79,115

The Chief Executive receives other payments for being the Deputy Returning Officer at elections.

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

Remuneration Band	Number of Employees	
	2011/12	2010/11
£50,000 - £54,999	**9**	6
£55,000 - £59,999	**4**	7
£60,000 - £64,999	**2**	4
£65,000 - £69,999	-	1
£70,000 - £74,999	**3**	2
£75,000 - £79,999	-	1

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£000	£000
£0 - £20,000	13	2	-	4	13	6	141	32
£20,001 - £40,000	3	4	-	-	3	4	77	108
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	1	-	-	-	1	-	82
Total	16	7	-	4	16	11	218	222

28. External Audit Fees

The Authority 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 by the Authority's external auditors.

	2011/12	2010/11
	£000	£000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor	**87**	96
Fees Payable to external auditors in respect of statutory inspections	**-**	-
Fees payable to external auditors for the certification of grant claims and returns	**32**	26
Fees payable in respect of other services provided by external auditors during the year	**-**	-
Total	**119**	122

29. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2011/12 £000	2010/11 £000
Credited to Taxation and Non Specific Grant Income		
Non-Domestic Business Rates (CLG)	(3,752)	(5,543)
Revenue Support Grant (CLG)	(1,160)	(805)
Travellers Site (CLG)	(386)	(949)
Disabled Facilities (CLG)	(373)	(375)
New Homes Bonus (CLG)	(335)	-
Community Facility Improvements	(247)	(14)
Council Tax Freeze (CLG)	(230)	-
Regional Housing Pot (CLG)	(63)	(326)
Area Based Grant (CLG)	-	(36)
Other grants	-	(5)
Total	(6,546)	(8,053)
Credited to Services		
Housing Benefit Administration (DWP)	(632)	(674)
Choosing Health PCT (West Kent PCT)	(129)	(196)
Communities against Drugs (KCC)	(108)	(165)
Concessionary Fares (DfT)	-	(98)
Air Quality	-	(59)
Homelessness (CLG)	(92)	(47)
Tax and Housing Benefits (DWP)	-	(37)
Housing Option – HERO (CLG)	(55)	(36)
Small Sites and Commons	-	(24)
Youth Support	(36)	(19)
Planning Policy (CLG)	-	(16)
Other	(57)	(119)
Total	(1,109)	(1,490)

The authority 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 year-end are as follows:

	2011/12	2010/11
Capital Grants Receipts in Advance	£000	£000
Travellers Site (CLG)	-	(343)
Regional Housing Pot (CLG)	(48)	(92)
Disabled Facilities (CLG)	(116)	(51)
Total	(164)	(486)

30. Related Party Transactions

The Authority 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 has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority 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 24 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in note 29.

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 26. During 2011/12 the Council paid grants totalling £500 to voluntary organisations in which 1 member had an interest. The grants were made with proper consideration of declarations of interest. The relevant member did not take part in any discussion or decision relating to the grants. The Register of Members' Interests is open to public inspection.

Kent County Council pension fund – see note 35.

Assisted organisations – the Council provided material financial assistance to the following organisations:

- Sevenoaks Leisure Limited – management fee of £161,000. Two members are Sevenoaks District Council appointed directors of Sevenoaks Leisure Limited. A loan of £250,000 was given to Sevenoaks Leisure Limited to improve the fitness centre at Sevenoaks Leisure Complex. The term of the loan is 10 years, with a redemption date of 31 March 2018 and interest of 7% per year.

- Sevenoaks Town Council – management and service fees of £100,000 for the Stag Theatre. These fees are for the operation of the building and related services, community provision and youth outreach. Six SDC members are also members of Sevenoaks Town Council, and four members are trustees of Sevenoaks Community Arts Centre Limited which operates the lease of the Stag theatre. The grant was made with proper consideration of declarations of interest and the relevant members did not take part in decisions relating to that grant.

31. Capital Expenditure and Capital Financing

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. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

	2011/12 £000	2010/11 £000
Opening Capital Financing Requirement	**-**	-
Capital Investment:		
Property, Plant & Equipment	**1,330**	1,691
Intangible Assets	**-**	-
Revenue Expenditure Funded from Capital under Statute	**1,018**	1,095
	2,348	2,786
Sources of Finance:		
Capital Receipts	**(119)**	(140)
Government Grants and other contributions	**(1,085)**	(1,669)
Sums set aside from revenue	**(1,144)**	(977)
	(2,348)	(2,786)
Closing Capital Financing Requirement	**-**	-

32. Leases

Authority as Lessee

Payments under operating leases during the year amounted to £72,000 (£94,000 in 2010/11), relating to company cars and multi-functional printing devices.

Commitments under operating leases for company cars payable in 2012/13 amount to £17,000, all of which expires in that year.

A three year operating lease for multi-functional printing devices commenced in March

2010. Lease payments are £32,000 per annum.

	Minimum Lease Payments	
	31/03/12	31/03/11
	£000	£000
Not later than one year	**49**	72
Later than one year and not later than fiv years	**-**	53
Later than five years	**-**	-
	49	125

The authority does not hold any finance leases as a lessee.

Authority as Lessor

The Authority has classified one lease it has granted, as a finance lease. This is due to the length of the lease agreement in relation to the asset's useful life at the inception of the lease, and the value of lease payments to asset value.
The Authority recognises a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts.

	31/03/12	31/03/11
	£000	£000
Gross Investment in the Lease	**379**	405
Estimated Residual value	**31**	31
Net Investment in the lease (Gross Investment discounted by implicit rate)	**195**	199
Unearned Finance Income	**185**	206

The gross investment in the lease will be received over the following periods.

	31/03/12	31/03/11
	£000	£000
Not later than one year	**24**	24
Later than one year and not later than 5 years	**120**	120
Later than 5 years	**235**	262
Total	**379**	406

33. Impairment Losses

During 2011/12, the Authority has not recognised any impairment losses to its operational property, plant and equipment, but has recognised an impairment loss of £207k in the value of its Investment property.

34. Termination Benefits

The Authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £222,000 (£218,000 in 2010/11) – see note 27 for the number of exit packages and total cost per band. The majority of these were as a result of the budget savings agreed by Council on 16 December 2010.

35. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The authority participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority 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

The authority recognises 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 benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	2011/12	2010/11
	£000	£000
Comprehensive Income & Expenditure Statement		
Cost of Services:		
• Current Service Cost	**1,752**	2,487
• Past Service Cost	**-**	(8,251)
• Settlement and Curtailments	**178**	36
Financing and Investment Income & Expenditure		
• Interest Cost	**4,996**	5,585
• Expected return on scheme assets	**(3,905)**	(3,613)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**3,021**	(3,756)
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement		
• Actuarial (Gains)/Losses	**15,007**	(17,180)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**18,028**	(20,936)
Movement in Reserves Statement		
• Reversal of net charges made to the surplus or Deficit for Provision of Services for post employment benefits in accordance with the Code	**(3,021)**	3,756
Actual Amount Charged against the General Fund Balance for pensions in the year:		
• Employer's Contributions payable to scheme	**2,899**	3,456

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2012 a loss of £35.178m and at 31 March 2011 was a loss of £20.171m.

Exceptional Item

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the authority's liabilities in the Pension Fund by £8,251,000 which has been reflected as an exceptional item in the Comprehensive Income and Expenditure Statement in 2010/11.

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded Liabilities: Local Government Pension Scheme	
	2011/12	2010/11
	£000	£000
Opening Balance	**(91,686)**	(109,566)
Current service cost	**(1,752)**	(2,487)
Interest cost	**(4,996)**	(5,585)
Contributions by scheme participants	**(614)**	(686)
Actuarial (gains)/losses	**(12,506)**	14,570
Benefits paid	**4,041**	3,652
Past service costs	-	8,251
Losses on curtailments	**(178)**	(36)
Unfunded benefits paid	**203**	201
Closing Balance	**(107,488)**	(91,686)

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

	Local Government Pension Scheme	
	2011/12	2010/11
	£000	£000
Opening Balance	**57,174**	50,662
Expected rate of return on assets	**3,905**	3,613
Actuarial Gains and losses	**(2,501)**	2,610
Employer Contributions	**2,899**	3,456
Contributions by scheme participants	**614**	686
Benefits paid	**(4,244)**	(3,853)
Closing Balance	**57,847**	57,174

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 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 £1.404m (2010/11 £4.442m).

Scheme History

	2007/8	2008/9	2009/10	2010/11	**2011/12**
	£000	£000	£000	£000	**£000**
Present Value Liabilities	(73,520)	(71,940)	(109,566)	(91,686)	**(107,488)**
Fair Value of Assets	45,660	37,370	50,662	57,174	**57,847**
Surplus/(deficit) in the scheme	(27,860)	(34,570)	(58,904)	(34,512)	**(49,641)**

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability of £49.641m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £8.788m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit of the 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 scheme by the Council in the year to 31 March 2013 is £2.685m.

Basis for Estimating Assets and Liabilities

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

	2011/12	2010/11
Long-Term expected rate of return on assets in the		
Equity Investments	**6.3%**	7.4%
Gilts	**3.3%**	4.4%
Bonds	**4.6%**	5.5%
Property	**4.3%**	5.4%
Cash	**3.0%**	3.0%
Mortality Assumptions:		
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 (CPI)	**2.5%**	2.7%
Rate of increase in salaries	**4.7%**	5.0%
Rate of increase in pensions	**2.5%**	2.7%
Rate for discounting scheme liabilities	**4.6%**	5.5%
Take-up of option to convert annual pension into retirement lump sum	**50%**	50%

The scheme's assets consist of the following categories, by proportion of the total assets held:

	31/03/12	31/03/11
	%	%
Equity investments	**74**	76
Gilts	**1**	1
Bonds	**10**	12
Property	**9**	9
Cash	**4**	2
Target return portfolio	**2**	-
Total	**100**	100

History of Experience Gains and Losses

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

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	**2011/12 %**
Differences between the expected and actual return on assets	(19.4)	(32.8)	21.0	4.6	**(4.3)**
Experience gains and losses on liabilities	2.0	0.0	0.4	1.4	**(0.1)**

36. Contingent Liabilities

During 2004/05 the construction of the Edenbridge Relief Road, a council funded scheme, was completed. Significant land and disturbance compensation costs will become payable as part of the scheme. When the scheme was agreed, an overall costs estimate of £1.2m was made for which a provision has been made. The provision has since been increased to cover potential interest costs (see note 18). In addition to these costs, further costs may be incurred for which a reliable estimate cannot be made as claims and offers on individual sites may vary considerably. A contingent liability is being disclosed for those potential uncertain costs.

37. Contingent Assets

The Council transferred the remaining part of its housing stock to Moat Housing Association in 1993. When Shared Ownership Lessees purchase further equitable shares in their property the Council receives the proceeds of purchasing the further share, less certain costs. This contingent asset applies for a period of 30 years commencing in 1993.

38. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in Note 1o.

At present the Council has no material heritage assets and these are valued for insurance purposes only.

THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT 2011/12

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administering collection are accounted for in the General Fund.

2010/11 £000		Note	2011/12 £000	2011/12 £000
	Income			
68,992	Billed to Council Tax Payers	1		69,240
6,915	Council Tax Benefits			6,764
30,090	Non-Domestic Rates	2		32,436
229	Reduction in Bad and Doubtful Debts Provision			103
106,226				108,543
	Expenditure			
	Precepts:			
52,836	Kent County Council		52,991	
6,993	Kent Police Authority		7,014	
3,426	Kent Fire and Rescue Service		3,437	
12,445	Sevenoaks District Council (incl. Parishes)		12,565	76,007
	Non Domestic Rates:			
29,914	Payment to National Pool		32,261	
176	Cost of Collection Allowance		175	32,436
345	Bad and Doubtful Debts Provision			348
92	- Write Offs			75
-	Contribution towards previous year's Collection Fund surplus	3		-
106,227				108,866
(1)	(DEFICIT)/SURPLUS FOR YEAR	3		(323)
	COLLECTION FUND BALANCE			
-	Balance at beginning of year			(1)
(1)	(Deficit)/Surplus for year			(323)
(1)	Balance at end of year	4		(324)

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 1 April 1991 values for this specific purpose. A different ratio is applied to a small number of properties in band A that have been adapted for use by a disabled person. 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, Kent Fire and Rescue Service and the District Council for the forthcoming year and dividing this by the tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings). This gives rise to the basic amount of council tax for a band D property. Taxes for other bands are derived by applying the ratio in the following table to the band D tax.

The tax base for 2011/12 was calculated in January 2011 as follows:

Band	Estimated no. of taxable properties after the effect of discounts	Ratio	Band D equivalent dwellings
A*	2.50	5/9ths	1.39
A	1,304.50	6/9ths	869.67
B	2,497.25	7/9ths	1,942.31
C	9,199.50	8/9ths	8,177.33
D	10,454.75	9/9ths	10,454.75
E	6,573.50	11/9ths	8,034.28
F	5,332.50	13/9ths	7,702.50
G	6,830.00	15/9ths	11,383.33
H	1,125.75	18/9ths	2,251.50
	43,320.25		50,817.06
Less adjustment for collection rates and anticipated changes during the year for successful banding appeals etc., offset by contributions in lieu in respect of Crown property.			242.49
COUNCIL TAX BASE FOR 2011/12			50,574.57
COUNCIL TAX BASE FOR 2010/11			50,426.50

The tax rate for a band D property was £1,436.30 excluding Parish Council taxes (2010/11 = £1,436.30).

Note 2 National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (43.3p in 2011/12 and 41.4p in 2010/11) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

According to the rating list, the total non-domestic rateable value at 31 March 2012 was £90,317,429 (31 March 2011 = £89,501,044).

Note 3 Contributions to Collection Fund Surpluses and Deficits

In January each year the Council must estimate the Collection Fund balance for the coming 31 March.

In January 2011, the estimated balance at 31 March 2011 in respect of council tax transactions was zero. Had there been a surplus or deficit, it would have been shared between Kent County Council, Kent Police Authority, Kent Fire & Rescue Service and the District Council in proportion to their precepts on the Collection Fund in 2010/11 and taken into account by the respective authorities in the calculation of their council taxes for 2011/12.

The actual position at 31 March 2011 was a deficit of approximately £1,400.

Note 4 Reconciliation of Balance at the end of year to the Balance Sheet

Only the Sevenoaks District Council element of the Balance at end of year is included in the Balance Sheet.

	2010/11		2011/12	
Authority	**% of Council Tax**	**Est. share of Balance £000**	**% of Council Tax**	**Est. share of Balance £000**
Sevenoaks DC (incl. Parish and Town Councils)	16.5	0	16.6	(54)
Kent County Council	69.8	(1)	69.7	(226)
Kent Police Authority	9.2	0	9.2	(30)
Kent Fire and Rescue Service	4.5	0	4.5	(14)
Total	100.0	(1)	100.0	(324)

ANNUAL GOVERNANCE STATEMENT 2011/12

1. Background

The Annual Governance Statement (AGS) is a corporate document involving a variety of people charged with developing and delivering good governance including:

- the Head of Paid Service and the Leader of the Council as signatories;
- directors and management assigned with the ownership of risks and the delivery of services;
- the Chief Financial Officer who is responsible for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972;
- the Monitoring Officer in meeting her statutory responsibilities of ensuring the legality of Council business;
- the Council's Internal Audit function;
- Members (for example, through the scrutiny committees and the Performance and Governance Committee); and
- others responsible for providing assurance, in particular the District Auditor of the Audit Commission, in his role as the Council's External Auditor.

Thus the AGS, as a corporate document, is owned by all senior Officers and Members of the Council. A shared approach was taken in compiling the AGS with the objective of engaging the whole authority within the process and encouraging a high quality of reflection and corporate learning. This increases the statement's significance and encourages people to objectively assess their responsibilities.

The system of corporate governance highlighted in the AGS, together with the system of internal control, is reviewed continually throughout the year as part of routine governance and managerial processes; prime examples being the authority's performance management and risk management systems.

Although corporately owned, the AGS requires assessments/assurance statements from Heads of Service, Directors, the Monitoring Officer and the Section 151 Officer, all of which were obtained as part of the process.

2. Scope of Responsibility

Sevenoaks District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The 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. Sevenoaks District Council seeks to conduct these responsibilities within the framework of achieving continuously improving, high quality service provision to enhance community wellbeing and engagement.

In discharging this overall responsibility, Sevenoaks District Council is also responsible for ensuring that there is a system of corporate governance which facilitates the effective and principled exercise of the Council's functions and which includes arrangements for the management of risk.

The roles of the Chief Executive (as Head of paid Service), the Section 151 Officer, the Monitoring Officer and the Executive Role of Members are defined within Part 13 of the Council's Constitution.

Officers and Members are expected to conduct themselves in a proper manner in accordance with the Constitution and both are expected to declare interests that may impact on the Council's decision making process. These interests are held on a register and are reviewed on a regular basis by the Monitoring Officer.

Sevenoaks District Council has approved and adopted a 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 can be obtained from our Audit & Efficiency team or via the Council's website. This statement explains how Sevenoaks District Council has implemented both the code and the requirements of regulation 4(3) of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an Annual Governance Statement.

3. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the authority informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and empowers the community. It enables the authority to evaluate the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 Sevenoaks District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

4. The Governance Framework

The following represent the key elements of the governance framework within Sevenoaks District Council:

- The Council's objectives to March 2012 were established and set out in the Sevenoaks District Sustainable Community Action Plan 2010-13 and the Corporate Performance Plan. The Sustainable Community Plan 2010-13 was approved and adopted by Council in March 2010.

- Both of these plans are subject to considerable Member review and challenge by Cabinet, the appropriate Select Committee or the Performance and Governance

Committee, the Finance Advisory Group and ultimately by the full Council. These plans are also cascaded to individuals within the Council through Service Plans and individual action plans through the appraisal process. Furthermore the Council has now adopted an approach whereby the appropriate Select Committee scrutinises key proposals prior to Cabinet making its decision.

- Policy and decision-making is facilitated through reports from Officers to Cabinet. Each Cabinet Member has responsibility for a specific portfolio and will take decisions on matters relevant to that portfolio. Committees have the opportunity to 'call-in' the decisions of Cabinet and recommend changes to decisions or policies.

- The Council's Constitution specifies the roles and responsibilities of Members and Officers; and the financial and procedural rules for the efficient and effective discharge of the Council's business.

- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

a) **Internal Audit** – The Council's internal audit team works to an approved annual audit plan and undertakes that work in accordance with the CIPFA Code of Practice for Internal Audit in the United Kingdom (revised 2006). Individual audit reports are produced for relevant management, with copies to the Chief Executive, Section 151 Officer and the relevant Director. Quarterly update reports and Annual audit reports are made to the Performance and Governance Committee. The quarterly reports highlight the results of individual risk-based audit reviews, while the annual report evaluates the overall internal control environment as tested through audit work undertaken in the year. The review of the effectiveness of Internal Audit was assessed in March 2012 as 'satisfactory' in meeting the requirements of an adequate and effective internal audit service.

b) **External Audit and Audit Commission** – External audit reports are sent to senior management and Members. Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations. The Council's current practice was commended in all its recent audit and inspection reports, and unqualified opinions were issued in relation to both financial statements and value for money for 2010-11.

c) **Financial Management** – A robust budgetary control system is in place and regular monitoring reports are produced for Heads of Services, Management Team, Cabinet, the Overview and Scrutiny Board and the Finance Advisory Group. Senior accountants conduct monthly client liaison meetings with responsible budget holders.

d) **Performance Management** – Monitoring of the achievement of the Council's objectives is undertaken through the Council's performance management system which is developed through monthly monitoring with Head of Service commentaries. Strategic information is reported to Management Team, Cabinet Members and Select Committees.

e) **Arrangements for Partnerships** – The Council believes that it can enhance value for money with service delivery through innovative and cost-effective partnership working. The Council engages in extensive discussion and planning to develop efficient working arrangements while protecting quality of services. The Council has developed a comprehensive partnership toolkit to ensure that partnerships incorporate the

Council's culture and comprehensive approach to managing risk. Decisions to enter into partnership working are supported by business cases and cost-benefit analysis, and are subject to scrutiny and approval by Members. Following on from the successful implementation of a Revenues and Benefits shared service in 2010-11, the Council has successfully implemented a further major shared service project during 2011-12.

f) **Risk Management** – A risk management strategy is in place and corporate strategic risks have been identified and assessed. Relevant risk owners now manage these risks. Relevant training has been delivered to Members and Officers. Operational risk registers and action plans have been completed and are monitored. An Officer risk management group is also in place and operates effectively.

g) **Relationships and Ethics** – Good co-operative relationships exist between the Council and its external auditors and inspectors and between Officers and Members. Relationships between Officers and Members are guided by a protocol embedded in the Council's Constitution. A written communications protocol has also been established between the Leader and the Chief Executive. The Council has clear Codes of Conduct for Members and Officers embedded within its Constitution, underpinned by a culture of integrity and ethical behaviour. Member conduct is scrutinised by the Standards Committee.

h) **Service Delivery by Trained and Experienced People** – The Council has a robust recruitment policy and procedures in place. The Council holds Gold status in the Investors in People (IiP) New Choices scheme, conferred by an external inspection regime in November 2009. The Council was the first local authority nationally to achieve this standard. Staff appraisals take place annually, including an annual review of service and training planning, training evaluation and recruitment and selection procedures.

i) **Monitoring Officer** – The Council has appointed a Monitoring Officer to oversee its compliance with laws and statutory obligations. The Monitoring Officer reports to the Council's Standards Committee. Regular meetings between the three statutory Officers (Chief Executive, Corporate Resources Director and Head of Legal Services) form part of the Council's governance arrangements.

j) **Anti-fraud and Corruption** – The Council has a fraud and corruption policy, including a whistle-blowing policy, published on its intranet site. The Council also has a dedicated Benefits Fraud Team and a "fraud hotline", available to both staff and members of the public, which allows individuals to report anonymously any suspected cases of fraud and corruption. The risks of fraud and corruption have been assessed within the strategic risk register and appropriate measures put in place to mitigate these risks.

5. Role of the Chief Financial Officer (CFO)

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigns this responsibility in paragraph 5.2 to the Deputy Chief Executive & Director of Corporate Resources (Dr Pav Ramewal).

5.2 CIPFA has issued a Statement on the Role of the Chief Financial Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate an effective CFO. The Council has considered this Statement, and believes that, during the financial year 2011-12, it has complied fully with the governance requirements of this Statement. The Council's Financial Procedure Rules, codified within Appendices D and E of the Constitution, ensure that all the appropriate responsibilities are delegated and reserved to the CFO as the Statement recommends.

6. Review of Effectiveness

6.1 Sevenoaks District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of the Council's internal auditors and by Heads of Service who have responsibility for the development and maintenance of the internal control environment. It also considers comments made by the external auditors and other external review agencies and inspectorates. The Council is keen to allow itself to be the subject of external scrutiny and challenge, and to consider recommendations for improvement.

6.2 The External Auditor concluded that, for 2010-11, the Council had adequate arrangements in place to ensure value for money was achieved. An unqualified opinion was issued in relation to the Council's financial statements. The Council is not aware of any issues arising in relation to value for money from the current work being undertaken by the External Auditor.

6.3 Annual internal audit reports are presented to the Performance and Governance Committee (which fulfils the requirements of an Audit and Risk Management Committee), giving the Audit and Efficiency Manager's opinion on the overall internal control and governance environment. Any internal audit review judged "unsatisfactory" or "unacceptable" is subject to timely action plan and follow-up audit.

6.4 The opinion of the Audit and Efficiency Manager in the Annual Audit Report to the Performance and Governance Committee for 2011/12 is that the overall control environment was **Satisfactory**.

6.5 The Chief Financial (Section 151) Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the various Codes of Conduct.

6.6 The Council continues to review and improve its governance arrangements on a continuous basis. Improvements during 2011/12 include the following:

- Review and enhancement of the Council's Risk Management Framework;
- Ongoing review of savings plans and budget adjustments made to protect services in the circumstances of government grant cuts;
- Extension of Shared Service arrangements to ensure Value for Money;
- The development, testing and peer review of the Council's Business Continuity and Incident Management Plan, particularly in relation to the Olympics and Paralympics; and

- Review of the work and performance of the Performance and Governance Committee and completion of a self-assessment of the Committee's performance, including an end of year report by the Chairman of the Committee.

- The Standards Committee, comprising of elected Members, independent representatives and Town and Parish Council continues to govern the actions of the executive and ensures that Members adhere to the protocols of Conduct as set out in the Constitution.

6. Significant Governance Issues

Following a fatal road traffic accident on 13 September 2010 involving one of Sevenoaks District Council's road sweeping vehicles, the Health and Safety Executive served an Improvement Notice on the Council in relation to its risk assessments for sweeping roads. Following an appeal of this notice, lawyers acting on behalf of the Council's insurers have agreed with the Health and Safety Executive that the wording and compliance time of the notice be varied and the Council has now complied with the varied notice. As such, the Council's appeal has now been withdrawn.

There is an ongoing regulatory inquiry into the fatality.

.... Date:	.... Date: ....
Robin Hales	**Cllr. Peter Fleming**
Chief Executive Head of Paid Service	Cllr for Sevenoaks Town & St. John's Leader of the Council

on behalf of Sevenoaks District Council

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources
June 2012

GLOSSARY OF TERMS – Statement of Accounts
Most terms are explained within the “Explanatory Foreword” and “Statement of Accounting Policies” sections of the accounts

Accounting Period. The period of time covered by the accounts, normally 12 months starting on 1st April for Local Authority accounts.

Accrual. Item relating to, and accounted for in, one accounting period but actually paid in another.

Actual. The final amount of expenditure or income which is recorded in the Council’s accounts.

Agency and Contracted Services. Services purchased from another public body or external organisation and subject to a contract. Includes the services provided by Direct Services.

Budget. A statement of the Council’s plans for net revenue and capital expenditure over a specified period of time.

Budget Requirement. Broadly the authority’s estimated net revenue expenditure after allowing for movement in reserves and the addition of parish precepts, to be met from revenue support grant, redistributed non-domestic rates and council tax income.

Capital Expenditure. The acquisition, construction, enhancement or replacement of tangible fixed assets (i.e. land, buildings, structures etc.), the acquisition of investments and the making of grants, advances or other financial assistance towards expenditure by other persons on tangible fixed assets or investments.

Capital Financing Requirement. The difference between Capital Expenditure and the resources available to finance such expenditure from grants/contributions, capital receipts or revenue funds. This indicates the fundamental requirement to borrow.

Capital Programme. The capital projects the Council proposes to undertake over a set period of time.

Capital Receipts. Money obtained on the sale of a capital asset.

CLG. Department for Communities and Local Government (formally Office of the Deputy Prime Minister ODPM).

Collection Fund. The fund into which council tax and non-domestic rates are paid, and from which we meet demands by preceptors and payments to the non-domestic rates pool.

Contingent Liabilities. Contingent liabilities are either:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation’s control, or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core. Costs involved in corporate policy making, representing local interests (including civic ceremonials), support to elected bodies and duties arising from public accountability.

Cost Centre. An individual unit to which items of income or expenditure are charged for managerial or control purposes.

Council Tax. A local tax set by Councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, some people with disabilities and some other special cases.

Council Tax Base. The measure of the taxable capacity of an area. It represents the estimated full year equivalent number of chargeable dwellings in an area, expressed as the equivalent number of band D dwellings, after allowing for disabled reduction (relief) and discounts, adjusted for an allowance for non-collection.

Creditors. People or organisations from whom we have received goods or services and as a consequence owe money.

Debtors. People or organisations who owe money to the Council.

Deferred Capital Receipts. Capital Receipts which will accrue in the future, such as mortgage repayments.

Depreciation. A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.

DfT. Department for Transport.

DWP. Department for Work and Pensions.

Employee Costs. This includes the full costs of employees including salaries, employers contributions to national insurance and superannuation, and the costs of leased cars.

Fees and Charges. In addition to income from council tax payers, business ratepayers and the government, local authorities charge for some services, e.g. local land charge searches and car parking.

General Fund. The main revenue fund of the Council from which payments are made to provide services and into which receipts are paid, including the District Council's share of council tax income.

Government Grants. Payments by government towards either the revenue or capital cost of local authority services. These may be either in respect of particular services called specific grants, e.g. housing benefits, or in aid of local services generally, e.g. revenue support grant.

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

Impairment. A downward revaluation of an asset.

KCC. Kent County Council.

Leasing. A method of financing the acquisition of equipment, vehicles etc. The items concerned do not belong to the user (or lessee) but are the property of the lessor to whom the lessee pays an annual rental for a specific period of time.

MBC. Maidstone Borough Council.

National Non-Domestic Rate (NNDR). Non-domestic rates are levied at a uniform rate in the pound set by the Government. The proceeds are pooled nationally and then redistributed to each Local Authority in proportion to residential population and other criteria determined by the Government.

PCT. Primary Care Trust.

Precept. The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Sevenoaks). Precepts on Sevenoaks are also made by Kent Police Authority, Kent Fire & Rescue Service, Town and Parish Councils in the District.

Premises Expenses. Includes expenditure on repairs, buildings, grounds and plant maintenance, energy, rents, rates, water services and cleaning of council buildings.

Provisions. Funds to provide for liabilities or losses which are known obligations, but are uncertain as to amounts or dates.

Recharges. The transfer of costs from one account to another.

Reserves. The general capital and revenue balances of the Council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside, surpluses or delayed expenditure can be spent or earmarked at the discretion of the Council. The usable capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the reserves brought about by the new capital accounting system namely the capital adjustment account and the revaluation reserve.

Revenue Expenditure. Expenditure to meet the continuing cost of services including wages and salaries, purchase of materials and financing charges on capital expenditure.

Revenue Support Grant (RSG). The general Government grant to local authorities. It is payable to all local authorities in support of expenditure in their area.

Revised Estimates. The approved estimates for the current year as amended e.g. by supplementary estimates and virement.

Specific Grant. Government grant for specific purposes. The Authority does not have the power to apply such grants for other purposes

Standard Spending Assessment (SSA). The amount of revenue expenditure, net of Specific Grants, which it is appropriate for each authority to incur in providing a common level of service consistent with the aggregate figure of Total Standard Spending. The sum of all authorities' Standard Spending Assessments is equal to Total Standard Spending less the total of Specific Grants.

Standard Spending Grant (SSG). An informal alternative name for Revenue Support Grant, which helps to make it clear that the grant is paid in support of expenditure at the level of the Standard Spending Assessment.

Supplies and Services. Includes expenditure on equipment and materials.

Support Services. The charges made by central functions for the services they provide to other departments. These are services which support the provision of services to the public, other support services and the corporate and democratic core. This includes the provision of accommodation, IT, administrative items purchased centrally, (e.g.

telephones, stationery and bank charges), central professional services (Personnel, Legal and Property, and Financial Services support) and the cost of providing some centrally provided services e.g. post distribution and contact centre.

Total Standard Spending (TSS). The amount of revenue expenditure which the Secretary of State considers it is appropriate for all local authorities in England to incur in the provision of services and the financing of expenditure.

Transfer Payments. Payments to other bodies where no goods or services are received in return e.g. Housing Benefit grants.

TWBC. Tunbridge Wells Borough Council.

Valuation Bands. To calculate the relative value of dwellings for council tax purposes each dwelling is placed on a valuation list in one of eight bands ranging from A to H. Within a local area, the Council tax will vary between the different bands according to proportions laid down by law.

Band	Value		Proportion
A	Up to £40,000		6/9
B	Over £40,000	and up to£52,000	7/9
C	Over £52,000	and up to£68,000	8/9
D	Over £68,000	and up to£88,000	9/9
E	Over £88,000	and up to£120,000	11/9
F	Over£120,000	and up to£160,000	13/9
G	Over£160,000	and up to£320,000	15/9
H	Over£320,000		18/9

Virement A transfer of budget provision from one budget to another.