

# Annual **Financial Report**

including the Statement of Accounts  
**for year ended 31 March 2013**



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## Annual Financial Report - Foreword

This is Swale Borough Council's Annual Financial Report for 2012/13. This report provides a record of how we have used our financial resources. Our accounts and all relevant documents are subject to review by Grant Thornton UK LLP – our external auditors.

Swale Borough Council provides a wide range of services, such as waste collection, recycling, street cleansing, parking, planning, leisure, homelessness support, recreation, housing benefit, and environmental health. We cover an area of 141 square miles; have 130,300 residents, 36 parishes and 47 councillors. We employ the equivalent of 279 full-time employees. Our purpose is to make Swale a better place.

## The Annual Financial Report

The Annual Financial Report has the following sections:

- this explanatory foreword which gives a background to our financial performance;
- the Statement of Accounts – see below;
- a glossary to explain any technical terms used in the report;
- an annual governance statement showing how we meet set standards when carrying out our responsibilities; and
- a report from Grant Thornton after they have reviewed the Council's accounts.

## The Statement of Accounts

The Statement of Accounts provides a record of the Council's financial position and performance for the year to 31 March 2013. It has been prepared in line with the Accounts and Audit Regulations (England) 2011. The format meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Expenditure Reporting Code of Practice 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts appears on pages 8 to 79. Our "core financial statements" are listed below along with a brief explanation of their purpose:

**Movement in Reserves Statement (MIRS)** (page 9) - shows the movement on all our reserves (funds set aside) due to the increase or decrease in our net worth as a result of our spending, the income we received and changes in the value of our assets.

**Comprehensive Income & Expenditure Statement (CI&ES)** (page 10) - shows all of our spending, income and changes in value in providing our services during the year.

**Balance Sheet** (pages 11&12) - summarises our financial position at 31 March each year. Page 11 shows the assets (what we own) we hold and our liabilities (what we owe) to other parties. Page 12 shows our reserves, separated into those we can use for future spending (usable reserves) and those created to reconcile the technical aspects of accounting (unusable reserves).

**Cash Flow Statement** (page 13) - summarises the cash that moved into and out of our bank accounts over the financial year.

**Statement of Accounting Policies** (page 14) - sets out the policies we adopted for drawing up the various accounting statements.

## ANNUAL FINANCIAL REPORT – EXPLANATORY FOREWORD

### Summary of the Council's Financial Position

Financial Position	31 March 2013 £'000	31 March 2012 £'000	Movement £'000
Funds available for future spending (Usable Reserves)	12,269	12,269	0
Value of items owned by Council (Assets)	66,950	74,119	(7,169)
Amounts which will become payable by Council (Liabilities)	53,324	55,371	(2,047)
Cash and Cash Equivalents	10,340	8,606	1,734
<b>Reason For Movement Between Years</b>			
Value of items owned by Council (Assets)	Reduction in the Council's investments offset by increase in business rates debtors		
Amounts which will become payable by Council (Liabilities)	Decrease in sums owed by the Council offset by increase in the Council's pension liabilities		
Cash and Cash Equivalents	Movement in Council's investments from those invested over a set time to those with same day access		

For more details please see the Balance Sheet and Cash Flow Statement.

### Actual Spending Compared to the Budget for 2012/13

The table below shows the overall cost of our services to the revenue account (known as the General Fund):

Actual Spending Compared to the Budget for 2012/13	Budget For 2012/13 £'000	Actual Spending 2012/13 £'000	Over or (Under) spend £'000
Central Services to the Public (Grants, Tax Collection, Elections)	922	886	(36)
Cultural Services (Sport, Halls, Open Spaces, Tourism)	4,312	4,384	72
Environmental Services (Refuse Collection, Street Sweeping, CCTV, Pollution, Licensing, Cemeteries)	6,901	6,434	(467)
Planning Services (Planning, Economic Development, Building Control)	2,446	2,609	163
Highways & Transport Services (Parking, Street Names)	(699)	(780)	(81)
Housing Services (Homelessness, Housing Benefit)	1,933	2,046	113
Corporate & Democratic Services	2,383	2,376	(7)
Non Distributed Costs (Pension and asset costs not charged to services)	51	141	90
<b>Net Cost of Services</b>	<b>18,249</b>	<b>18,096</b>	<b>(153)</b>
Other Operating Expenditure (note 19) (Parish Precepts & Drainage Board Levy)	1,107	1,718	611
Financing & Investment Income & Expenditure (note 20) (Pension & investment property movements)	(211)	775	986
Tax and Non-Specific Grant Income (note 23) (Council Tax income, business rates, government grant)	(18,606)	(18,639)	(33)
<b>Deficit on Provision of Services*</b>	<b>539</b>	<b>1,950</b>	<b>1,411</b>

## ANNUAL FINANCIAL REPORT – EXPLANATORY FOREWORD

Actual Spending Compared to the Budget for 2012/13	Budget For 2012/13 £'000	Actual Spending 2012/13 £'000	Over or (Under) spend £'000
Adjustments to move from an accounting basis, to costs funded by taxpayer basis*	(614)	(1,421)	(807)
<b>Contribution from General Fund</b> (This is the main reserve account for the Council and is a statutory account for council tax setting purposes)	<b>(75)</b>	<b>529</b>	<b>604</b>
<b>General Fund Balance 1 April 2012</b>	<b>(3,816)</b>	<b>(3,816)</b>	<b>0</b>
<b>General Fund Balance 31 March 2013</b>	<b>(3,891)</b>	<b>(3,287)</b>	<b>604</b>

\*The deficit shown above is on an accounting basis which is different from the costs that the Government says have to be met by the taxpayer which is why there are the adjustments made before they hit the General Fund. The CI&ES on page 10 takes a wider view of financial performance than that shown in the General Fund and shows the true accounting position for the year. The CI&ES shows the total amount by which the Council's overall net worth has decreased over the year as shown in the Balance Sheet.

The table below shows the movement from the deficit shown above to the total CI&ES:

Movement from Provision of Services to Comprehensive Income & Expenditure Statement	Actual Spending 2012/13 £'000
<b>Deficit on Provision of Services</b>	<b>1,950</b>
Surplus on revaluation of assets	(217)
Losses on changes to pension fund value by actuary	3,301
Income from long-term debtors	88
<b>Total Comprehensive Income &amp; Expenditure (CI&amp;ES)</b>	<b>5,122</b>

The table below explains the major differences between the budget forecasts and the actual money spent and income received:

Detail	Over or (Under) spend £'000	Explanation
2011/12 savings spent in 2012/13	1,192	Agreed at Cabinet 4 July 2012.
Housing Benefits	(183)	Additional Housing / Council Tax Benefit Grant due to successful collection of overpayments plus savings in staff costs.
Property	(136)	Increased rental income due to sale of freehold land not completed as expected, plus backdated rent review.
Savings to be used to meet activity in 2013/14	(121)	Underspends in 2012/13 to be rolled forward into 2013/14.
External Audit Fees	(70)	The Council has new auditors Grant Thornton.
Financial Guarantee	(68)	Provision for financial guarantee for the Drill Hall Faversham is no longer required.
Other	(10)	
<b>Total Contribution from General Fund</b>	<b>604</b>	
<b>Reconciliation to the Cabinet's Outturn Report:</b>		
2011/12 savings spent in 2012/13	(1,192)	
<b>Underspend Reported to Cabinet</b>	<b>(588)</b>	

## ANNUAL FINANCIAL REPORT – EXPLANATORY FOREWORD

### Balance of the General Fund

Our policy is to maintain a balance of at least £1.5 million in the General Fund. The surplus of £3.3 million represents 18% of the net expenditure budget for 2012/13 and is therefore at an adequate level.

### Capital Spending

Where spending is on an asset which will benefit us over a number of years, it is called capital. It is funded mainly by government grants and capital receipts (money from selling land and other assets). The largest element of our capital spend is on our Disabled Facility Grant programme, which attracted 80% funding from the government.

The tables below show the main areas of capital spending and how they were funded. More details are shown under note 38.

<b>Capital Spending</b>	<b>Budget For 2012/13 £'000</b>	<b>Actual Spending 2012/13 £'000</b>	<b>Over or (Under) spend £'000</b>	<b>Level of Approved Rollover £'000</b>
Disabled Facilities Grant – Partnership Funding	881	1,039	158	0
Disabled Facilities Grant – Council Funding	330	240	(90)	90
Cemeteries & Closed Churchyards	86	53	(33)	33
Financial System (overspend funded by revenue savings)	29	46	17	29
Alexander Centre	50	45	(5)	0
Faversham Town Centre Improvements	45	45	0	0
ICT Mid Kent Improvement Partnership	100	31	(69)	59
Thistle Hill Community Woodland – Trim Trail	35	0	(35)	35
Other	106	113	7	17
<b>Total</b>	<b>1,662</b>	<b>1,612</b>	<b>(50)</b>	<b>263</b>

<b>Capital Funding</b>	<b>Actual Spending 2012/13 £'000</b>
<b>Total Capital Spending</b>	<b>1,612</b>
<b>Source of Funding:</b>	
Capital Receipts	64
Capital Grants & Other Contributions	1,169
Revenue	46
Earmarked Reserves	333
<b>Total Capital Funding</b>	<b>1,612</b>

We plan to spend £3.5 million in the future on capital of which £300,000 will be funded from our own resources with the rest being paid for from external contributions.

A detailed report on the revenue and capital outturn for 2012/13 will be presented to the Cabinet on 10 July 2013 and to the Scrutiny Committee on 17 July 2013. The Cabinet will be asked to approve the rollover of capital budgets of £263,000.

We did not buy any material assets or run up significant liabilities in 2012/13. However, we did sell assets with a value of £72,100 and handed over ownership of the Alexander Centre to a trust as part of our localism agenda.

### **Significant Changes in Accounting Policies in 2012/13**

There are no significant changes in our accounting policies for 2012/13.

### How We Performed in 2012/13

More than two-thirds of our performance indicators, for which an appropriate national comparator dataset is available, are now performing among the best 25% in the country, with none among the worst 25%. This represents a significant turnaround in our performance from a few years ago, an achievement which was recognised in early 2013 when the Council was a finalist for the prestigious Local Government Chronicle 'Most Improved Council of the Year' award.

Swale's improved performance is also being recognised by our residents, as evidenced by steady improvement on a range of indicators measured by our annual perception survey. This year's survey showed that the proportion of residents satisfied with the way we run things had improved from one of the worst in the country in 2008 to around the national average in 2012, while the proportion agreeing that we provide value for money was now among the best in the country.

One year on from the launch of its new corporate plan, we have made good progress on our corporate objectives, including that of 'embracing localism'. This has seen Swale working hard to give communities a greater say in the running of local services and facilities, and to take these over from the Council where appropriate. To date, a number of physical assets have been transferred to local volunteer groups who are better placed to ensure their ongoing viability, with the Council providing advice and support to improve groups' knowledge and skills. Together with work to develop a local neighbourhood plan for Faversham Creek, these are early examples of our commitment to encourage a flourishing and responsible civic society within Swale. Our corporate plan can be found on our website: <http://www.swale.gov.uk/corporate-plan/>

### Performance Indicators

Each month we publish a report highlighting the main aspects of performance. You can view this on our website at <http://www.swale.gov.uk/Monthly-performance-monitoring/>. In order to ensure that the Council delivers its priorities and targets as set out in the Corporate Plan and Sustainable Community Strategy, achievement has been measured by using performance indicators. The Council's aim is for at least 85% of indicators to achieve their targets by the end of each year and the provisional outturn for these indicators reported monthly shows that 82% have achieved target with a further 7% within 5% of achieving target.

### Sickness Performance

The average working days lost due to sickness absence for 2012/13 was 6.5 days. This is lower than 7.9 days for 2011/12 and the target for 2012/13 of 8 working days.

### Environmental Performance

In January 2013 we signed up to Climate Local where we have set out our targets and commitments for tackling climate change, including a year on year reduction in CO<sub>2</sub> emissions of 2.6% across the borough. Each year we file our Greenhouse Gas Report which shows our progress on cutting CO<sub>2</sub> emissions from our own estate. Our procurement strategy requires that sustainability is considered.

### **Transparency of Our Spending**

The Government has promoted how local authorities make information on senior staff salaries and payments to creditors available to the public. We have met these requirements and exceeded them by detailing payments over £250 and not £500. This information can be found on our website at: <http://www.swale.gov.uk/council-transparency/>.

By law, all councillors must fill in a Declaration of Members' Interest form to register their financial or other interests. The Monitoring Officer maintains the full Register. The public can make an appointment to inspect it during normal office hours or can see it on our website: <http://www.swale.gov.uk/register-of-interests/>

### **Material Events after the Reporting Date**

There have not been any material events after the date the accounts were authorised for publication.

### How we are dealing with the Economic Climate and its Risks

We experienced a 15% reduction in Government Grant in 2011/12, 13% in 2012/13 and 7% in 2013/14. To manage these reductions whilst meeting our objectives in the Corporate Plan, we use a Medium Term Financial Plan (MTFP) which is a forecast of our financial position over the next three years. The MTFP is underpinned by the following principles:

- achieving a balanced budget position with the budget requirement being met from core income;
- reserves being used to fund one-off cost pressures;
- accepting Council Tax freeze grant in 2013/14 and an assumed 2% per annum increase thereafter; and
- business rates are budgeted at the level calculated by the Government in the Grant Settlement.

We should remain free from external borrowing and not borrow to fund capital spend, apart from in exceptional circumstances.

The 2013/14 Budget Book can be obtained from our website using the following link:

<http://www.swale.gov.uk/revenue-budget-and-capital-programme/>

### Our Financial Reporting and Monitoring Arrangements

In 2012/13 we continued to work in extremely testing financial conditions. Against the backdrop of the Euro Crisis, the UK economy experienced negligible growth, higher than target inflation and increased unemployment. These forces put extra pressure on our services and budgets, already stretched by the reduction in financial support from the government in 2012/13.

Good financial planning is needed to make sure we have enough funds for the uncertain times ahead and our reserves are £12.3 million. Our working capital ratio is 2.5:1, which means that we have sufficient assets to cover our short-term liabilities. We agreed revenue savings of £0.587 million for 2013/14 and we have a good track record of making agreed savings. Our Revenue and Capital Monitoring reports are reviewed by our Strategic Management Team every month and by our Cabinet every three months. This should make sure we are in a strong position to be able to meet the expected funding gap in future years. Copies of our monitoring reports are available on our website or by contacting Democratic Services.

The largest project we are taking on is regenerating Sittingbourne's town centre, with Spirit of Sittingbourne as a development partner. Our contribution is largely by way of transferring land. Following a Policy Overview Committee review, improved project management has been put in place.

For 2013/14 onwards the funding of local authorities will change fundamentally with the introduction of localised business rates, whereby the amount collected will be divided between the Government (50%), Swale Borough Council (40%), Kent County Council (KCC) (9%) and Kent Fire (1%). This introduces an entirely new area of volatility in the Council's finances which we have not had to manage before. We have improved our forecasting of rates income, set up a Business Rates Reserve to manage the volatility and regular information on the business rates collected will be reported to members.

### Paying for Pensions

We are a member of the Local Government Pension Scheme (LGPS) which KCC runs on our behalf. In the Statement of Accounts pension costs are based on a forecast by an actuary (a professionally qualified independent person appointed to value the Pension Fund and therefore set contribution rates) of the cost of providing retirement benefits rather than the payments made to the Pension Fund. The pension deficit has increased from £39.49 million at 31 March 2012 to £43.37 million at 31 March 2013 mainly because of changes in assumptions relating to the value of the scheme liabilities which have been affected by very low gilt (government bonds) yields.

The level of our contributions to the pension fund is set by our actuary every three years and is based on the pension fund's investment strategy. See note 56 for more information. Reports on the Kent Pension Fund are available from: Kent County Council, Treasury and Investments, Room 2.53, Sessions House, County Hall,

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Maidstone, Kent ME14 1XQ or by using the following link:

[http://www.kentpensionfund.co.uk/investments/report\\_and\\_accounts.aspx](http://www.kentpensionfund.co.uk/investments/report_and_accounts.aspx).

### Treasury Management

Treasury management is how we invest our surplus funds. We meet government and accounting requirements on treasury management which emphasise the security of funds. The policy is to avoid unnecessary risk so we only put money in short-term deposits with the safest and most secure UK financial institutions and a small number of very large wide-ranging money market funds (these are well rated, highly diversified pooled investment vehicles). Despite returns of less than 1%, our view is that we have no option but to be highly cautious in what are still unstable financial markets as protecting our financial reserves is the most important issue.

Our total investment averaged £20 million during 2012/13 (£13 million for 2011/12) and closed at £10 million at 31 March 2013. We achieved a return of 0.51% for 2012/13 (0.69% for 2011/12) amounting to £100,000 (£84,000 in 2011/12). This resulted in an extra £5,000 of investment income when compared with the average 7-day London Inter Bank Bid Rate (LIBID) rate for the year of 0.49%. The increase compared to the previous year is due mainly to improved cash flow management.

We do not borrow any money to pay for capital spend.

### **Collection Fund**

We collect council tax on behalf of KCC, Police, Fire and Parishes and business rates for the Government and this is recorded in the collection fund. At the year-end, this account had a surplus balance of £273,600 (compared with the estimate in January 2013 of nil), which we took into account when setting the council tax for 2013/14). The difference can be attributed to cautious forecasts of the amounts we manage to collect and the number of people paying council tax and business rates. In 2012/13 we collected 97.7% of the council tax and 96.6% of the business rates due.

### **Further Information**

You can get more information about the accounts from [finance@swale.gov.uk](mailto:finance@swale.gov.uk). You have the right in law to inspect the accounts for 20 working days before the audit is completed. The inspection dates are between 22 July and 16 August 2013 inclusive. From 19 August until the conclusion of the audit process, if you live in the borough of Swale, you (or a representative for you), may object to the Council's accounts asking that the auditor issue a report in the public interest and/or apply to the court for a declaration that an item in the accounts is contrary to law. Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at their address: Andy Mack, Engagement Lead (Director), Grant Thornton UK LLP, Grant Thornton House, Melton Street, London NW1 2EP and copied to myself at the Council. The availability of accounts for inspection has been advertised in the local press, the Council website and Council offices.

**Nick Vickers B.Sc (Econ), CPFA**

**28 June 2013**

**Head of Finance**

## **STATEMENT OF RESPONSIBILITIES**

### **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 Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### **THE HEAD OF FINANCE'S RESPONSIBILITIES**

As the Head of Finance, I am 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, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code;
- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that the accounts present a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31 March 2013.

**Nick Vickers B.Sc (Econ), CPFA**  
**Head of Finance**

### **Certification of the Chairman of the Audit Committee**

I confirm that the adoption process for the 2012/13 Statement of Accounts has been formally completed and that the Statement of Accounts for the year ended 31 March 2013 was approved by Swale Borough Council in accordance with the Accounts and Audit Regulations (England) 2011 at the meeting of the Audit Committee on 25 September 2013.

**Councillor Nicholas Hampshire**  
**Chair of the Audit Committee**

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £'000	Revenue Earmarked Reserves £'000 Note 9	Capital Receipts £'000 Note 7	Capital Grants Unapplied £'000 Note 8	Total Usable Reserves £'000	Unusable Reserves £'000 Note 10	Total Authority Reserves £'000
<b>Balance as at 31 March 2011</b>	<b>(3,134)</b>	<b>(7,255)</b>	<b>(708)</b>	<b>(412)</b>	<b>(11,509)</b>	<b>(18,644)</b>	<b>(30,153)</b>
Surplus on Provision of Services 2011/12 (page 10)	(259)	0	0	0	(259)	0	(259)
Other Comprehensive Expenditure or Income 2011/12 (page 10)	0	0	0	199	199	11,465	11,664
<b>Total Comprehensive Expenditure and Income 2011/12</b>	<b>(259)</b>	<b>0</b>	<b>0</b>	<b>199</b>	<b>(60)</b>	<b>11,465</b>	<b>11,405</b>
Adjustments between accounting basis and funding basis (note 5) 2011/12	(778)	0	54	24	(700)	700	0
<b>Net (increase)/decrease before Transfers to Earmarked Reserves 2011/12</b>	<b>(1,037)</b>	<b>0</b>	<b>54</b>	<b>223</b>	<b>(760)</b>	<b>12,165</b>	<b>11,405</b>
Transfers from/(to) earmarked reserves 2011/12 (note 9)	355	(355)	0	0	0	0	0
<b>(Increase)/Decrease in 2011/12</b>	<b>(682)</b>	<b>(355)</b>	<b>54</b>	<b>223</b>	<b>(760)</b>	<b>12,165</b>	<b>11,405</b>
<b>Balance as at 31 March 2012</b>	<b>(3,816)</b>	<b>(7,610)</b>	<b>(654)</b>	<b>(189)</b>	<b>(12,269)</b>	<b>(6,479)</b>	<b>(18,748)</b>
Deficit on Provision of Services 2012/13 (page 10)	1,950	0	0	0	1,950	0	1,950
Other Comprehensive Expenditure or Income 2012/13 (page 10)	0	0	0	0	0	3,172	3,172
<b>Total Comprehensive Expenditure and Income 2012/13</b>	<b>1,950</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,950</b>	<b>3,172</b>	<b>5,122</b>
Adjustments between accounting basis and funding basis (note 5) 2012/13	(1,878)	0	(32)	(40)	(1,950)	1,950	0
<b>Net decrease/(increase) before Transfers to Earmarked Reserves 2012/13</b>	<b>72</b>	<b>0</b>	<b>(32)</b>	<b>(40)</b>	<b>0</b>	<b>5,122</b>	<b>5,122</b>
Transfers from/(to) earmarked reserves 2012/13 (note 9)	457	(457)	0	0	0	0	0
<b>Decrease/(increase) in 2012/13</b>	<b>529</b>	<b>(457)</b>	<b>(32)</b>	<b>(40)</b>	<b>0</b>	<b>5,122</b>	<b>5,122</b>
<b>Balance as at 31 March 2013</b>	<b>(3,287)</b>	<b>(8,067)</b>	<b>(686)</b>	<b>(229)</b>	<b>(12,269)</b>	<b>(1,357)</b>	<b>(13,626)</b>

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The (Surplus) or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes.

The Net (increase) or decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**COMPREHENSIVE INCOME & EXPENDITURE STATEMENT**

	<b>2012/13 Gross Expenditure £'000</b>	<b>2012/13 Income £'000</b>	<b>2012/13 Net Expenditure £'000</b>	<b>2011/12 Net Expenditure £'000</b>
<b>Cost of Continuing Operations</b>				
Central Services to the Public	13,456	(12,570)	886	940
Cultural and Related Services	5,598	(1,214)	4,384	4,315
Environmental and Regulatory Services	8,270	(1,836)	6,434	6,317
Planning Services	3,570	(961)	2,609	2,608
Highways & Transport Services	1,472	(2,252)	(780)	(888)
Housing Services	60,574	(58,528)	2,046	1,734
Corporate & Democratic Core	3,087	(711)	2,376	2,754
Exceptional Item - VAT Fleming Claims (note 18)	0	0	0	(522)
Non Distributed Costs	141	0	141	49
<b>Cost of Services</b>	<b>96,168</b>	<b>(78,072)</b>	<b>18,096</b>	<b>17,307</b>
Other Operating Expenditure (note 19)	1,811	(93)	1,718	1,141
Financing and Investment Income and Expenditure (note 20)	4,703	(3,928)	775	595
Taxation and Non-Specific Grant Income (note 23)	0	(18,639)	(18,639)	(19,302)
<b>Deficit/(Surplus) on Provision of Services</b>	<b>102,682</b>	<b>(100,732)</b>	<b>1,950</b>	<b>(259)</b>
Surplus on revaluation of non-current assets (note 11)			(217)	(989)
Actuarial losses on pension assets/liabilities (note 56)			3,301	12,355
Reverse the movement from a capital reserve included in the Provision of Services above			0	199
Receipts from Long-Term Debtors			88	99
<b>Other Comprehensive Income &amp; Expenditure</b>			<b>3,172</b>	<b>11,664</b>
<b>Total Comprehensive Income &amp; Expenditure</b>			<b>5,122</b>	<b>11,405</b>

## BALANCE SHEET

	Note	31 March 2013		31 March 2012 (Restated)	
		£'000	£'000	£'000	£'000
<b>Property, Plant and Equipment (PPE)</b>					
Operational Assets (PPE):	30				
Land and Buildings		30,635		32,220	
Vehicles, Plant, Furniture & Equipment		1,529		1,988	
Infrastructure Assets		3,576		3,678	
Community Assets		3,322		3,213	
Leased Assets		629		1,106	
<b>Total Operational PPE</b>			<b>39,691</b>		<b>42,205</b>
Non-Operational Assets (PPE):	30				
Land and Buildings		4,637		4,325	
<b>Total Non-Operational PPE</b>			<b>4,637</b>		<b>4,325</b>
<b>Total Property, Plant and Equipment</b>			<b>44,328</b>		<b>46,530</b>
Assets Held for Sale	40	525		525	
Heritage Assets	33	398		399	
Investment Property	34	3,277		3,223	
Intangible Assets	35	94		37	
Long-Term Investments		3		3	
Long-Term Debtors	39	2,813		2,955	
			<b>7,110</b>		<b>7,142</b>
<b>Total Long-Term Assets</b>			<b>51,438</b>		<b>53,672</b>
<b>Current Assets</b>					
Short-Term Investments	52	0		8,006	
Inventories		6		5	
Cash and Cash Equivalents	41	10,340		8,606	
Short-Term Debtors	42	5,166		3,830	
<b>Total Current Assets</b>			<b>15,512</b>		<b>20,447</b>
<b>Total Assets</b>			<b>66,950</b>		<b>74,119</b>
<b>Current Liabilities</b>					
Short-Term Creditors	43	(4,682)		(10,089)	
S106 Deferred Revenue Receipts	44	(1,189)		(960)	
Revenue Grant Receipts in Advance	24	(247)		(474)	
Provisions	47	(58)		0	
<b>Total Current Liabilities</b>			<b>(6,176)</b>		<b>(11,523)</b>
<b>Total Assets less Current Liabilities</b>			<b>60,774</b>		<b>62,596</b>
<b>Long-Term Liabilities</b>					
Deferred Liabilities	45	(1,328)		(1,935)	
Liability Related to Defined Benefit Pension Scheme	15	(43,373)		(39,488)	
Capital Grant Receipts in Advance	46	(2,377)		(2,295)	
Provisions	47	(70)		(130)	
<b>Total Long-Term Liabilities</b>			<b>(47,148)</b>		<b>(43,848)</b>
<b>Net Assets</b>			<b>13,626</b>		<b>18,748</b>

## BALANCE SHEET

	Note	31 March 2013		31 March 2012	
		£'000	£'000	£'000	£'000
<b>Unusable Reserves</b>					
Revaluation Reserve	11	(7,485)		(7,442)	
Deferred Capital Receipts Reserve	13	(23)		(35)	
Accumulated Absences Account	17	134		154	
Capital Adjustment Account	12	(37,357)		(38,666)	
Collection Fund Adjustment Account	16	(34)		(54)	
Pensions Reserve	15	43,373		39,488	
Financial Instruments Adjustment Account	14	35		76	
<b>Total Unusable Reserves</b>			<b>(1,357)</b>		<b>(6,479)</b>
<b>Usable Reserves</b>					
Usable Capital Receipts Reserve	7	(686)		(654)	
Capital Grants Unapplied Account	8	(229)		(189)	
Earmarked Reserves	9	(8,067)		(7,610)	
General Fund		(3,287)		(3,816)	
<b>Total Usable Reserves</b>			<b>(12,269)</b>		<b>(12,269)</b>
<b>Total Reserves</b>			<b>(13,626)</b>		<b>(18,748)</b>

The figures as at 31 March 2012 have been restated to reflect operational assets previously categorised as equipment being redefined as buildings.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

As the responsible financial officer for Swale Borough Council, I hereby certify that these unaudited accounts give a true and fair view of the authority's financial position and financial performance in advance of approval.

**Nick Vickers B.Sc (Econ), CPFA**

**Date: 28 June 2013**

**Head of Finance**

## CASH FLOW STATEMENT

	2012/13		2011/12
	£'000	£'000	£'000
<b>Net (Deficit) or Surplus on the Provision of Services (see CI&amp;E)</b>		<b>(1,950)</b>	<b>259</b>
Depreciation	1,876		1,998
Impairment & downward valuations	(56)		44
Amortisation	28		19
Reversal of revaluation decreases previously charged to Income & Expenditure	0		(89)
Movement in market value of Investment Property and upward revaluation	(54)		114
Increase/(Decrease) in Creditors	(1,601)		2,150
(Increase)/Decrease in Debtors	(640)		2,377
(Increase)/Decrease in Impairment for bad debts	234		(210)
(Increase)/Decrease in Inventories	(1)		(4)
Adjustments to fair value of soft loans	(41)		(47)
Movement in Provisions	(2)		130
Movement in Pension Liability	584		(306)
Carrying amount of non-current assets and current assets held for sale, sold or derecognised	712		72
<b>Adjustment to net surplus on the provision of services for non-cash movements</b>		<b>1,039</b>	<b>6,248</b>
Adjustment for items included in the net surplus on the provision of services that are investing and financing activities		(1,391)	(1,579)
<b>Net Cash Inflows/(Outflows) from Operating Activities</b>		<b>(2,302)</b>	<b>4,928</b>
<b>Net Cash Inflows/(Outflows) from Investing Activities (note 50)</b>		<b>9,208</b>	<b>(7,152)</b>
<b>Net Cash Inflows/(Outflows) from Financing Activities (note 51)</b>		<b>(5,172)</b>	<b>9,106</b>
<b>Net Increase in Cash or Cash Equivalents</b>		<b>1,734</b>	<b>6,882</b>
Cash and cash equivalents as at 1 April (note 41)		8,606	1,724
Cash and cash equivalents at 31 March (note 41)		10,340	8,606
<b>Net Increase in Cash or Cash Equivalents During Year</b>		<b>1,734</b>	<b>6,882</b>

This shows the changes in cash and cash equivalents during the reporting period and how the Council generates and uses cash and cash equivalents by classifying Cash Flows as operating, investing and financing activities. The amount of net Cash Flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services.

Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council's future service delivery. Financing activities represent the cash effect of the collection of local taxes, i.e. Council Tax and business rates.

## **1. Accounting Policies**

### **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council 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 2012/13 (the Code) and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

### **Accounting Convention**

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

The financial information contained in the accounts has the following assumptions and characteristics as laid out in the Code:

**Accrual Accounting** - with the exception of the Cash Flow Statement, the accounts are prepared on an accruals basis. The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the accounts for the year in which those effects are experienced and not in the year in which the cash is actually received or paid. Exceptions to this are utility bills, insurance premiums and income from car parking, which are, in the main, charged to the year in which billed, rather than be apportioned between years as the effect of adjusting for opening and closing balances would not be material to the total of transactions for the year.

**Underlying Assumption** - the accounts are prepared on a going concern basis, i.e. on the assumption that the Council will continue to operate for the foreseeable future.

### **Fundamental Qualitative Characteristics:**

- **Relevance** – the objective of the Accounts is to provide relevant financial information capable of making a difference in the decisions made by users.
- **Materiality** – information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about the Council.
- **Faithful Representation** – the financial information in the Accounts is complete, neutral and free from error. Faithful representation also means that the financial information represents the substance of an economic phenomenon rather than merely representing its legal form.

The usefulness of financial information that is relevant and faithfully represented is enhanced if it is:

- **Comparable** - the Accounts contain comparative information about the Council so that performance may be compared with a prior period;
- **Verifiable** – different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction in the Accounts is a faithful representation;
- **Timely** – the Accounts are prepared to facilitate decisions that will be taken after the publication date, rather than those that have already been taken so that the focus is on providing information that will assist users' understanding of the Council's current financial position or their ability to make predictions about its financial trends; and
- **Understandable** – although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.

**Primacy of Legislative Requirements** – where a particular accounting treatment is prescribed by legislation, then the treatment prevails even if it conflicts with one or other of the above accounting concepts. In the unlikely event of this arising, a note to that effect will be included in the accounts.

In developing proper accounting practices, the accounts are based on the hierarchy of standards as prescribed by the Code covering in order:

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

- International Financial Reporting Standards (IFRS).
- International Public Sector Accounting Standards (IPSAS).
- UK Generally Accepted Accounting Standard (UK GAAP).

### **Accruals & Revenue Recognition**

Income and expenditure is accounted for in the year to which the activity relates, not when cash payments are made or received. Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate (the rate of interest that will discount the estimated cash flows that will take place over the life of the instrument to the amount in the Balance Sheet at initial measurement) for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

### **Capital Receipts**

All income from the sale of capital assets is categorised as capital receipts and credited to the Usable Capital Receipts reserve, which can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement.

### **Carbon Reduction Commitment Scheme**

The Carbon Reduction Commitment Energy Efficiency Scheme is currently in its introductory phase, which will last until April 2014. Participating authorities are required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

This Council is not currently required to participate in the scheme but has created a Carbon Management Reserve to manage any costs that may be incurred on climate change related initiatives.

### **Cash and Cash Equivalents**

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and are shown on the Balance Sheet at their nominal value. The Council has defined cash equivalents as internally held investments that do not require notice for withdrawal.

Interest on cash and cash equivalents that the Council can redeem on 31 March 2013 has also been added to the cash and cash equivalents balance. If interest is not redeemable on the Balance Sheet date, this would be classified as accrued interest, which would fall under 'short-term investments' on the Balance Sheet.

### **Cash Flow**

The Cash Flow is prepared using the indirect method, whereby revenue Cash Flow is derived by adjusting the overall Comprehensive Income & Expenditure Statement operating surplus or deficit to a cash basis.

### **Collection Fund**

The Council is a billing authority, which is required to bill local residents and businesses for Council Tax and National Non-Domestic Rates respectively. The Council acts as an agent for the three major precepting authorities, (Kent County Council, Kent Police and Kent Fire and Rescue) in respect of Council Tax and as such the Accounts show the amount owed by and to taxpayers in respect of the Council's proportion of the Council Tax and the major precepting authorities as a net debtor or creditor.

Similarly, the Council acts as an agent for the Government in respect of National Non-Domestic Rates (business rates) and as such the Accounts show a net debtor or creditor in respect of amounts received and paid over to the Government.

The Comprehensive Income & Expenditure Statement includes the Council's share of the Collection Fund surplus/deficit for the year, which is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account in the Balance Sheet.

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

### **Contingent Assets**

Contingent assets are not accrued in the accounting statements, but are disclosed by way of notes if there is a possible inflow of a receipt or economic benefit whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council, which may result in a receipt or a transfer of economic benefits. The disclosures indicate the nature of the asset and provide a brief description, an estimate of its financial effect (where possible) and an indication of the uncertainties relating to the amount or timing of any inflow.

### **Contingent Liabilities**

Contingent liabilities are not accrued in the accounting statements, but are disclosed by way of notes if there is 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, which may require a payment or a transfer of economic benefits. The disclosures indicate the nature of the contingency and provide a brief description, an estimate of its financial effect (where possible) and an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

### **Credit Sale Arrangement**

A credit sale arrangement is where the Council enters into an agreement that has the features of a finance lease, but where some of the assets may be received in the future. Assets are capitalised and depreciated over their useful economic life.

The sum shown in the Balance Sheet (under Deferred Liabilities) is the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. Where capital expenditure is due to be provided in future years, payments in advance are recognised in the Balance Sheet as appropriate.

### **Debtors and Creditors**

The accounts of the Council are maintained on an accruals basis in accordance with IAS 1 Presentation of Financial Statements, i.e. sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

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

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

### **Debtors – Impairment of Doubtful Debts**

The impairment of doubtful debts is calculated having regard to the nature of the debt, its age and the likelihood of recovery. The calculations for each type of debt i.e. Council Tax, National Non Domestic Rates (NDR), rents, sundry debtors etc. is based on historical evidence and the methodology and individual percentages applied to calculate the provisions are reviewed regularly. The charge for impairment of doubtful debts is shown against services in the Comprehensive Income & Expenditure Statement.

### **Employee Benefits – Costs**

The cost of employees is charged to the accounts of the period within which the employees worked.

The Code requires that the Council identifies the costs of any Employee Benefits accrued but untaken at the Balance Sheet date. These costs primarily consist of any untaken leave and time in lieu. The costs are included as a creditor at the year-end and the balance is carried forward in the accumulated absences reserve.

Termination benefits are amounts payable due to a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis when the authority is demonstrably committed to the termination of the employment of an officer (or group of officers or making an offer to encourage voluntary redundancy), to the appropriate service in the Comprehensive Income & Expenditure Statement. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Employee Benefits – Retirement Benefits**

Employees of the Council are offered membership of the Local Government Pensions Scheme (LGPS), administered by KCC. The LGPS is accounted for as a defined benefits scheme.

The liabilities of the KCC Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.2%. The discount rate is the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond curve, chosen to meet the requirements of IAS 19 and with consideration of the estimated duration of Employer's liabilities. (This approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption).

The assets of the KCC Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price.
- unquoted securities – professional estimate of fair value.
- unitised securities – current bid price.
- property – market value.

The change in the net pension's liability is analysed into the following components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the revenue accounts of services for whom the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services 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 financing and investment income and expenditure in the Comprehensive Income & Expenditure Statement;
- expected return on assets – the annual investment return on the Fund assets attributable to the Council, based on an average of the expected long-term return – credited to financing and investment income and expenditure;
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – are allocated to the Net Cost of Services as part of Non-Distributed Costs;
- actuarial gains and 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 – charged to the Pensions Reserve;
- contributions by scheme participants – cash paid as employee contributions to the KCC Pension Fund;
- contributions by the employer – cash paid as employer contributions to the KCC Pension Fund; and
- benefits paid – payments made directly to pensioners from the KCC Pension Fund.

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

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

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.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise because 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 LGPS.

The Fund's Actuary determines employers' contributions to the pension scheme on a triennial basis. The next actuarial valuation is due to take place on 31 March 2013 and the change in contribution rates as a result of that valuation are to take effect from 1 April 2014.

### **Estimation Techniques**

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Details of where these have been used are contained in the relevant note to the Accounts. Where a change in an estimation technique is material, an explanation is also provided of the change and its effect on the results for the current period.

### **Events after the Reporting Period**

Events arising after the Balance Sheet date are reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts to be included. These are known as 'adjusting events'.

Events, which arise after the Balance Sheet date and concern conditions which did not exist at that time, are detailed in the Notes to the Core Financial Statement if they are of such materiality that their disclosure is required for the fair presentation of the financial statements. These are known as 'non-adjusting events'.

### **Exceptional Items**

Exceptional items are shown separately within the Comprehensive Income & Expenditure Statement where this is necessary to provide a fair presentation of the accounts. In addition, a description of each item is included in a specific note to the accounts.

### **Financial Instruments**

The requirements for accounting for financial instruments are based on IFRS 7, IAS 32 and IAS 39 Financial Instruments except where interpretations or adaptations to fit the public sector are set out in the Code. The 2012/13 Code of Practice notes that where they continue to be relevant, the transitional provisions of the UK standards adopted by the 2007 Statement of Recommended Practice (SORP) remain.

Financial instruments are either financial assets or financial liabilities and are recognised on the Balance Sheet only when the Council becomes a party to the contractual provisions of the instrument. Trade receivables are an exception as they are not recognised when the Council becomes committed to supply the good or service but when the ordered goods or services have been delivered or rendered. Similarly, trade payables are recognised when the ordered goods or services have been received.

Financial assets are classified as one of:

- fair value through profit or loss;
- available-for-sale – this category includes;
  - Money Market Funds (MMF's) and are initially measured and carried at fair value. MMF's have a constant net asset value and are pre-priced back to their nominal value at the end of each day, the nominal value is therefore the fair value; and
  - Long-Term investments (those held for greater than one year) which are shown in the Balance Sheet at cost;
- loans and receivables – this category includes fixed term deposits, call accounts and Trade Receivables (Debtors) and are initially measured at fair value and carried at their amortised cost. This form of measurement does not change the amount of cash received under the terms of the investment.

Financial liabilities are classified as one of:

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

- fair value through profit or loss; or
- financial liabilities measured at amortised cost.

The 'fair value through profit or loss' category does not apply to any financial assets or liabilities held by the Council, therefore all financial assets and liabilities are initially recognised at transaction cost.

The subsequent measurement of a financial instrument depends on its classification according to the categories listed above. Normally, measurement is at fair value or amortised cost. Financial assets are derecognised when the contractual rights to cash flows from the asset expire, or the asset and the associated risks and rewards are transferred. Financial liabilities are derecognised when the obligation specified in the contract either expires, is cancelled or discharged.

Annual charges to the Comprehensive Income & Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Measurement at amortised cost permits transaction costs relating to financial instruments to be attached to the loan or investment and charged to the Comprehensive Income & Expenditure Statement over the life of the instrument. Where these are considered to be immaterial, they can be charged in full to the Comprehensive Income & Expenditure Statement in the financial year in which they are incurred. Transaction costs in 2012/13 are all immaterial.

The reconciliation of amounts charged to the Comprehensive Income & Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial guarantees require the Council to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The financial guarantee shall be initially recognised at fair value, this being assessed by considering the probability of the guarantee being called and the likely amount payable under the guarantee. The accounting entries are to charge the relevant service and therefore the Surplus or Deficit on the Provision of Services and to create a Provision to monitor the risk which can be adjusted to reflect any changes on an annual basis.

The Council has made loans with nil interest charged (soft loans). For accounting purposes a charge based on an appropriate rate of interest is charged to the Comprehensive Income & Expenditure Statement, but this is then reversed out through a transfer to the Financial Instruments Adjustment Account, via the Movement in Reserves Statement so this is not borne by the local taxpayer.

### **Government Grants and Other External Contributions**

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, grants specific to a service will be shown against that service expenditure line. General grants, e.g. Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool, are credited and disclosed separately in the Comprehensive Income & Expenditure Statement under taxation and non-specific grant income.

Capital grants and contributions received will be credited in full to the Comprehensive Income & Expenditure Statement on receipt where there are no conditions attached to their use, and in the year that the capital expenditure is incurred where there are conditions attached to their use.

### **Group Accounts**

Having undertaken a review of all potential subsidiaries, associates, and joint ventures against the criteria in the Code, it has been determined that the production of group accounts is not necessary in relation to 2012/13.

### **Heritage Assets**

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

A Heritage Asset (other than operational heritage assets) will normally be measured at valuation in accordance with FRS 30 Heritage Assets. However, where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current. Where no records of valuation

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

are available, the assets are not included on the Balance Sheet but a disclosure is made as to these assets.

The assets are held to have indefinite lives, hence the authority does not consider it appropriate to charge depreciation. Acquisitions are initially recognised at cost or, if bequeathed or donated at nil cost, at valuation.

Heritage Assets are reviewed for evidence of impairment. Any impairment will be accounted for in accordance with the Council's Property, Plant and Equipment accounting policy. The proceeds of any disposals follow general capital accounting regulations.

The Authority accounts for heritage assets in accordance with FRS 30, except where interpretations or adaptations to fit the public sector are detailed in the Code. References in FRS 30 to UK accounting standards shall be taken to refer to the equivalent IFRS or International Public Sector Accounting Standards (IPSAS).

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the authority for other activities or to provide other services) shall be accounted for as operational assets, and shall be valued in the same way as other assets of that general type.

### **Intangible Assets**

These are non-current assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights.

An intangible asset is initially measured at cost and is not subject to revaluation. It is, however, subject to amortisation, which for computer software has been assessed, by default, as seven years.

### **Inventories and Long-Term Contracts**

Stocks for stationery are valued at the latest cost price, which differs from the requirements of the Code, which requires inventories to be shown at the lower of cost or net realisable value. The difference between these methods of valuation is immaterial.

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

### **Investments**

See the Accounting Policy on Financial Instruments.

### **Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. They are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

### **Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other bodies that involve the use of the assets and resources of the bodies rather than the establishment of a separate entity.

The Council maintains 'shared service' operations in respect of its Human Resources, Parking, Internal Audit, Legal and Building Control services. All expenditure and income of these services are accounted for within the Comprehensive Income & Expenditure Statement.

### **Leases**

**Finance Leases** – the Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease - the liability is written down as the rent becomes payable); and
- a finance charge (debited to Financing and Investment Income and Expenditure in the Comprehensive Income & Expenditure Statement as the rent becomes payable).

Non-current assets recognised under finance leases are accounted for using the policies applied generally to tangible non-current assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

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

The IFRS reporting arrangements require the Council to determine whether or not it benefits from the exclusive use of property, plant or equipment within any of its contract arrangements with third parties. If the Council decides that this is the case it has to decide whether the arrangement is to be considered a lease in accordance with International Financial Reporting Interpretations Committee (IFRIC)12. The Council has determined that the contract for provision of service vehicles falls within these requirements and the costs associated with this are reported as part of the notes to the Core Financial Statements.

### **Long-Term Liabilities**

The portion of any long-term liabilities due to be settled within 12 months after the Balance Sheet date are included within current liabilities.

### **Non-Current Assets - 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.

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis. 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.

The Council operates a de minimus level of £10,000 for non-current assets. Any expenditure below this level is charged to revenue in the year of acquisition.

Property, plant and equipment non-current assets can be analysed as:

- operational land and buildings;
- infrastructure assets;
- vehicles, plant, furniture and equipment;
- community assets;
- assets under construction;
- leased assets;
- non-operational land and buildings.

Each of these asset classifications are revalued periodically in stages on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS), as follows:

- infrastructure and community assets are valued at historic cost, net of depreciation;
- leased non-current assets are valued at fair value which is historic cost less depreciation; and
- all other assets are valued at fair value, determined as the amount that would be paid for the asset in its existing use.

As the Council's principal assets are revalued, any gains or losses arising from revaluation are reflected in the Revaluation Reserve or, where previous losses have occurred, are credited to the Comprehensive Income & Expenditure Statement to the limit of the previous loss. The programme of revaluations is continuing on this cyclical basis although material changes to asset valuations will be adjusted in the interim period, as they occur. Where assets are valued at Depreciated Replacement Cost (DRC), this has only been undertaken where there is no active market for that asset.

The Council applies the principles of component accounting where an asset has a gross book value in excess of £1 million and a residual life of over 25 years. In addition to this, any expenditure on the eligible asset must be in excess of £100,000.

**Impairment** – assets are assessed at each year-end as to whether there is any indication that an asset may be

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

impaired. Where impairment losses are identified, they are charged against the Revaluation Reserve up to the amount attributable to each specific asset held in that Reserve. Any excess of this amount is then chargeable to the Comprehensive Income & Expenditure Statement. Any charges to the Comprehensive Income & Expenditure Statement are reversed out to the Capital Adjustment Account via the Movement in Reserves Statement.

**Disposals** – when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are also credited to the Comprehensive Income & Expenditure Statement 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Proceeds from disposals and other receipts are categorised as capital receipts whenever possible. 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 Usable Capital Receipts Reserve. Receipts from disposals are appropriated to the Usable Capital Receipts Reserve from the Comprehensive Income & Expenditure Statement

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Comprehensive Income & Expenditure Statement.

**Depreciation** – depreciation is provided for on all property, plant and equipment assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- newly acquired assets are not depreciated in the year of acquisition where this does not have a material effect upon the accounts; and
- depreciation is calculated using the straight-line method.

The standard useful lives for each category of asset are as follows:

Asset	Depreciation Methodology
Land	Depreciation is not normally provided for freehold land
Infrastructure Assets	20 to 50 Years
IT Equipment	3 to 7 years depending on the nature of the asset
Non IT Furniture and Equipment	10 to 20 years
Non-Operational Buildings	40 to 60 years depending on the individual asset
Operational Buildings	Usually 50, although this can vary according to the individual asset
Operational Land	30 to 50 years (usually relating to car parks)
Vehicles	Up to 10 Years depending on the type of vehicle
Community Asset	According to whether it is land, building or equipment as above

Provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use. The useful lives of assets are estimated on a realistic basis. They are reviewed regularly and, where necessary, revised. Where the useful life of a non-current asset is revised, the carrying amount of the non-current asset is depreciated over the revised remaining useful life.

Where an asset has major components with different estimated useful lives, these are depreciated separately, but only if the asset has been enhanced recently.

If there is a change in the depreciation because of impairment which is material, full year depreciation is charged in the year of impairment.

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 historic cost. The value of the depreciated revaluation gain is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Non-Current Assets Held For Sale**

These are assets that have been declared surplus to the Council's operational requirements and are being

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

actively marketed, but are not anticipated to be sold within twelve months of the Balance Sheet date. They will be reported on the Balance Sheet at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets available-for-sale are not subject to depreciation.

### **Non-Current Assets – Charges to Revenue**

Service revenue accounts, 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 non-current assets used by the relevant service;
- revaluation and impairment losses, where they are in excess of the sum available in the Revaluation Reserve, are chargeable to the Comprehensive Income & Expenditure Statement; and
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (normally equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Comprehensive Income & Expenditure Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

### **Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA 'Service Reporting Code of Practice 2012/13'. 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 and Non Distributed costs. These two cost categories are accounted for as separate headings in the Comprehensive Income & Expenditure Statement as part of Cost of Services.

### **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

### **Provisions**

Provisions are made where an event has taken place that gives the Council 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.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement in the year that the Council 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.

**Reserves**

The Council maintains both general and earmarked reserves. General reserves are to meet general rather than specific future expenditure and earmarked reserves, such as the building maintenance reserve, are for specific purposes. No expenditure is charged directly to a reserve, but is charged to the service revenue account within the Comprehensive Income & Expenditure Statement, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Legislation in England allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's Council Tax.

Any grants receivable by a Council in relation to REFCUS will be accounted for as revenue grants in the Comprehensive Income & Expenditure Statement, even if described as capital grants by the giver of the grant. Grant income is posted to the service(s) that the qualifying expenditure is charged to, in accordance with the general provisions for accounting for grants. However, in the Movement in Reserves Statement, the grant will be treated as being made towards capital expenditure and reversed out of the General Fund Balance to the Capital Adjustment Account (or the Capital Grant Unapplied Account if the grant has not yet been applied).

**Segmental Reporting**

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

**Value Added Tax (VAT)**

VAT is accounted for separately and is not included in income and expenditure accounts to the extent that it is recoverable, whether of a capital or revenue nature. VAT paid which is not recoverable from HM Revenue & Customs will be charged to service revenue accounts. The Council's partial exemption status is required to be reviewed on an annual basis.

**2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

For 2012/13 the Council needs to be aware of the following accounting policy changes. These come into effect from the 2013/14 Financial Statements:

- amendments to IAS 1 *Presentation of Financial Statements* (other comprehensive income, June 2011);
- amendments to IFRS 7 *Financial Instruments: Disclosures* (offsetting financial assets and liabilities, December 2011);
- amendments to IAS 12 *Income Taxes* (deferred tax: recovery of underlying assets, December 2010) (Does not apply to Swale Borough Council);
- amendments to IAS 19 *Employee Benefits* (June 2011) - see note 56 (g); and
- IFRS 13 *Fair Value Measurement* (May 2011).

**3. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies (note 1), the Council has made the following critical judgements about complex transactions or those involving uncertainty about future events:

- there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. The Council is satisfied that its financial management procedures are robust and that it has sufficient reserves to mitigate any adverse economic trends.

## NOTES TO THE CORE FINANCIAL STATEMENT - ACCOUNTING POLICIES

- Swale Community Leisure Limited (an Industrial and Provident Society) operates the leisure centres owned by the Council. It has been determined that the Council does not have control of the Society and it is not a subsidiary of the Council. The relationship between the Society and the Council is good and effective business planning operates that will identify any potential risk.
- Non-Domestic Rates – Valuation appeals. The changes from April 2013 regarding the retention of business rates may give rise to the Council being liable for losses on business rates arising from valuation appeals in respect of 2012/13 and earlier years. The estimated value for these appeals on 1 April 2013 is £1.17m and the issue is reported as a non-adjusting event after the reporting date.

#### 4. Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Result Differs from Assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The current value of Land & Building assets as at 31 March 2013 is £34.5m.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £39,800 should the useful life of each property be reduced by one year.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The value of the pension's liability as at 31 March 2013 is £43.37m.	A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £1.96m. An increase in the estimated life of the future pensioners will increase the liabilities by £3.8m. During 2012/13, the Council's actuaries advised that the net pensions' liability had increased by £0.16m due to estimates being corrected as a result of experience, and increased by £7.53m due to estimates being corrected as a result of changes in the assumptions.
<b>Debtor Arrears (including Housing Benefit Overpayments)</b>	At 31 March 2013 the Council had a balance for sundry debtors of £3.281m. A review of significant balances suggested that an impairment for doubtful debts of 48% (£1.59m) was appropriate. However, in the current economic climate and with changes to benefits it is not certain that this would be sufficient.	If collection rates were to fall the cost of covering the impairment of doubtful debts would require an additional £33,000 to be set aside for every 1% reduction in collection rates.

**NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS**

**5. Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total Comprehensive Income & Expenditure recognised by the Council in the year in accordance with proper accounting practices, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid, and out of which all liabilities of the Council 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, 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.

2011/12	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Charges for depreciation and impairment of non-current assets	(1,998)	0	0	1,998
Revaluation of non-current assets	45	0	0	(45)
Movements in the fair value of investment properties	(114)	0	0	114
Amortisation of intangible assets	(19)	0	0	19
Capital grants and contributions applied	1,516	0	24	(1,540)
Revenue expenditure funded from capital under statute	(1,444)	0	0	1,444
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	(72)	0	0	72
Statutory provision for the financing of capital investment	874	0	0	(874)
Capital expenditure charged to the General Fund	112	0	0	(112)
<b>Adjustments primarily involving the Capital Receipts Reserve (CRR)</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	40	(40)	0	0
Use of the CRR to finance new capital expenditure	0	97	0	(97)
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	0	(16)	0	16
Use of CRR to finance the payments to the Government's capital receipts pool.	(13)	13	0	0
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>				
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	47	0	0	(47)
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement in accordance with the Code	(2,129)	0	0	2,129

**NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS**

2011/12	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Employer's pensions contributions and direct payments to pensioners payable in the year under pension scheme regulations	2,435	0	0	(2,435)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
Amount by which Council Tax income credited to the CI&E Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(50)	0	0	50
<b>Adjustment primarily involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(8)	0	0	8
<b>Total Adjustments</b>	<b>(778)</b>	<b>54</b>	<b>24</b>	<b>700</b>

2012/13	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Charges for depreciation and impairment of non-current assets	(1,876)	0	0	1,876
Revenue expenditure funded from capital under statute	(1,372)	0	0	1,372
Revaluation of non-current assets	56	0	0	(56)
Movements in the fair value of investment properties	54	0	0	(54)
Amortisation of intangible assets	(28)	0	0	28
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	(712)	0	0	712
Statutory provision for the financing of capital investment	872	0	0	(872)
Capital expenditure charged against the General Fund	379	0	0	(379)
Capital grants and contributions applied	1,208	0	(40)	(1,168)
<b>Adjustments primarily involving the Capital Receipts Reserve (CRR)</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	93	(93)	0	0
Use of the CRR to finance new capital expenditure	0	64	0	(64)
Use of CRR to finance the payments to the Government's capital receipts pool.	(9)	9	0	0
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve (DCRR)</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	0	(12)	0	12

**NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS**

2012/13	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>				
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	41	0	0	(41)
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement in accordance with the Code	(3,011)	0	0	3,011
Employer's pensions contributions and direct payments to pensioners payable in the year under pension scheme regulation7s	2,427	0	0	(2,427)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
Amount by which Council Tax income credited to the CI&E Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(20)	0	0	20
<b>Adjustment primarily involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	20	0	0	(20)
<b>Total Adjustments</b>	<b>(1,878)</b>	<b>(32)</b>	<b>(40)</b>	<b>1,950</b>

**6. Usable Reserves**

	1 April 2012 £'000	Transfers Between Earmarked Reserves £'000	Revenue Movements £'000	31 March 2013 £'000
Usable Capital Receipts Reserve (note 7)	(654)	0	(32)	(686)
Capital Grants Unapplied (note 8)	(189)	0	(40)	(229)
General Fund Balance	(3,816)	457	72	(3,287)
Usable Earmarked Reserves (note 9)	(7,610)	(457)	0	(8,067)
<b>Total</b>	<b>(12,269)</b>	<b>0</b>	<b>0</b>	<b>(12,269)</b>

The Council keeps a number of reserves in the Balance Sheet that are either held for statutory reasons, to comply with proper accounting practice or to voluntarily earmark monies to fund future spending plans.

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 5 and 7-10 below.

**7. Usable Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land and 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 year-end.

## NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS

	2012/13 £'000	2011/12 £'000
<b>Balance as at 1 April</b>	<b>(654)</b>	<b>(708)</b>
Capital receipts in year from sale of assets	(50)	(27)
Capital receipts in year from repayment of grant	(43)	(13)
Capital receipts applied during the year – financing fixed assets	53	96
Capital receipts applied during the year – financing Revenue Expenditure Funded by Capital under Statute	11	2
Housing Pooled Capital Receipts	9	13
Capital receipts in year from deferred capital receipts (note 13)	(12)	(17)
<b>Balance as at 31 March</b>	<b>(686)</b>	<b>(654)</b>

### 8. Capital Grants Unapplied Account

This 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.

	1 April 2012 £'000	Revenue Movements £'000	31 March 2013 £'000
Communities and Local Government	(11)	0	(11)
Home Repair Loans	(178)	(29)	(207)
King Georges Play Equipment	0	(11)	(11)
<b>Total</b>	<b>(189)</b>	<b>(40)</b>	<b>(229)</b>

### 9. Usable Earmarked Reserves

This note sets out the amounts set aside from the General Fund to earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance 1 April 2011 £'000	Transfers out 2011/12 £'000	Transfers in 2011/12 £'000	Balance 31 March 2012 £'000	Transfers out 2012/13 £'000	Transfers in 2012/13 £'000	Balance 31 March 2013 £'000
General Reserve	(2,670)	291	(978)	(3,357)	404	(164)	(3,117)
Performance	(425)	219	(554)	(760)	231	(601)	(1,130)
Building Maintenance	(622)	27	(77)	(672)	60	(3)	(615)
Regeneration	0	100	(451)	(351)	152	(250)	(449)
Council Tax & Housing Benefits	0	0	0	0	0	(324)	(324)
Housing	(419)	87	(124)	(456)	149	0	(307)
Transformation	(513)	219	0	(294)	115	(100)	(279)
Local Loan Fund	0	0	0	0	0	(250)	(250)
Repairs & Renewals	(372)	188	(153)	(337)	185	(86)	(238)
Local Development Framework	(161)	8	0	(153)	0	(23)	(176)
Empty Property Initiative	(89)	14	0	(75)	0	(75)	(150)
Stay Put Grants	(102)	0	(44)	(146)	0	(1)	(147)
Insurance	(18)	0	(64)	(82)	0	(9)	(91)

**NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS**

	<b>Balance 1 April 2011 £'000</b>	<b>Transfers out 2011/12 £'000</b>	<b>Transfers in 2011/12 £'000</b>	<b>Balance 31 March 2012 £'000</b>	<b>Transfers out 2012/13 £'000</b>	<b>Transfers in 2012/13 £'000</b>	<b>Balance 31 March 2013 £'000</b>
High Street Innovation	0	0	0	0	0	(90)	(90)
Development Control Reserve	0	0	0	0	0	(72)	(72)
Localism	0	0	(100)	(100)	49	(14)	(65)
Carbon Management	(87)	50	(11)	(48)	0	(11)	(59)
Risk Management	(35)	0	(15)	(50)	12	(15)	(53)
Retrofit Programme	(10)	18	(45)	(37)	0	(15)	(52)
Capital Programme, Revenue Funded	(176)	14	0	(162)	130	(10)	(42)
Local Strategic Partnership	(79)	139	(199)	(139)	125	0	(14)
Miscellaneous	(1,477)	2,134	(1,048)	(391)	433	(389)	(347)
<b>Total</b>	<b>(7,255)</b>	<b>3,508</b>	<b>(3,863)</b>	<b>(7,610)</b>	<b>2,045</b>	<b>(2,502)</b>	<b>(8,067)</b>

General	Its use is subject to the approval of Members. £250,000 was moved into the Swale Local Loan Fund in 2012/13 as agreed by Cabinet on 18 April 2012.
Performance	To improve overall performance. Officers are invited to submit a bidding list of proposals. The Performance Fund was topped up by £500,000 from the 2011/12 underspend as agreed by Cabinet on 4 July 2012. The fund was also topped up through the repayment of Invest to Save bids in 2012/13.
Building Maintenance	To meet items of backlog building maintenance as identified in the Council's medium term maintenance plan as well as urgent or unexpected items.
Regeneration	To fund Regeneration Projects in the Borough. The Fund was topped up by £250,000 from the New Homes Bonus Grant received in 2012/13.
Council Tax & Housing Benefits	Savings made in staffing costs in Benefits achieved in 2011/12 were transferred to this reserve as agreed by Cabinet on 4 July 2012. This also includes unspent grants in 2012/13. This will be used to cover the shortfall in grant in 2013/14.
Housing	This is made up of a number of housing reserves, including Rent Deposit Scheme Bond Reserve, Recession Funding reserve and the Supporting People Reserve. All these reserves will help to fund the homelessness service in future years.
Transformation	To meet the cost of releasing the Pension Fund benefits to staff who have taken early retirement and to fund all other redundancy costs. The Transformation Fund was topped up by £100,000 from the 2011/12 underspend as agreed by Cabinet.
Swale Local Loan Fund	Set up in April 2012, its purpose is to support voluntary, community or not-for-profit organisations and town and parish councils in Swale to enable management and delivery of local services and facilities. £250,000 was moved from the General Reserve into the Swale Local Loan Fund in 2012/13 as agreed by Cabinet.
Repairs & Renewals	Regular contributions are made to this fund from the General Fund. Large items of expenditure are then charged to the service and funded from this reserve.
Local Development Framework	Under the Planning and Compulsory Purchase Act 2004, district Local Plans were replaced with Local Development Documents (LDDs). Together, the LDDs will comprise a Local Development Framework (LDF) for the district authority area. Any underspend or overspend on this service on the General Fund will be transferred to this fund and used solely to fund LDF associated work.

## NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS

Stay Put Grants	For ring fenced external funding for health grants and supporting people grants.
Insurance	For damage valued at £1,000 or less to Council occupied property – an excess of £1,000 will apply to cover for certain types of damage.
High Street Innovation	Funding from DCLG as part of the High Street Innovation Fund. It has been divided between the three town centres and payments are planned for 2013/14.
Local Strategic Partnership	This is funded from the Local Area Agreement Grant. The Swale Public Services Board decides expenditure.
Empty Property Initiative	Funds to assist with initiatives to restore long-term empty homes back into use.
Development Control Reserve	To cover any potential fluctuations in planning fees and other related income. £72,000 was transferred to the reserve from the 2011/12 underspend as agreed by Cabinet to cover the loss of planning fees in future years.
Localism	To support the Council's Localism Agenda.
Carbon Management	This reserve was established by an invest to save fund for climate change related initiatives only.
Risk Management	To finance risk management activities which will maximise the ability of the Council to gain higher rebates of premiums from the Council's insurance company.
Retrofit Programme	To support the implementation of the Rushenden Retrofit project.
Capital Programme, Revenue Funded	This reserve reflects the underspend on capital schemes in 2010/11.
Miscellaneous	This is made up of the earmarked reserves that are less than £50,000. A full list of these reserves is available upon request.

### 10. Unusable Reserves

	31 March 2013 £'000	31 March 2012 £'000
Revaluation Reserve (note 11)	(7,485)	(7,442)
Capital Adjustment Account (note 12)	(37,357)	(38,666)
Deferred Capital Receipts Reserve (note 13)	(23)	(35)
Financial Instruments Adjustment Account (note 14)	35	76
Pensions Reserve (note 15)	43,373	39,488
Collection Fund Adjustment Account (note 16)	(34)	(54)
Accumulated Absences Account (note 17)	134	154
<b>Total Unusable Reserves</b>	<b>(1,357)</b>	<b>(6,479)</b>

### 11. Revaluation Reserve

This contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Heritage and Intangible Assets.

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 were consolidated into the balance on the Capital Adjustment Account.

**NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS**

	2012/13 £'000	2011/12 £'000
<b>Balance as at 1 April</b>	<b>(7,442)</b>	<b>(6,660)</b>
<b>Revaluation and Restatement of Assets:</b>		
Upward revaluation of assets	(384)	(671)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	177	34
Recognition of additional assets	(10)	(352)
<b>Sub-Total Revaluation Adjustments</b>	<b>(217)</b>	<b>(989)</b>
<b>Other Adjustments:</b>		
Write down re gains derived from depreciation differences between Historic Cost and Current Value	129	99
Accumulated gains on assets sold or scrapped	45	0
Write down following Historic Cost depreciation amendment	0	108
<b>Balance as at 31 March</b>	<b>(7,485)</b>	<b>(7,442)</b>

## 12. 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. It is debited with the cost of acquisition/ enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement. It is credited with the amounts set aside to finance the costs of acquisition/ enhancement. The account also contains accumulated gains/ losses on assets pre-dating 1 April 2007.

	2012/13 £'000		2011/12 £'000	
<b>Balance as at 1 April</b>		<b>(38,666)</b>		<b>(39,535)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income &amp; Expenditure Statement (CI&amp;E):</b>				
Depreciation of Tangible Non-current assets	1,869		1,998	
Write down Revenue Expenditure Funded by Capital Under Statute (REFCUS)	1,372		1,444	
Revaluation Losses – impairment to CI&E:				
Investment Assets	60		338	
Other Assets	328		44	
Revaluation – Reversal of prior impairments – Other Assets	(384)		(89)	
Amortisation of Intangible assets	28		19	
Disposal of assets – write out of carrying value	712		72	
		<b>3,985</b>		<b>3,826</b>
<b>Adjusting amounts written out of Revaluation Reserve (RRA) (note 11)</b>				
Write down of RRA depreciation gains		(129)		(99)
Write down of RRA accumulated gains on disposed assets		(45)		0
<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>3,811</b>		<b>3,727</b>
<b>Capital financing applied in the year:</b>				
Capital Financing – Capital Receipts:				

## NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS

	2012/13		2011/12	
	£'000	£'000	£'000	£'000
Financing non-current assets	(53)		(96)	
REFCUS	(11)		(1)	
Capital Financing - Capital Reserves				
Financing non-current assets	(72)		0	
REFCUS	(261)		0	
Capital Financing – Revenue				
Financing non-current assets	(46)		(111)	
Capital Financing - Government grants and external contributions				
Financing non-current assets	(68)		0	
REFCUS	(1,100)		(1,542)	
Government Grants Deferred	0		(1)	
		<b>(1,611)</b>		<b>(1,751)</b>
Minimum Revenue Provision		(872)		(874)
Revaluation gain to CI&E account – Investment Assets		(114)		(224)
Write Down of Financing Long-Term Debtors		88		99
Adjustment to prior year		7		(108)
<b>Balance as at 31 March</b>		<b>(37,357)</b>		<b>(38,666)</b>

### 13. Deferred Capital Receipts Reserve

This 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 Council 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. They arise principally from mortgages on sales of Council houses. The movement on this reserve in 2012/13 was £12,000.

### 14. Financial Instruments Adjustment Account

This 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.

	2012/13 £'000	2011/12 £'000
<b>Balance as at 1 April</b>	<b>76</b>	<b>123</b>
Movement in year due to soft loans	(41)	(47)
<b>Balance as at 31 March</b>	<b>35</b>	<b>76</b>

### 15. Pensions Reserve

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

**NOTES TO THE CORE FINANCIAL STATEMENTS – MIRS**

<b>Reconciliation of present value of the scheme liabilities</b>	<b>2012/13 £'000</b>	<b>2011/12 £'000</b>
<b>Opening Balance as at 1 April – Defined Benefit Obligation</b>	<b>(90,693)</b>	<b>(78,280)</b>
Current service cost	(1,728)	(1,351)
Interest cost	(4,097)	(4,249)
Contributions by scheme participants	(476)	(492)
Liabilities extinguished on settlements	0	243
Losses on curtailments	(111)	(30)
Actuarial gains and (losses)	(7,693)	(10,133)
Benefits paid	3,970	3,599
<b>Closing Balance as at 31 March – Defined Benefit Obligation</b>	<b>(100,828)</b>	<b>(90,693)</b>

<b>Reconciliation of fair value of the scheme assets</b>	<b>2012/13 £'000</b>	<b>2011/12 £'000</b>
<b>Opening Balance as at 1 April – Fair Value of Scheme Assets</b>	<b>51,205</b>	<b>50,841</b>
Expected rate of return	2,925	3,469
Actuarial gains and (losses)	4,392	(2,222)
Employer contributions	2,427	2,435
Contributions by scheme participants	476	492
Receipt/(payment) of bulk transfer value	0	(211)
Benefits paid	(3,970)	(3,599)
<b>Closing Balance as at 31 March – Fair Value of Scheme Assets</b>	<b>57,455</b>	<b>51,205</b>

The Pensions Reserve figure in the Balance Sheet consists of the total assets plus liabilities detailed above.

**16. Collection Fund Adjustment Account**

This manages the differences arising from the recognition of Council Tax income in the Comprehensive Income & Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance effectively shows the Council's share of the overall Collection Fund surplus.

	<b>2012/13 £'000</b>	<b>2011/12 £'000</b>
<b>Balance as at 1 April</b>	<b>(54)</b>	<b>(104)</b>
Movement in year	20	50
<b>Balance as at 31 March</b>	<b>(34)</b>	<b>(54)</b>

**17. Accumulated Absences Account**

This absorbs the differences that would otherwise arise on the General Fund from accruing for compensated absences earned but not taken in the year, e.g. annual leave due carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account.

	<b>2012/13 £'000</b>	<b>2011/12 £'000</b>
<b>Balance as at 1 April</b>	<b>154</b>	<b>145</b>
Settlement of the accrual made at the end of the preceding year	(154)	(145)
<b>Amounts Accrued at 31 March</b>	<b>134</b>	<b>154</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E

### 18. Material Items of Income and Expense

In 2011/12 £522,000 net of fees was received from Her Majesty's Revenues and Customs in respect of VAT claims submitted. This amount is shown separately in the Comprehensive Income & Expenditure Statement.

### 19. Other Operating Expenditure

	2012/13 Expenditure £'000	2012/13 Income £'000	2012/13 Net Expenditure £'000	2011/12 Net Expenditure £'000
Parish Precepts	784	0	784	772
Drainage Board Levy	306	0	306	325
Housing Capital Receipts Pool	9	0	9	12
(Gains)/losses on the disposal of non-current assets (see detail below)	712	(93)	619	32
<b>Total</b>	<b>1,811</b>	<b>(93)</b>	<b>1,718</b>	<b>1,141</b>

Details of gains and losses on disposal of non-current assets are shown below:

	2012/13 £'000	2011/12 £'000
Capital receipts in year (note 7):		
Assets	(50)	(27)
Repayment of grant	(43)	(13)
Disposal of assets - write out of carrying value Assets (notes 30 & 33 )	712	72
<b>Net Loss on Sales of Non-Current Assets</b>	<b>619</b>	<b>32</b>

### 20. Financing and Investment Income and Expenditure

	2012/13 Expenditure £'000	2012/13 Income £'000	2012/13 Net Expenditure £'000	2011/12 Net Expenditure £'000
Interest payable & similar charges	118	0	118	150
Interest receivable & similar income	7	(102)	(95)	(77)
Pensions interest cost & expected return on pensions assets	4,097	(2,925)	1,172	780
(Gain) on Trading Undertakings (note 21)	357	(504)	(147)	(168)
Income & expenditure in relation to investment properties	64	(283)	(219)	(204)
Losses/(gains) in relation to investment properties and changes in their fair value	60	(114)	(54)	114
<b>Total</b>	<b>4,703</b>	<b>(3,928)</b>	<b>775</b>	<b>595</b>

### 21. Trading Undertakings

Trading undertakings relate to those activities that operate in a commercial environment.

	2012/13 Expenditure £'000	2012/13 Income £'000	2012/13 Net Expenditure £'000	2011/12 Net Expenditure £'000
Property Portfolio	330	(458)	(128)	(151)
Markets	27	(46)	(19)	(17)
<b>Total</b>	<b>357</b>	<b>(504)</b>	<b>(147)</b>	<b>(168)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E

Property Portfolio – The net expenditure above relates to those properties not classified on the Council's Balance Sheet as investment property, but as property plant & equipment.

Markets – the three markets in Swale produce an annual income for the Council excluding impairment. They are currently based in Sittingbourne, Sheerness and Faversham.

### 22. Shared Services

The Council participates in a number of shared service arrangements which are included in the Comprehensive Income & Expenditure Account but which are detailed below:

	2012/13 Expenditure Other £'000	2012/13 Expenditure on Partners £'000	2012/13 Income Other £'000	2012/13 Income from Partners £'000	2012/13 Net Expenditure £'000	2011/12 Net Expenditure £'000
Human Resources	134	251	(12)	0	373	364
Internal Audit	95	77	0	0	172	167
Legal	543	28	(31)	(95)	445	462
Parking	1,037	38	(2,188)	(23)	(1,136)	(1,161)
Building Control	0	95	0	0	95	102
<b>Total</b>	<b>1,809</b>	<b>489</b>	<b>(2,231)</b>	<b>(118)</b>	<b>(51)</b>	<b>(66)</b>

From 1 April 2013 the Council's IT Service will be provided via a partnership shared service arrangement with Tunbridge Wells and Maidstone Borough Councils. All IT staff will be employed by Maidstone and the IT service recharged to the other partners. In 2012/13, a total of £139,000 capital expenditure was incurred on behalf of the Shared IT Service to which Swale contributed £46,000. Swale Council has accrued its funding share to Maidstone Council as a revenue expenditure funded from capital under statute.

### 23. Taxation and Non-Specific Grant Income

	2012/13 £'000	2011/12 £'000
Council Tax	(8,543)	(8,483)
Business Rate Grant (Swale share of NNDR Pool)	(8,245)	(7,355)
Non-Ring fenced Government Grants (note 24)	(1,669)	(3,312)
KCC Second Homes Discount	(74)	(79)
Recognised Capital Grants and Contributions	(108)	(73)
<b>Total</b>	<b>(18,639)</b>	<b>(19,302)</b>

### 24. Grant Income

#### Grants Credited to Taxation and Non Specific Grant Income

These government grants and external contributions do not relate to the performance of a specific service.

	2012/13 £'000	2011/12 £'000
Council Tax Freeze Grant	(385)	(192)
Revenue Support Grant	(164)	(2,274)
New Homes Bonus	(1,107)	(846)
Community Right to Challenge/Community Right to Bid	(13)	0
<b>Total</b>	<b>(1,669)</b>	<b>(3,312)</b>

- Council Tax Freeze Grant – This grant is intended to represent the equivalent of a 2.5 % rise in Council Tax and is only paid to authorities that freeze their Council Tax.

## NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E

- Revenue Support Grant – This is a government grant in aid of local Council services generally, it is based on the government’s assessment of how much a Council needs to spend in order to provide a standard level of service.
- New Homes Bonus – This is a non-specific grant introduced by the government as an incentive for councils to deliver sustainable housing development. It is calculated on the basis of the national average for Council Tax based on each additional property, and is paid for the following six years.
- Community Right to Challenge/Bid – New Burden Grants provided to support the Council in responding to expressions of interest to take over the running of Council services submitted by town and parish councils, and voluntary and community groups.

### Grants Credited to Services

Grant Area	Provider	2012/13 £'000	2011/12 £'000
Housing/Council Tax Benefit Grant	Department for Work & Pensions	(65,813)	(62,397)
Revenue Expenditure Funded by Capital Under Statute	Various Contributions (note 36)	(1,372)	(1,444)
Housing Benefit Admin Subsidy	Department for Work & Pensions	(1,069)	(1,126)
Eden Village Fulston Manor Commuted Sum	Ward Homes	(290)	0
Queenborough and Rushenden Community Development Grant	Homes & Communities Agency	(218)	(177)
Discretionary Housing Payments	Department for Work & Pensions	(150)	(68)
High Street Innovation Fund	Department for Communities & Local Government	(100)	0
Communities Living Sustainability	Big Lottery Fund	(99)	0
Local Services Support Grant – Homelessness	Department for Communities & Local Government	(92)	(92)
Stay Put Scheme Supporting People Grant	Kent County Council	(88)	(78)
Council Tax Support New Burdens Funding	Department for Communities & Local Government	(87)	0
Housing Benefit Additional Grant	Department for Work & Pensions	(74)	(3)
Community Safety Partnership	Kent County Council	(47)	(83)
Rushenden Community Energy Saving Programme Grant	Climate Energy	(42)	(217)
Stayput Scheme – Contribution to running costs	National Health Service	(41)	(85)
Keycol Hospital – Commuted Sum	Taylor Wimpey	(35)	0
Discovering Perry Woods	Heritage Lottery Fund	(31)	0
Arts at the Centre Grant	Arts Council England	(30)	(40)
Sheppey Hospital Commuted Sum	Persimmon Homes	(25)	0
Winter Intervention Support Kent	Kent County Council	(24)	0
Sportivate Grant	Kent County Council	(23)	0
Disabled Facilities Grant	Department for Communities & Local Government	(22)	0
Queenborough Castle Grant	Heritage Lottery Fund	(22)	0
Air Quality Grant	Department for Environment Food and Rural Affairs	(16)	0
Other Grants		(226)	(682)
<b>Total Grant Income Credited to Cost of Services</b>		<b>(70,036)</b>	<b>(66,492)</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E**

**Grants – Receipts in Advance**

<b>Grant Area</b>	<b>Provider</b>	<b>2012/13 £'000</b>	<b>2011/12 £'000</b>
<b>Current Grants:</b>			
Rushenden Retrofit Grant	Homes & Communities Agency	(96)	(314)
Stay Put - Contribution to running costs	National Health Service	(44)	0
Stay Put Supporting People Grant	Kent County Council	(41)	(37)
Air Quality Grant	Department for Environmental & Rural Affairs	(35)	(26)
Discretionary Housing Payment Grant	Department for Work & Pensions	(20)	(11)
WEEE Local Project Fund	Kent County Council	(11)	0
Other Grants		0	(86)
<b>Total Grant Income – Receipts in Advance</b>		<b>(247)</b>	<b>(474)</b>

**Capital Grants Receipts in Advance**

Please see note 46 for a breakdown of Capital Grants Receipts in Advance.

**25. Members' Allowances**

	<b>2012/13 £'000</b>	<b>2011/12 £'000</b>
Basic allowance	157	156
Special responsibility allowance	88	87
Members travel and IT allowance	24	24
<b>Total</b>	<b>269</b>	<b>267</b>

The Members' Allowances Scheme can be inspected on the Council website or during normal office hours at the Council offices, Swale House, East Street, Sittingbourne. In accordance with the Local Council (Members Allowances) (England) Regulations 2003, details of payments to individual Members are published annually.

**26. Officers' Remuneration**

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more, in bands of £5,000, was:

<b>Remuneration Band</b>	<b>2012/13 Number of employees</b>	<b>2011/12 Number of employees</b>
£50,000 – £54,999	12	8
£55,000 – £59,999	1	1
£60,000 – £64,999	2	3
£65,000 – £69,999	0	2
£70,000 – £74,999	3	4
£75,000 – £79,999	5	1
£90,000 – £94,999	1	1
£100,000 – £104,999	0	1
£135,000 – £139,999	0	1
£140,000 – £145,000	1	0
<b>Total</b>	<b>25</b>	<b>22</b>

These remuneration bands include senior employees – this has been applied consistently to both years. Remuneration comprises:

## NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E

- a) all sums paid to or receivable by an employee including non-taxable termination payments, redundancy pay and pay in lieu of notice;
- b) expense allowances chargeable to tax i.e. the profit element of car allowances; and
- c) the monetary value of benefits such as leased cars.

The numbers 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 £	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
£0 – £20,000	1	15	0	0	1	15	39,300	119,900
£20,001– £40,000	1	1	0	0	1	1	91,200	54,000
<b>Total</b>	<b>2</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>16</b>	<b>130,500</b>	<b>173,900</b>
Total paid to employee							19,300	107,900
Total paid to KCC for contracted payments for pension scheme							78,900	56,300
Total additional curtailment costs							32,300	9,700
<b>Total</b>							<b>130,500</b>	<b>173,900</b>

The number of compulsory redundancies and departures in each year recognises a demonstrable commitment in that financial year i.e. the departure was made in that financial year. The total cost of exit packages recognises when the payment was made.

**NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E**

**(a) Disclosure of remuneration for senior employees whose salary is £150,000 or more per year**

Not applicable.

**(b) Senior Officers whose emoluments/salary is between £50,000 and £150,000 per year**

<b>(b) (i) 2011/12</b>		<b>2011/12</b>	<b>2011/12</b>	<b>2011/12</b>	<b>2011/12</b>	<b>2011/12</b>	<b>2011/12</b>	<b>2011/12</b>	<b>2011/12</b>
<b>Post holder Information</b>		<b>Salary</b>		<b>Expense</b>	<b>Compensation</b>	<b>Benefits in</b>	<b>Total</b>		<b>Total</b>
<b>(Post title)</b>	<b>Note</b>	<b>(Including</b>	<b>Bonuses</b>	<b>Allowances</b>	<b>for Loss of</b>	<b>Kind (e.g.</b>	<b>Remuneration</b>	<b>Pension</b>	<b>Remuneration</b>
		<b>Fees &amp;</b>	<b>£</b>	<b>£</b>	<b>Office</b>	<b>Car</b>	<b>Excluding</b>	<b>Contributions</b>	<b>Including</b>
		<b>Allowances)</b>				<b>Allowances)</b>	<b>Pension</b>		<b>Pension</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>Contributions</b>	<b>£</b>	<b>Contributions</b>
							<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive Swale Borough Council	1	141,279	0	0	0	0	141,279	41,135	182,414
Director of Corporate Services	1	96,560	0	0	0	799	97,359	28,100	125,459
Head of Legal Services	2	101,841	0	0	0	0	101,841	0	101,841
Director of Regeneration		76,265	0	0	0	0	76,265	22,784	99,049
Head of Service Delivery		74,960	0	0	0	537	75,497	22,392	97,889
Head of Development Services		74,960	0	0	0	0	74,960	22,392	97,352
Head of Economic Development & Cultural Services		74,960	0	0	0	0	74,960	22,392	97,352
Head of Commissioning & Customer Contact		74,960	0	0	0	0	74,960	22,392	97,352
Head of Corporate Governance & Communications	1	69,740	0	0	0	0	69,740	20,702	90,442
Head of Housing Services		68,226	0	0	0	0	68,226	20,380	88,606
Chief Executive Thames Gateway Kent Partnership		64,070	0	0	0	0	64,070	19,140	83,210
Head of Audit Partnership	3	0	0	0	0	0	0	0	0

**NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E**

(b) (i) 2011/12		2011/12	2011/12	2011/12	2011/12	2011/12	2011/12	2011/12	2011/12
Post holder Information		Salary	Bonuses	Expense	Compensation	Benefits in	Total	Pension	Total
(Post title)	Note	(Including Fees & Allowances) £	£	Allowances £	for Loss of Office £	Kind (e.g. Car Allowances) £	Remuneration Excluding Pension Contributions £	Contributions £	Remuneration Including Pension Contributions £
Head of HR Partnership	4	0	0	0	0	0	0	0	0
Head of Finance	5	0	0	0	0	0	0	0	0
<b>Total</b>		<b>917,821</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,336</b>	<b>919,157</b>	<b>241,809</b>	<b>1,160,966</b>

**Note 1:** Includes Elections/Acting Returning Officer fees.

**Note 2:** The Head of Legal Services Partnership was covered by an interim in 2011/12.

**Note 3:** The Head of Audit Partnership - disclosure covering this post will be made by Maidstone Borough Council.

**Note 4:** The Head of HR is shared with Maidstone Borough Council. Disclosure covering this post will be made by Maidstone Borough Council.

**Note 5:** The Head of Finance – disclosure covering this post will be made by Kent County Council.

(b) (ii) 2012/13		2012/13	2012/13	2012/13	2012/13	2012/13	2012/13	2012/13	2012/13
Post holder Information		Salary	Bonuses	Expense	Compensation	Benefits in	Total	Pension	Total
(Post title)	Note	(Including fees & Allowances) £	£	Allowances £	for Loss of Office £	Kind (e.g. Car Allowances) £	Remuneration Excluding Pension Contributions £	Contributions £	Remuneration Including Pension Contributions £
Chief Executive Swale Borough Council	6	146,982	0	0	0	0	146,982	42,247	189,229
Director of Corporate Services	6	95,632	0	0	0	0	95,632	27,748	123,380
Head of Development Services		77,508	0	0	0	0	77,508	22,547	100,055
Head of Service Delivery		76,680	0	0	0	0	76,680	22,547	99,227
Head of Economic Development & Cultural Services		76,430	0	0	0	0	76,430	22,547	98,977

**NOTES TO THE CORE FINANCIAL STATEMENTS – CI&E**

(b) (ii) 2012/13		2012/13	2012/13	2012/13	2012/13	2012/13	2012/13	2012/13	2012/13
Post holder Information (Post title)	Note	Salary (Including fees & Allowances) £	Bonuses £	Expense Allowances £	Compensation for Loss of Office £	Benefits in Kind (e.g. Car Allowances) £	Total Remuneration Excluding Pension Contributions £	Pension Contributions £	Total Remuneration Including Pension Contributions £
Head of Commissioning & Customer Contact		76,430	0	0	0	0	76,430	22,547	98,977
Director of Regeneration		76,265	0	0	0	0	76,265	22,498	98,763
Head of Corporate Governance & Communications		72,075	0	0	0	0	72,075	21,262	93,337
Head of Housing Services		72,075	0	0	0	0	72,075	21,262	93,337
Chief Executive Thames Gateway Kent Partnership		64,070	0	0	0	0	64,070	18,901	82,971
Head of Legal Services	7	72,659	0	0	0	0	72,659	0	72,659
Head of Audit	8	0	0	0	0	0	0	0	0
Head of HR Partnership	9	0	0	0	0	0	0	0	0
Head of Finance	10	0	0	0	0	0	0	0	0
<b>Total</b>		<b>906,806</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>906,806</b>	<b>244,106</b>	<b>1,150,912</b>

**Note 6:** Includes Elections/Acting Returning Officer fees.

**Note 7:** The Head of Legal post was covered by an interim until December 2012. From April 2013 a permanent Head of Legal has been appointed.

**Note 8:** The Head of Audit Partnership - disclosure covering this post will be made by Maidstone Borough Council.

**Note 9:** The Head of HR is shared with Maidstone Borough Council.

Disclosure covering this post will be made by Maidstone Borough Council.

**Note 10:** The Head of Finance – disclosure covering this post will be made by Kent County Council.

More details on the cost of shared services can be seen on note 22.

## NOTES TO THE CORE FINANCIAL STATEMENTS – C I&E

### 27. External Audit Costs

Up to 31 August 2012, the Council's auditors were the Audit Commission and Grant Thornton UK LLP thereafter. Grant Thornton is one of the world's leading organisations of independent assurance.

	2012/13 £'000	2011/12 £'000
Fees payable for external audit services	73	123
Fees payable for the certification of grant claims and returns	13	25
<b>Total</b>	<b>86</b>	<b>148</b>

### 28. Long-Term Contracts

In 2012/13, the Council was committed to making payments under the following contracts:

- £4.4 million for the provision of cleansing services (refuse & recycling, street cleansing and public conveniences); the remaining value of the contracts is estimated at £3.11 million. The original contract period for all these contracts expires in December 2013. Subsequent to the original contract, wheelie bins have been procured from the contractor under a finance lease (see note 55);
- £0.6 million for the provision of Leisure Centre Management (including utilities subsidies); the remaining value of the contract is estimated at £3.24 million (excluding future indexation and contract variations). The original contract period expires in 2018; and
- £1.2 million for the Grounds Maintenance contract. This contract was re-let in January 2007 at a base price of £1.1 million for 10 years and is subject to annual indexation. The original contract period expires in January 2017. The remaining value of the contract is £4.39 million (excluding future indexation and contract variations).

A new joint waste contract (including street cleansing and a new food waste service) will go live in the last quarter of 2013/14. The operation of this contract will involve an inter-authority agreement between Swale Borough Council, Maidstone Borough Council, Ashford Borough Council and Kent County Council (KCC). The annual contract value to Swale Borough Council will be £4.1 million.

The Council belongs to a partnership with KCC and other Kent District Councils, to deliver new homes for vulnerable people in Kent using £72 million approved Private Finance Initiative credits. KCC is procuring and managing the project on behalf of the partners, so there are no further accounting implications for the Council.

### 29. Amounts Reported for Resource Allocation Decisions (Segmental Reporting)

Internal reporting covers an analysis of sundry debt by department. This information is presented below:

	31 March 2013 £'000	31 March 2012 £'000
Housing	379	892
Commissioning & Customer Contact (includes a £187,000 debt paid in May 2013)	240	36
Planning (includes a £200,000 debt paid in April 2013)	211	53
Property Services	154	218
Other	140	227
<b>Total</b>	<b>1,124</b>	<b>1,426</b>

The analysis of income and expenditure by service on the face of the Comprehensive Income & Expenditure Statement is specified by the Service Expenditure Reporting Code of Practice. However, Cabinet decisions about resource allocation are based on budget reports analysed across Departments. These reports are, where appropriate, prepared on the same basis as the accounting policies used in the financial statements so that the budget managers see the true financial implications of their decisions. The following tables show:

- the income & expenditure of the Council's departments recorded in the budget reports for the year; and
- how the figures in the analysis of departments' income and expenditure relate to the amounts included in the Comprehensive Income & Expenditure Statement.

**NOTES TO THE CORE FINANCIAL STATEMENTS – C I&E**

2011/12	Staff Costs £'000	Supplies, Services & Third Party Payments £'000	Transfer Payments £'000	Depreciation, Amortisation & Impairment £'000	Precepts and Levies £'000	Interest Paid £'000	Payment to Housing Capital Receipts Pool £'000	Gains / Losses on Non-current Assets £'000	Government Grants £'000	Fees, Charges and Service Income £'000	Interest & Invest Income £'000	Council Tax Income £'000	Support Service Recharges £'000	Total £'000
Chief Executive	218	32	0	0	0	0	0	0	0	(1)	0	0	0	249
Corporate Strategy & Communications	538	157	0	0	0	0	0	0	11	(41)	0	0	0	665
Economy & Communities	884	1,449	0	315	0	0	0	0	(435)	(169)	0	0	0	2,044
Housing	1,161	2,229	0	3	0	0	0	0	(2,499)	(117)	0	0	0	777
Planning	1,580	502	0	4	0	0	0	0	(77)	(807)	0	0	0	1,202
Directors: Regeneration / Corporate	444	193	0	0	0	0	0	0	(160)	(5)	0	0	0	472
IT	471	205	0	43	0	0	0	0	0	(38)	0	0	0	681
Audit	101	82	0	0	0	0	0	0	0	0	0	0	0	183
Finance	688	460	0	0	325	0	0	0	0	0	0	0	0	1,473
Human Resources	179	195	0	0	0	0	0	0	0	(3)	(2)	0	0	369
Legal & Democratic	671	570	0	0	0	0	0	0	(15)	(106)	0	0	0	1,120
Property Services	478	607	0	105	0	0	0	0	(36)	(795)	0	0	0	359
Service Delivery	2,941	1,579	62,283	69	0	0	0	0	(63,766)	(3,535)	(1)	0	0	(430)
Commissioning & Customer Contact	1,256	6,536	0	1,409	0	0	0	0	(492)	(1,300)	0	0	0	7,409
NNDR Discretionary Relief	0	0	233	0	0	0	0	0	0	0	0	0	0	233
Debt Impairment	0	0	0	0	0	0	0	0	0	205	0	0	0	205
Financial Guarantee	0	0	0	0	0	0	0	0	0	68	0	0	0	68
2010/11 Expenditure Funded From Reserves	(36)	(66)	0	0	0	0	0	0	0	0	0	0	0	(102)
Below The Line Items	2,636	1,995	0	(866)	0	7	13	0	(576)	(4,206)	(84)	0	0	(1,081)
Net Recharges	0	0	0	0	0	0	0	0	0	0	0	0	(314)	(314)
Rollovers – Specific Grants	0	0	0	0	0	0	0	0	582	0	0	0	0	582

**NOTES TO THE CORE FINANCIAL STATEMENTS – C I&E**

2011/12	Staff Costs £'000	Supplies, Services & Third Party Payments £'000	Transfer Payments £'000	Depreciation, Amortisation & Impairment £'000	Precepts and Levies £'000	Interest Paid £'000	Payment to Housing Capital Receipts Pool £'000	Gains / Losses on Non-current Assets £'000	Government Grants £'000	Fees, Charges and Service Income £'000	Interest & Invest Income £'000	Council Tax Income £'000	Support Service Recharges £'000	Total £'000
<b>Total Service Expenditure Reported To Management</b>	<b>14,210</b>	<b>16,725</b>	<b>62,516</b>	<b>1,082</b>	<b>325</b>	<b>7</b>	<b>13</b>	<b>0</b>	<b>(67,463)</b>	<b>(10,850)</b>	<b>(87)</b>	<b>0</b>	<b>(314)</b>	<b>16,164</b>
Council Tax & Formula Grant	0	0	0	0	772	0	0	0	(9,628)	0	0	(8,533)	0	(17,389)
2011/12 Expenditure Funded From Reserves	352	1,048	0	0	0	0	0	0	(15)	(3)	0	0	0	1,382
Post Reporting Entries	356	(226)	0	(14)	0	0	0	0	(1,044)	(161)	0	0	314	(775)
Items Not Included in Net Cost of Services	(987)	(577)	0	(220)	(1,097)	(7)	0	40	10,855	941	84	8,533	0	17,565
Items Excluded From Surplus/Deficit on Services	(2,386)	(1,703)	(43)	1,095	0	0	0	(40)	(25)	3,462	0	0	0	360
<b>Net Cost of Services</b>	<b>11,545</b>	<b>15,267</b>	<b>62,473</b>	<b>1,943</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>(67,320)</b>	<b>(6,611)</b>	<b>(3)</b>	<b>0</b>	<b>0</b>	<b>17,307</b>
Other Operating Expenditure	0	13	0	71	1,097	0	0	(40)	0	0	0	0	0	1,141
Financing & Investment Income & Expenditure	987	563	0	149	0	7	0	0	(36)	(991)	(84)	0	0	595
Taxation & Non-Specific Grant Income	0	0	0	0	0	0	0	0	(10,819)	50	0	(8,533)	0	(19,302)
<b>(Surplus)/Deficit on the Provision of Services</b>	<b>12,532</b>	<b>15,843</b>	<b>62,473</b>	<b>2,163</b>	<b>1,097</b>	<b>7</b>	<b>13</b>	<b>(40)</b>	<b>(78,175)</b>	<b>(7,552)</b>	<b>(87)</b>	<b>(8,533)</b>	<b>0</b>	<b>(259)</b>
Surplus on Revaluation of Non-current Assets	0	0	0	0	0	0	0	(989)	0	0	0	0	0	(989)
Deficit on Provision of Services	12,355	0	0	0	0	0	0	0	0	0	0	0	0	12,355
Other Adjustments	0	0	0	0	0	0	0	0	298	0	0	0	0	298
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>24,887</b>	<b>15,843</b>	<b>62,473</b>	<b>2,163</b>	<b>1,097</b>	<b>7</b>	<b>13</b>	<b>(1,029)</b>	<b>(77,877)</b>	<b>(7,552)</b>	<b>(87)</b>	<b>(8,533)</b>	<b>0</b>	<b>11,405</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS – C I&E**

2012/13	Staff Costs £'000	Supplies, Services & Third Party Payments £'000	Transfer Payments £'000	Depreciation, Amortisation & Impairment £'000	Precepts and Levies £'000	Interest Paid £'000	Payment to Housing Capital Receipts Pool £'000	Gains/Losses on Non-current Assets £'000	Government Grants £'000	Fees, Charges and Service Income £'000	Interest & Invest Income £'000	Council Tax Income £'000	Support Service Recharges £'000	Total £'000
Chief Executive	216	27	0	0	0	0	0	0	0	(1)	0	0	0	242
Directors: Corporate/ Regeneration	471	132	0	0	0	0	0	0	(183)	0	0	0	0	420
Corporate Strategy & Communications	561	202	0	0	0	0	0	0	0	(127)	0	0	0	636
Economy & Communities	713	992	0	310	0	0	0	0	(328)	(183)	0	0	0	1,504
Housing	1,135	1,918	0	0	0	0	0	0	(1,985)	(244)	0	0	0	824
Planning	1,536	444	0	2	0	0	0	0	(16)	(819)	0	0	0	1,147
IT	462	89	0	51	0	0	0	0	0	(1)	0	0	0	601
Audit	83	81	0	0	0	0	0	0	0	0	0	0	0	164
Finance	637	460	0	0	296	0	0	0	(13)	(47)	0	0	0	1,333
Human Resources	114	262	0	0	0	0	0	0	0	(12)	(3)	0	0	361
Legal	347	53	0	0	0	0	0	0	0	(126)	0	0	0	274
Democratic Services	316	371	0	0	0	0	0	0	(23)	(4)	0	0	0	660
Property Services	394	536	0	18	0	0	0	0	0	(802)	0	0	0	146
Service Delivery	2,874	1,842	65,840	41	0	0	0	0	(67,318)	(3,112)	0	0	0	167
Commissioning & Customer Contact	1,225	6,839	0	1,288	0	0	0	0	(762)	(1,331)	0	0	0	7,259
NNDR Discretionary Relief	0	0	212	0	0	0	0	0	0	0	0	0	0	212
Debt Impairment	0	0	0	0	0	0	0	0	0	(438)	0	0	0	(438)
Financial Guarantee	0	0	0	0	0	0	0	0	0	(68)	0	0	0	(68)
Rollovers – Specific Grants	0	0	0	0	0	0	0	0	552	0	0	0	0	552
Net Recharges	0	0	0	0	0	0	0	0	0	0	0	0	14	14
Below The Line Charges	2,423	3,878	0	(1,916)	0	5	9	0	(1,784)	(3,000)	(100)	0	0	(485)
<b>Total Service Expenditure Reported To Management</b>	<b>13,507</b>	<b>18,126</b>	<b>66,052</b>	<b>(206)</b>	<b>296</b>	<b>5</b>	<b>9</b>	<b>0</b>	<b>(71,860)</b>	<b>(10,315)</b>	<b>(103)</b>	<b>0</b>	<b>14</b>	<b>15,525</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS – C I&E**

2012/13	Staff Costs £'000	Supplies, Services & Third Party Payments £'000	Transfer Payments £'000	Depreciation, Amortisation & Impairment £'000	Precepts and Levies £'000	Interest Paid £'000	Payment to Housing Capital Receipts Pool £'000	Gains/Losses on Non-current Assets £'000	Government Grants £'000	Fees, Charges and Service Income £'000	Interest & Invest Income £'000	Council Tax Income £'000	Support Service Recharges £'000	Total £'000
Council Tax and Government Funding	0	0	0	0	784	0	0	0	(8,409)	0	0	(8,563)	0	<b>(16,188)</b>
2012/13 Expenditure Funded From Reserves	188	655	0	0	0	0	0	3	0	0	0	0	0	<b>846</b>
Post Reporting Entries	976	(651)	0	0	0	0	0	(3)	25	0	0	0	50	<b>395</b>
Items Excluded From Surplus/Deficit on Services	(2,332)	(650)	(37)	759	0	0	0	613	0	3,017	0	0	0	<b>1,370</b>
Items Not Included in Net Cost Of Services	(1,172)	(472)	0	(116)	(1,080)	(5)	0	(565)	10,086	816	100	8,563	(9)	<b>16,146</b>
<b>Net Cost of Services</b>	<b>11,167</b>	<b>17,008</b>	<b>66,015</b>	<b>437</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>48</b>	<b>(70,158)</b>	<b>(6,482)</b>	<b>(3)</b>	<b>0</b>	<b>55</b>	<b>18,096</b>
Other Operating Expenditure	0	0	0	0	1,080	0	0	619	0	0	0	0	9	<b>1,718</b>
Financing & Investment Income & Expenditure	1,172	472	0	116	0	5	0	(54)	0	(836)	(100)	0	0	<b>775</b>
Taxation & Non-Specific Grant Income	0	0	0	0	0	0	0	0	(10,086)	20	0	(8,563)	0	<b>(18,639)</b>
<b>(Surplus)/ Deficit on the Provision of Services</b>	<b>12,339</b>	<b>17,480</b>	<b>66,015</b>	<b>553</b>	<b>1,080</b>	<b>5</b>	<b>9</b>	<b>613</b>	<b>(80,244)</b>	<b>(7,298)</b>	<b>(103)</b>	<b>(8,563)</b>	<b>64</b>	<b>1,950</b>
Surplus or Deficit on Revaluation of Non-current Assets	0	0	0	0	0	0	0	(217)	0	0	0	0	0	<b>(217)</b>
Actuarial (Gains) on Pensions Assets/ Liabilities	3,301	0	0	0	0	0	0	0	0	0	0	0	0	<b>3,301</b>
Other Adjustments	0	0	0	0	0	0	0	0	0	88	0	0	0	<b>88</b>
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>15,640</b>	<b>17,480</b>	<b>66,015</b>	<b>553</b>	<b>1,080</b>	<b>5</b>	<b>9</b>	<b>396</b>	<b>(80,244)</b>	<b>(7,210)</b>	<b>(103)</b>	<b>(8,563)</b>	<b>64</b>	<b>5,122</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET**

**30. Property, Plant and Equipment Assets**

Movements on Balances in 2011/12

Classification 2011/12	Operational Assets (Restated)					Non-Operational Assets Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Leased £'000	Infrastructure £'000	Community £'000		
<b>Cost or Valuation</b>							
<b>At 1 April 2011</b>	33,808	5,873	3,496	4,473	3,604	4,251	<b>55,505</b>
Previous year rounding adjustment	(1)	0	0	0	0	0	<b>(1)</b>
Additions – capital expenditure	163	136	0	0	5	0	<b>304</b>
Additions – other	0	0	60	0	0	0	<b>60</b>
Revaluation – increase recognised in Revaluation Reserve (RRA)	435	0	0	0	0	51	<b>486</b>
Revaluation – decrease recognised in RRA	(42)	0	0	0	0	(13)	<b>(55)</b>
Revaluation – increase recognised in Surplus on Provision of Services (reversal prior loss)	28	0	0	0	0	(36)	<b>(8)</b>
Revaluation – decrease recognised in Surplus on Provision of Services	(38)	0	0	0	0	(6)	<b>(44)</b>
Derecognition – other	(71)	0	(22)	0	0	0	<b>(93)</b>
Reclassifications	(158)	374	0	(257)	(242)	236	<b>(47)</b>
<b>At 31 March 2012</b>	<b>34,124</b>	<b>6,383</b>	<b>3,534</b>	<b>4,216</b>	<b>3,367</b>	<b>4,483</b>	<b>56,107</b>
<b>Accumulated Depreciation and Impairments</b>							
<b>At 1 April 2011</b>	(1,369)	(3,714)	(1,958)	(444)	(256)	(162)	<b>(7,903)</b>
Previous year rounding adjustment	1	0	0	0	(1)	1	<b>1</b>
Depreciation charge	(793)	(516)	(483)	(143)	(12)	(51)	<b>(1,998)</b>
Depreciation written out to the RRA	182	0	0	0	0	2	<b>184</b>
Depreciation written out to the Surplus on Provision of Services (reversal prior loss)	48	0	0	0	0	49	<b>97</b>
Impairment losses/(reversals) recognised in RRA	15	0	0	0	0	6	<b>21</b>
Derecognition – other	8	0	13	0	0	0	<b>21</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET**

Classification 2011/12	Operational Assets (Restated)					Non-Operational Assets Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Leased £'000	Infrastructure £'000	Community £'000		
Reclassifications	3	(164)	0	49	115	(3)	0
<b>At 31 March 2012</b>	<b>(1,905)</b>	<b>(4,394)</b>	<b>(2,428)</b>	<b>(538)</b>	<b>(154)</b>	<b>(158)</b>	<b>(9,577)</b>
<b>Net Book Value</b>							
<b>at 31 March 2012</b>	<b>32,219</b>	<b>1,989</b>	<b>1,106</b>	<b>3,678</b>	<b>3,213</b>	<b>4,325</b>	<b>46,530</b>
<b>at 31 March 2011</b>	<b>32,439</b>	<b>2,159</b>	<b>1,538</b>	<b>4,029</b>	<b>3,348</b>	<b>4,089</b>	<b>47,602</b>

The figures for 2011/12 have been restated to reflect operational assets previously categorised as equipment being redefined as buildings.

Movements on Balances in 2012/13

Classification 2012/13	Operational Assets					Non-Operational Assets Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Leased £'000	Infrastructure £'000	Community £'000		
<b>Cost or Valuation</b>							
<b>At 1 April 2012</b>	<b>34,124</b>	<b>6,383</b>	<b>3,534</b>	<b>4,216</b>	<b>3,367</b>	<b>4,483</b>	<b>56,107</b>
Additions – capital expenditure	44	28	0	(13)	53	0	112
Additions – other	10	0	0	0	0	0	10
Revaluation – increase recognised in Revaluation Reserve (RRA)	144	(20)	0	0	0	196	320
Revaluation – decrease recognised in RRA	(108)	0	0	0	0	(85)	(193)
Revaluation – increase recognised in Surplus on Provision of Services (reversal prior loss)	(334)	0	0	0	0	18	(316)
Revaluation – decrease recognised in the Surplus on Provision of Services	(445)	0	0	(2)	0	(85)	(532)
Derecognition – disposals	(801)	(51)	0	0	0	(21)	(873)
Derecognition – other	0	0	(23)	0	0	0	(23)
Reclassifications	(427)	0	0	2	85	340	0

**NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET**

Classification 2012/13	Operational Assets					Non-Operational Assets Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Leased £'000	Infrastructure £'000	Community £'000		
<b>At 31 March 2013</b>	<b>32,207</b>	<b>6,340</b>	<b>3,511</b>	<b>4,203</b>	<b>3,505</b>	<b>4,846</b>	<b>54,612</b>
<b>Accumulated Depreciation and Impairments</b>							
<b>At 1 April 2012</b>	(1,905)	(4,394)	(2,428)	(538)	(154)	(158)	(9,577)
Depreciation charge	(758)	(458)	(471)	(89)	(29)	(64)	(1,869)
Depreciation written out to the RRA	27	20	0	0	0	17	64
Depreciation written out to the Surplus on Provision of Services (reversal prior loss)	699	0	0	0	0	1	700
Impairment losses/(reversals) recognised in RRA	11	0	0	0	0	5	16
Impairment losses/(reversals) recognised in the Surplus on Provision of Services	203	0	0	0	0	1	204
Derecognition – disposals	146	22	0	0	0	0	168
Derecognition – other	0	0	17	0	0	0	17
Other movements in depreciation and impairment	(7)	0	0	0	0	0	(7)
Reclassifications	11	0	0	0	0	(11)	0
<b>At 31 March 2013</b>	<b>(1,573)</b>	<b>(4,810)</b>	<b>(2,882)</b>	<b>(627)</b>	<b>(183)</b>	<b>(209)</b>	<b>(10,284)</b>
<b>Net Book Value</b>							
<b>at 31 March 2013</b>	<b>30,634</b>	<b>1,530</b>	<b>629</b>	<b>3,576</b>	<b>3,322</b>	<b>4,637</b>	<b>44,328</b>
<b>at 31 March 2012</b>	<b>32,219</b>	<b>1,989</b>	<b>1,106</b>	<b>3,678</b>	<b>3,213</b>	<b>4,325</b>	<b>46,530</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

### 31. Non-Current Asset Valuation

The Council 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 Council's property portfolio have, for this and past years, been valued by Wilks, Head and Eve Chartered Surveyors and by the Valuation Office Agency.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

In 2012/13 Wilks, Head and Eve valued assets, including investment properties, at a gross value of £15,577,604 as at 1 April 2012.

An impairment review was also carried out by Wilks, Head and Eve as part of the valuation contract. The results of the impairment review were no change to the values. Mr K Parker, member of the Royal Institution of Chartered Surveyors (MRICS) and an employee of the Council, reviewed both tasks.

Wilks, Head & Eve is a long established independent partnership of Chartered Surveyors and Town Planners providing a full range of property services to clients in both the public and private sectors. The Valuation Office Agency is an executive agency, its main functions being: to compile and maintain the business rating and Council Tax valuation lists for England and Wales; to value property in England, Wales and Scotland for the purposes of taxes administered by HMRC; to provide statutory and non-statutory property valuation services in England, Wales and Scotland; and, to give policy advice to Ministers on property valuation matters.

The significant assumptions applied in estimating the fair values are detailed in the Accounting Policies.

The table below shows the progress of the rolling programme of revaluation of the Council's non-current assets:

<b>Date Valued or Acquired</b>	<b>Land &amp; Buildings £'000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £'000</b>	<b>Leased £'000</b>	<b>Infra-structure £'000</b>	<b>Comm-unity £'000</b>	<b>Surplus Land &amp; Buildings £'000</b>	<b>Total Property, Plant &amp; Equipment Assets £'000</b>
Historic Cost	0	0	0	3,576	3,322	0	6,898
Pre 2007	8	268	302	0	0	0	578
01/04/2007	0	126	278	0	0	0	404
01/04/2008	60	180	29	0	0	0	269
17/07/2008	2	0	0	0	0	0	2
01/04/2009	6,121	0	0	0	0	899	7,020
01/10/2009	489	343	0	0	0	0	832
30/03/2010	0	0	0	0	0	96	96
01/04/2010	6,009	514	0	0	0	450	6,973
31/03/2011	1,563	0	0	0	0	0	1,563
01/04/2011	5,562	65	20	0	0	2,465	8,112
01/04/2012	10,776	0	0	0	0	727	11,503
30/04/2012	45	33	0	0	0	0	78
<b>Total Cost or Valuation</b>	<b>30,635</b>	<b>1,529</b>	<b>629</b>	<b>3,576</b>	<b>3,322</b>	<b>4,637</b>	<b>44,328</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

### 32. Impairment Losses

The Code requires disclosure by class of assets of the amounts for losses and impairments, and subsequent reversals, charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income & Expenditure (net total reversals being credited to the Surplus or Deficit). These disclosures are consolidated in notes 30 and 34, reconciling the movement over the year in the asset balances for Property, Plant and Equipment and Investment Properties.

During 2012/13 the Council has recognised a net total reversal of £110,000 in respect of its non-current assets. The comparative figure for 2011/12 was a net loss/impairment of £68,900.

	<b>Property, Plant and Equipment Assets £'000</b>	<b>Investment Assets £'000</b>	<b>Total £'000</b>
Revaluation – increase recognised in Surplus on Provision of Services (reversal prior loss)	(316)	114	(202)
Depreciation written out to the Surplus on Provision of Services (reversal prior loss)	700	0	700
<b>Total reversal prior loss</b>	<b>384</b>	<b>114</b>	<b>498</b>
Revaluation – decrease recognised in Surplus on Provision of Services	(532)	(60)	(592)
Impairment losses recognised in the Surplus on Provision of Services	204	0	204
<b>Total losses and impairments</b>	<b>(328)</b>	<b>(60)</b>	<b>(388)</b>
<b>Net Total Reversal Credited to Surplus on Provision of Services</b>	<b>56</b>	<b>54</b>	<b>110</b>

The £700,000 depreciation written out as part of the reversal of prior losses includes depreciation of £447,500 attributed to the Swallows Leisure Centre's basic structure and £107,800 to the leisure centre's external works.

### 33. Heritage Assets

#### Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	<b>War Memorials &amp; Public Statues £'000</b>	<b>Civic Regalia £'000</b>	<b>Historical Items of Cultural Interest £'000</b>	<b>Total £'000</b>
<b>Cost or Valuation</b>				
<b>At 1 April 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Additions or Recognition	65	179	108	352
Reclassifications	47	0	0	47
<b>Balance at 31 March 2012</b>	<b>112</b>	<b>179</b>	<b>108</b>	<b>399</b>
<b>Cost or Valuation</b>				
<b>At 1 April 2012</b>	<b>112</b>	<b>179</b>	<b>108</b>	<b>399</b>
Disposals	0	0	(1)	(1)
<b>Balance at 31 March 2013</b>	<b>112</b>	<b>179</b>	<b>107</b>	<b>398</b>

#### The Nature and Scale of Heritage Assets Held by the Council

##### War Memorials & Public Statues

This comprises the following:

- Several 'traditional style' war memorials, which have not previously been valued, except for estimated valuations for insurance purposes. When official valuations are available for these memorials they will be added to the Balance Sheet;

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

- The bronze wreath sculpture atop of the memorial in Sittingbourne is in the Council's asset register at the valuation assessed for insurance purposes; and
- The public statues are 'The Bargee' in Sittingbourne (valuation assessed for insurance) and the 'Shoal Stone' at Rushenden Hill (valued at cost).

### Civic Regalia

The Council has applied a de minimus valuation of £10,000 to civic regalia declared on the Balance Sheet. The majority of pieces are held in the Council offices at Swale House; however, in 2008 several of the pieces originating from Queenborough were passed to the safekeeping of Queenborough Town Council. A valuation of civic regalia for insurance purposes was undertaken in 2005. The Council is awaiting receipt of the report for the revaluation undertaken in March 2013.

### Historical Items of Cultural Interest

In addition to the miscellany of various items held in Swale for cultural interest (e.g. twinning presents and presentation gifts) the Borough has collections of antique furniture, silverware and paintings and has one of the few commemorative Battle of Britain lace panels made between 1942 and 1946 by Dobson & Browne Ltd. A valuation of these items for insurance purposes was last reported in 2005

### Heritage Assets not on the Balance Sheet

No original cost information is available for the war memorials and it is not considered appropriate to value and include these assets in the Council's Balance Sheet as the cost of obtaining valuations is currently taken to outweigh the benefit derived.

In addition to the civic regalia declared on the Balance Sheet there are other multiple items of minor value which are not considered material to disclose on the Balance Sheet. These items have been given over to the safekeeping of Queenborough Town Council. A valuation of these items for insurance purposes was last undertaken in 2005.

The Council owns a small collection of seven historical coins which are held in Swale House. The minor total value of these items is not considered material to disclose on the Balance Sheet. A valuation of these items for insurance purposes was last undertaken in 2005.

### Preservation and Management

No specific preservation treatments or action has been taken with regard to any of the Council's Heritage Assets. All items, except the war memorials and public sculptures, are held in civic property and none have been reported as incurring deterioration or impairment.

The paintings are on open display and therefore any change in the condition of the assets would be noticeable.

Some of the civic regalia has occasionally incurred damage, however this has been commensurate with being actively used on Council business and has been readily repaired.

Acquisitions of new Heritage Assets by direct purchase are not anticipated in the future, however the Council will be happy to consider acceptance of assets offered by donation or gift.

Except for war memorials and sculptures, all Heritage assets are generally currently insured under the Council's All Risks insurance policy. In order to support this insurance a full valuation of all Civic Regalia items (including furniture and paintings etc.) is periodically undertaken and these are the valuations used in the Balance Sheet. The last full valuation reported was undertaken in August 2005.

### Heritage Assets – Five-Year Summary of Transactions

The Code requires that the financial statements shall contain a summary of transactions relating to heritage assets disclosing the following information for the accounting period and each of the previous four accounting periods where it is practicable to do so.

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

For 2012/13 the only movement has been the disposal of a painting held at the Alexander Centre, Faversham. Further to the Council's localism agenda, this property was handed over to the Alexander Centre Trust in 2012/13. The painting was included as part of the transfer.

The summary below shows separately the assets that are reported in the Balance Sheet and those that are not after applying the de minimus criteria.

	On Balance Sheet				Not on Balance Sheet	
	War Memorials & Public Statues £'000	Civic Regalia £'000	Historical Items of Cultural Interest £'000	Total £'000	Civic Regalia of Queen- borough £'000	Coins £'000
	<b>Carrying Value 31 March 2008</b>	0	0	0	0	0
Cost of Acquisition:						
2008/09	2	0	0	2	0	0
2009/10	45	0	0	45	0	0
Recognition of existing assets 2011/12	65	179	108	352	9	1
Disposal of Assets 2012/13	0	0	(1)	(1)	0	0
<b>Carrying Value 31 March 2013</b>	<b>112</b>	<b>179</b>	<b>107</b>	<b>398</b>	<b>9</b>	<b>1</b>

### 34. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line (note 20) in the Comprehensive Income & Expenditure Statement. There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

	2012/13 £'000	2011/12 £'000
Rental Income from investment properties	(283)	(279)
Direct operating expenses arising from investment properties	64	75
<b>Net (Gain)</b>	<b>(219)</b>	<b>(204)</b>

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

	2012/13 £'000	2011/12 £'000
<b>Balance at Start of the Year</b>	3,223	3,337
Net gains/(losses) from fair value adjustments	54	(114)
<b>Balance at End of the Year</b>	<b>3,277</b>	<b>3,223</b>

### 35. Movement of Intangible Assets

When of material value and cost, the Council accounts for computer software and programs as intangible assets, to the extent that the software/program is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. All intangible assets are given a finite useful life, based on assessments of the period that the asset is expected to be of use to the Council. All intangible assets are initially measured at cost and are not subject to revaluation. Software licences are mainly for the Customer Relationship Management System, used in the Customer Service Centre. The Council does not have any intangible assets which have come from internal development.

The useful lives assigned to the intangible assets used by the Council are:

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

	Acquisition Date	Original Estimated Asset Life	Estimated Years Outstanding 1 April 2012
E-Government Software Licence	31/03/2005	7	0
E-Government Software Network Help lines & Operations	31/03/2006	7	1
Telephony System Upgrade	01/03/2007	7	2
IEG (Implementing Electronic Government) Scheme	01/03/2007	7	2
ICT System Replacement – Environmental Services	01/04/2007	7	3
ICT System Replacement – Performance & Policy Monitoring	01/04/2007	7	3
ICT – Housing Register Software	01/04/2007	7	3
GIS (Geographic Information System) / LLPG (Local Land and Property Gazetteer) Data Take-on / Verification	01/04/2007	7	3
Finance program upgrade and enhancement	30/04/2012	7	7
Multiple software licences – improved functionality/enhancement	30/04/2012	3	3

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £27,300 charged to revenue in 2012/13 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

Intangible assets are assets that do not have a physical substance but are controlled by the Council through custody or legal rights. This table shows the movement of intangible assets:

	Purchased Software Licence/Program 2012/13 £'000	Purchased Software Licence/Program 2011/12 £'000
Original Cost	132	132
Accumulated amortisation to 1 April	(95)	(76)
<b>Balance as at 1 April</b>	<b>37</b>	<b>56</b>
Additions	85	0
Written off to revenue in year	(28)	(19)
<b>Balance as at 31 March</b>	<b>94</b>	<b>37</b>
Comprising:		
Gross carrying amounts	217	132
Accumulated amortisation	(123)	(95)

### 36. Revenue Expenditure Funded from Capital under Statute (REFCUS)

REFCUS relates to capital expenditure for which there will be no non-current assets (for example grants paid to external organisations) held by the Council. As there is no continuing benefit derived from this expenditure, it is treated as revenue expenditure and allocated in the Comprehensive Income & Expenditure Statement in the same year that it was incurred.

Grant Area	Provider	Expenditure 2012/13 £'000	Expenditure 2011/12 £'000
Home Renovation Grants	Department for Communities & Local Government	1,279	1,065
Rushenden Environment Improvements	Regional Housing Board	0	379
Other		93	0
<b>Total</b>		<b>1,372</b>	<b>1,444</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

### 37. Commitments under Capital Contracts

The commitments at 31 March 2013 totalled £3.54 million.

### 38. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2012/13 £'000	2011/12 £'000
<b>Opening Capital Financing Requirement</b>	<b>7,170</b>	<b>8,044</b>
<b>Capital Investment:</b>		
Property, Plant and Equipment (see note 30)	112	304
Intangible Assets (see note 35)	85	0
Revenue Expenditure funded by Capital under Statute (REFCUS) (see note 36)	1,372	1,444
<b>Total Capital Investment</b>	<b>1,569</b>	<b>1,748</b>
<b>Add Long-Term Debtors – Housing Loans</b>	<b>42</b>	<b>0</b>
<b>Sources of Finance:</b>		
Capital Receipts (see note 7) –		
Financing non current assets	(53)	(96)
Financing REFCUS	(11)	(1)
Government Grants & External Contributions –		
Financing REFCUS	(1,100)	(1,443)
Financing Non REFCUS Transactions	(68)	(97)
Sums set aside from revenue –		
Minimum Revenue Provision	(872)	(874)
Direct Revenue Funding Financing REFCUS	(261)	0
Direct Revenue Funding Financing non current assets	(118)	(111)
<b>Total Sources of Finance</b>	<b>(2,483)</b>	<b>(2,622)</b>
<b>Closing Capital Financing Requirement</b>	<b>6,298</b>	<b>7,170</b>
<b>Explanation of Movements in Capital Financing Requirement in Year:</b>		
(Reduction) in underlying need to borrow (unsupported by governmental financial assistance)	(371)	(368)
(Reduction) relating to assets acquired under Finance Leases	(164)	(159)
(Reduction) relating to assets acquired under Embedded Leases	(337)	(347)
<b>Total (Decrease) in Capital Financing Requirement</b>	<b>(872)</b>	<b>(874)</b>

### 39. Long-Term Debtors – Other

Long-Term debtors are those that fall due after a period of at least one year. They include advances to private individuals for either purchase or refurbishment of their homes including disabled adaptations, loans to employees, advances to private sector tenants to assist with their housing needs, a payment in respect of future acquisition of equipment at the Leisure Centres and interest free loans, (classed as 'soft loans'). The Code sets out specific accounting requirements for soft loans and these are shown at their impaired value. More detail on soft loans, are contained in the Financial Instruments note 52 'Loans and Receivables'.

	31 March 2013 £'000	31 March 2012 £'000
Assisted car purchase loans	177	192
Housing repair loans	2,140	2,164

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

	31 March 2013 £'000	31 March 2012 £'000
Homelessness prevention loans	27	55
Private street works	8	9
Payments in advance under leisure contract	356	356
Interreg regeneration project	13	0
West Faversham Community Association	12	12
Mortgages	22	51
Rent deposit scheme – gross debt	311	560
Rent deposit scheme – allowance for bad debts	(253)	(444)
<b>Total</b>	<b>2,813</b>	<b>2,955</b>

### 40. Assets Held for Sale

This is an asset that is available for immediate sale, and is actively being marketed. It is defined as a non-current asset because it is not expected to be sold within one year.

### 41. Cash and Cash Equivalents

	31 March 2013 £'000	31 March 2012 £'000
Cash in hand / (cash overdrawn)	390	1,183
Short-term investments – same day access	9,950	2,000
Short-term investments – Money Market Funds	0	5,423
<b>Total Cash and Cash Equivalents</b>	<b>10,340</b>	<b>8,606</b>

### 42. Short-Term Debtors and Payments in Advance

	31 March 2013 £'000	31 March 2012 £'000
Central government bodies	666	463
National Non Domestic Rates	814	0
Other local authorities	1,465	1,326
NHS Bodies	4	1
Bodies external to general government	1,930	1,814
Payments in advance	287	226
<b>Total</b>	<b>5,166</b>	<b>3,830</b>

### 43. Short-Term Creditors and Receipts in Advance

	31 March 2013 £'000	Restated 31 March 2012 £'000
Central government bodies	(332)	(1,086)
National Non Domestic Rates	0	(3,988)
Other local authorities	(1,887)	(1,063)
Public corporations and trading funds	(23)	(32)
Bodies external to general government	(2,323)	(3,785)
Other receipts in advance	(117)	(135)
<b>Total</b>	<b>(4,682)</b>	<b>(10,089)</b>

The above table has been restated as at 31 March 2012 as Grants Receipts in Advance (£474,000) are now shown separately on the Balance Sheet. Please refer to note 24.

### 44. S106 Deferred Revenue Receipts

Section 106 of the Town and Country Planning Act 1990, and Section 278 of the Highways Act 1980 permits local planning authorities to enter into enforceable 'planning obligations' with landowners and/or developers.

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

Each agreement has a deed setting out its purpose. Each agreement has been examined to determine when assets and liabilities need to be recognised on the Balance Sheet or income should be recognised.

	Balance as at 1 April 2012 £'000	In Year £'000	Credited to Revenue £'000	Balance as at 31 March 2013 £'000
<b>Balance Brought Forward</b>	(960)	0	0	(960)
Interest	0	(5)	0	(5)
Receipt in year	0	(349)	0	(349)
Credited to revenue	0	0	125	125
<b>Total</b>	(960)	(354)	125	(1,189)

### 45. Deferred Liabilities

Deferred liabilities relate to four items:

- 1) an arrangement with the Council's contractor for leisure management who has agreed to provide phased capital expenditure of £1.826 million at the leisure centres over the 15-year life of the contract. The Council is committed to make regular monthly payments for 15 years to cover repayment of this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. The contract is due to end in 2019/20;
- 2) a finance lease was entered into with the Council's contractor for refuse collection for capital expenditure of £0.98 million on new wheeled bins. The Council is committed to make regular monthly payments until 2013/14 to cover repayment of this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure;
- 3) a credit sale agreement was taken out for £250,000 in 2009/10 to purchase various equipment for Swallows Leisure Centre. Under the terms of the agreement, the Council is committed to make regular monthly payments for ten years to cover this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure; and
- 4) the deferred liabilities for embedded leases i.e. finance leases representing the value of Vehicles, Plant, Furniture and Equipment that is deemed to be for the exclusive use by the Council for its refuse and grounds maintenance contractors.

	31 March 2013 £'000	31 March 2012 £'000
Due within one year	(270)	(303)
Due after more than one year	(1,328)	(1,935)
<b>Total</b>	(1,598)	(2,238)

### 46. Capital Grant Receipts in Advance

	1 April 2012 £'000	New Grants (Conditions of Use Not Met) £'000	Capital Grants Repaid £'000	Released to CI&E (Conditions Met) £'000	31 March 2013 £'000
Section 106	(2,034)	(189)	0	84	(2,139)
Disabled Facilities Grant	0	(1,039)	0	1,039	0
CCTV	(96)	13	0	0	(83)
Stronger Communities	(41)	0	0	0	(41)
Coast Protection	(54)	0	0	0	(54)

## NOTES TO THE CORE FINANCIAL STATEMENTS – BALANCE SHEET

	1 April 2012 £'000	New Grants (Conditions of Use Not Met) £'000	Capital Grants Repaid £'000	Released to CI&E (Conditions Met) £'000	31 March 2013 £'000
Miscellaneous external contributions.	(9)	(3)	0	0	(12)
Miscellaneous government grants	(61)	26	0	(13)	(48)
<b>Total</b>	<b>(2,295)</b>	<b>(1,192)</b>	<b>0</b>	<b>1,110</b>	<b>(2,377)</b>

The Capital Grants Receipts in Advance account is a creditor account used for grants and contributions where conditions are outstanding. This account is used for the funding of future capital expenditure.

Section 106 receipts are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent only in accordance with the agreement concluded with the developer. The major balances of section 106 receipts held during the year were as follows:

	1 April 2012 £'000	Expenditure £'000	Income £'000	31 March 2013 £'000
Housing	(555)	0	40	(515)
Play Areas	(997)	40	176	(781)
The Meads Community Centre	(409)	0	10	(399)
Open Spaces	0	0	(280)	(280)
Town Centre Improvements	0	0	(102)	(102)
Other	(73)	44	(33)	(62)
<b>Total</b>	<b>(2,034)</b>	<b>84</b>	<b>(189)</b>	<b>(2,139)</b>

Revenue sums not yet applied are held as a deferred revenue receipt (note 44) where the purpose set out in the planning permission is a revenue activity.

### 47. Provisions

In 1992 the main insurer for Local Authorities, Municipal Mutual Insurance Ltd (MMI), declared that it would be going into “run off” which is similar to a company going into administration. MMI then negotiated a “Scheme of Arrangement” with its creditors of which Swale Borough Council is one. The Scheme allowed MMI to claw back the value of claims paid on behalf of scheme creditors from 1 October 1992 if the Directors of MMI could not foresee a solvent run off of the Company. A letter from MMI in 2012 stated that the Scheme was to be triggered. The control of the Company transferred to the Scheme Administrator who undertook a review of the company’s financial position and determined the level and timing of the initial levy under the claw back arrangements. The main reason for the triggering of the scheme was the loss in the Supreme Court of a legal case where the effect of the ruling was that the MMI policies must cover claims that arise from historic or long-term injury or illness (such as those involving asbestos related conditions). The Scheme Administrator has stated that the initial level of the claw back would be 15% of the value of total claims payments at 31 March 2013 (£132,089.77), less the first £50,000 of claims payment, resulting in an estimated Levy as at 31 March 2013 of £12,000. The Scheme Administrator will continue to review the Levy percentage once every 12 months and therefore the rate may change. The Council has a provision of £82,000 to cover this risk. The Scheme Administrator stated that: “...the projections are subject to substantial uncertainty. It is not possible to guarantee that the initial levy percentage of 15% will be sufficient or indeed the remaining liabilities will fall within the range projected.”

During 2011/12, the Council entered into an agreement with a Trust to act as a guarantor against a loan in their name, secured on the Trust’s assets. A provision of £68,000 was made to cover the value of the estimated risk

within the agreement. During 2012/13 the Trust repaid part of its loan to the Council and the value of the Trust's asset increased. Due to these factors a provision is no longer considered necessary.

The Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £46,288 plus interest and costs for which provision has been made.

#### **48. Events after the Reporting Period**

The Statement of Accounts was authorised for issue by the Head of Finance on 28 June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date have provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. The financial statements and notes have not been adjusted for any events which took place after 31 March 2013.

The Council has one non-adjusting event after the balance sheet date for the financial year ending 31 March 2013. New arrangements for the retention of business rates come into effect on 1 April 2013. As such, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over to central government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to central government. When local authorities assume these liabilities on 1 April 2013 a provision for their respective share will need to be recognised. The estimated value for these liabilities on 1 April 2013 is £1.17m.

## NOTES TO THE CORE FINANCIAL STATEMENTS – CASH FLOW

### 49. Cash Flow Statement – Operating Activities

The Cash Flows for operating activities include the following sums for interest received and paid:

	2012/13 £'000	2011/12 £'000
Interest received	95	77
Interest paid	(118)	(150)
<b>Total</b>	<b>(23)</b>	<b>(73)</b>

### 50. Cash Flow Statement – Investing Activities

	2012/13 £'000	2011/12 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(194)	(437)
Purchase of short-term investments	(101,588)	(102,967)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	62	40
Long-term loans	0	(13)
Proceeds from short-term investments	109,594	94,967
Other receipts from investing activities	1,334	1,258
<b>Net Cash Inflows/(Outflows) From Investing Activities</b>	<b>9,208</b>	<b>(7,152)</b>

### 51. Cash Flow Statement – Financing Activities

	2012/13 £'000	2011/12 £'000
Council tax and national non-domestic rates adjustments	(4,565)	9,696
Cash payments for the reduction of outstanding liabilities relating to finance leases.	(607)	(590)
<b>Net Cash Inflows/(Outflows) From Financing Activities</b>	<b>(5,172)</b>	<b>9,106</b>

## 52. Financial Instruments

### (a) Financial Instruments – Classifications

A financial instrument is: “Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity”.

The term ‘financial instrument’ covers both financial assets and financial liabilities. Typical financial instruments are:

Liabilities:

- trade payables and other payables;
- borrowings; and
- financial guarantees.

Assets:

- bank deposits;
- trade receivables;
- loans receivable;
- other receivables and advances; and
- investments.

Some types of financial instruments are excluded from the requirements of the Financial Instruments note as they are covered by more specific provisions. These are shown below and are covered in more detail elsewhere in the Council’s Statement of Accounts:

- rights and obligations under leases (disclosure requirements do apply) (note 55);
- employers’ rights and obligations under employee benefit plans (note 56); and
- joint ventures and group accounts (note 54).

Statutory debts do not arise from contracts and are outside the scope of the accounting provisions for financial instruments. Therefore, the following areas have been excluded:

- council tax;
- national non-domestic rates;
- housing benefit overpayments;
- VAT;
- Her Majesty’s Revenue and Customs;
- election reimbursements; and
- grant income accrued at year-end.

Balances in money market funds and call accounts at 31 March 2013 are shown under ‘Cash and Cash equivalents’ in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

### (b) Financial Instruments – Balances

The financial instruments are disclosed in the Balance Sheet at amortised cost and are analysed across the following categories:

**Table 1**

Financial Liabilities	Long-Term		Current	
	2012/13 £’000	Restated 2011/12 £’000	2012/13 £’000	2011/12 £’000
Trade Creditors	0	0	(1,959)	(2,824)
Lease Liabilities	(973)	(1,580)	(270)	(303)
<b>Total Financial Liabilities</b>	<b>(973)</b>	<b>(1,580)</b>	<b>(2,229)</b>	<b>(3,127)</b>

The figure for 2011/12 has been restated to include all lease liabilities.

**NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER**

**Table 2**

Financial Assets	Long-Term		Current	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
<b>Loans and Receivables</b>				
Trade debtors	331	581	610	771
Soft loans	2,167	2,219	42	38
Car loans	177	192	0	0
Mortgages	22	51	0	0
Cash and Cash equivalents	0	0	10,340	3,183
Short-term investments	0	0	0	8,006
<b>Available-for-Sale</b>				
Cash and Cash equivalents	0	0	0	5,423
Bond investment at cost – British Government Stocks	3	3	0	0
<b>Total Financial Assets</b>	<b>2,700</b>	<b>3,046</b>	<b>10,992</b>	<b>17,421</b>

The Council does not pledge collateral for liabilities nor hold collateral that it is permitted to sell or re-pledge. There has been no allowance for credit losses excepting for trade debtors etc. and there have not been any defaults or breaches of financial instruments.

**(c) Material Soft Loans made by the Council**

**Housing Interest Free Loans**

Loans for private sector housing home adaptations – landlords and owner occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. Loans to landlords are repayable after five years whilst owner occupier loans are repayable when a property is sold.

**Table 3**

	2012/13 £'000	2011/12 £'000
<b>Opening Carrying Amount of Soft Loans on 1 April</b>	<b>2,189</b>	<b>2,250</b>
Nominal value of new loans granted during the year	44	0
Loans repaid during the period	(72)	(96)
Impairment losses recognised	2	3
Increase in discounted amount (due to time)	36	40
Other changes	0	(8)
<b>Closing Carrying Amount of Soft Loans at 31 March</b>	<b>2,197</b>	<b>2,189</b>

<b>Nominal Value at 31 March</b>	<b>2,190</b>	<b>2,263</b>
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**Homelessness Prevention Loans**

Loans advanced are to individuals to prevent homelessness. Repayment agreements arranged for each loan are on a case-by-case basis.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

**Table 4**

	2012/13 £'000	2011/12 £'000
<b>Opening Carrying Amount of Soft Loans on 1 April</b>	<b>68</b>	<b>94</b>
Nominal value of new loans granted during the year	13	1
Loans repaid during the period	(56)	(31)
Impairment losses recognised	2	1
Increase in discounted amount (due to time)	0	3
<b>Closing Carrying Amount of Soft Loans at 31 March</b>	<b>27</b>	<b>68</b>

<b>Nominal Value at 31 March</b>	<b>28</b>	<b>70</b>
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### Valuation assumptions

The interest rate used to calculate the fair value of soft loans is arrived at by taking the Council's effective loss on interest receivable over the life of the instrument. No allowance for the risk that the loan might not be repaid has been applied as either a charge is placed on each property (Housing Interest Loans) or a bad debt provision has been made (Homelessness Prevention Loans).

### (d) Gains & Losses on Financial Instruments

The gains and losses recognised in the Comprehensive Income & Expenditure Statement under Financing and Investment Income and Expenditure (see note 20) are as follows:

**Table 5**

	2012/13 £'000	2011/12 £'000
<b>Financial Liabilities</b>		
Interest Costs	118	150
<b>Total Interest Payable</b>	<b>118</b>	<b>150</b>
<b>Financial Assets</b>		
<b>Interest Income:</b>		
<u>Loans and Receivables:</u>		
Fixed Term Deposits and Call Accounts	(72)	(56)
<u>Available-for-Sale:</u>		
Money Market Funds	(23)	(21)
<b>Total Interest</b>	<b>(95)</b>	<b>(77)</b>
<b>Net Loss for the Year</b>	<b>23</b>	<b>73</b>

### (e) Fair Value of Assets & Liabilities

Fair Value is defined in IAS 39 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The Fair Value of a financial instrument on initial recognition is generally the transaction price.

The Council's long-term financial assets and financial liabilities are carried in the Balance Sheet at amortised cost. Their fair value is assessed by calculating the present value of Cash Flows that will take place over the remaining term of the instruments, using the following assumptions:

- the fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules, which provide a good approximation for the fair value of financial instruments, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date. In practice rates will be

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial;

- where an instrument matures within 12 months, the carrying value is assumed to approximate fair value; and
- the fair value of operational liabilities and receivables is taken to be the invoiced or billed amount.

In the case of the Council's investments for 2012/13, these consisted of call accounts, short-term investments and Money Market Funds. None of the investments was impaired (i.e. at risk of default). Fair values have therefore, been assessed as being the same as the carrying amount on the Balance Sheet:

- the Council currently has no long-term borrowings by way of loans;
- where an instrument matures within 12 months, the carrying value is assumed to be an approximation of fair value; and
- the fair value of trade creditors debtors is taken to be the invoiced or billed amount.

Therefore, the fair value for all financial assets and financial liabilities at 31 March 2013 are the same as the carrying amount on the Balance Sheet. Tables 1 and 2 refer.

### (f) Nature and Extent of Risks rising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The Council's overall risk management programme takes account of the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management, is carried out under policies approved by the Council in the annual Treasury Management Strategy.

The Treasury Management Strategy requires frequent review of interest rate exposure that feeds into the setting and monitoring of the annual budget. This allows any adverse changes to be accommodated. The analysis will also advise as to whether new borrowing taken out should be at fixed or variable rates. It is the aim of the Council to minimise interest paid on borrowing and maximise the interest earned on investments but, in the case of investments, protection of the capital sum must take precedence over the rate of return.

The Treasury Management Strategy can be obtained from the Council's website using the following link: <http://www.swale.gov.uk/financial-strategies-documents/>.

The Council provides written principles for overall risk management as well as written policies within its Treasury Management Strategy covering the following risks and the investment of surplus cash balances:

- **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 payment commitments; and
- **Market Risk** – the possibility that a financial gain or loss might arise for the Council due to movements in interest rates, market prices, foreign currency exchange rates, etc.

### **Credit Risk**

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments), and complies with the Prudential Code for Capital Finance in Local Authorities.

Credit Risk arises from deposits with banks and financial institutions (counterparties), as well as credit exposure to the Council's customers. The Council protects the security of the cash it deposits with counterparties using a number of risk management techniques. Principal among these is the evaluation of counterparty risk, which uses a combination of credit ratings and limits on the term and maximum value of any deposits.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

The Council seeks to reduce counterparty risk by adjusting the maximum amounts that may be invested with institutions (i.e. revising counterparty limits downwards) and reducing the term of investments for smaller institutions (i.e. investments are not placed with banks and financial institutions unless they have a minimum independent score of A- (long-term) or equivalent). For term deposits and call accounts, the Council has a policy of only investing with UK banks and building societies including those that participated in the UK government's recapitalisation scheme.

Investments are restricted to £2 million with any one counterparty for Money Market Funds and £4 million for Banks and Building Societies, with a £6 million limit per banking group. Money Market Funds must have a minimum AAA rating and have a constant net asset value. The maximum duration of investments with any counterparty is 364 days.

In any period of significant stress in the market, the default position will be for all investments to be made with the Debt Management Office (UK government).

Any revisions to the counterparty limits for individual institutions are made through case-by-case assessments, taking into account information available in the financial markets and the advice of the Council's treasury consultants. The Council has a policy of lending which is specified in detail within the annual Treasury Management Strategy Report which is approved by the Council. The Council has not experienced any default on its deposits with banks and building societies over the last five financial years. The Council does not have any funds with Icelandic banks.

The Council regularly monitors collection rates, and has consistently recovered over 97% of Council Tax and 96% of Business Rates. The Council reports these collection rates as part of the Council's performance management statistics.

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2013. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met that criterion at 31 March 2013.

**Table 6**

Counterparty/Country	Long-Term Rating	Balance Invested at 31 March 2013 £'000		
		Up to 1 month	Greater than 1 month and less than 3 months	Total £'000
<b>Banks – UK</b>				
Royal Bank of Scotland	A3	4,000	0	4,000
Lloyds Bank	A2	4,000	0	4,000
Santander UK PLC	A2	1,950	0	1,950
<b>Total Banks</b>		<b>9,950</b>	<b>0</b>	<b>9,950</b>

The ratings above are from Moody's ratings. The long-term rating is the benchmark measure of probability of default. The default based on the experience gathered over the last five financial years is nil and the default adjusted for current market conditions is nil. Therefore, the estimated maximum exposure to default is nil as at 31 March 2013 (nil as at 31 March 2012).

The Council does not expect any losses in respect of non-performance by counterparties in relation to deposits. The Council has no historical experience of counterparty default.

### **Trade Receivables**

The following analysis summarises the Council's potential maximum exposure to credit risk, based on the experience gathered over the last five financial years on the level of default on debtors, adjusted for current market conditions.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

**Table 7**

	Value at 31 March 2013 £'000	Average Debt Impairment Provision Last 5 Years %	Debt Impairment Provision in 2012/13 %	Debt Impairment Provision for 2012/13 £'000
<b>Customers:</b>				
Current trade debtors	610	38.55	16.95	(103)
Long-term trade debtors	331	N/A	76.55	(254)
<b>Total</b>	<b>941</b>	<b>38.55</b>	<b>37.96</b>	<b>(357)</b>

The Council allows 30 days credit for current sundry debt customers, such that £492,000 of the £610,000 total current debtor balance is past its due date for payment (£347,000 of the £771,000 at 31 March 2012).

The past due date can be analysed by age as follows:

**Table 8**

	Value at 31 March 2013 £'000	Value at 31 March 2012 £'000
Less than 2 months	335	36
2 to 6 months	52	118
6 months to 1 year	15	26
More than 1 year	90	167
<b>Total</b>	<b>492</b>	<b>347</b>

### **Financial Guarantees**

During 2011/12, the Council entered into one agreement with a Trust to act as a guarantor against a loan in their name, secured on the Trust's assets. Consideration has been given to the probability of the guarantee being called and the likely amount payable under the guarantee. As such, no provision has been made in 2012/13 to cover the value of the estimated risk within the agreement. This arrangement will be reviewed annually. Further details can be found in note 47.

### **Liquidity Risk**

As the Council can access borrowing from the PWLB, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council's strategy sets both an authorised limit for external borrowing (£5 million) and an operational boundary for external borrowing (£4 million) and to only borrow for cash flow purposes for periods less than 364 days. There are no other identified borrowing requirements in place at 31 March 2013.

The Council's limits for the maturity structure of fixed rate borrowing is shown below:

**Table 9**

<b>Maturity Structure of Fixed Rate Borrowing During 2012/13</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
under 12 months	100%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

The Council had no outstanding short or long-term borrowing at 31 March 2013.

All current liabilities are due to be repaid within one year and all trade creditors are current.

The maturity analysis of trade creditors within financial liabilities is as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

**Table 10**

	Value at 31 March 2013 £'000	Value at 31 March 2012 £'000
Less than 1 year	1,959	2,824
<b>Total</b>	<b>1,959</b>	<b>2,824</b>

### **Market Risk**

#### **Interest Rate Risk**

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income & Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Comprehensive Income & Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income & Expenditure Statement.

If all interest rates had been 1% higher (with all other variables held constant), the financial effect would be an increase in interest receivable on variable rate investments of £200,000.

The Council carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Updated forecasts within the mid year treasury monitoring report allow any significant changes to interest rates to be reflected in current budget projections. The Treasury Management Strategy also advises on the limits for new variable and fixed rate borrowing for the year, although in 2012/13 there were no proposals to take out any new borrowing, and investments are all short-term.

As investments are made at fixed rates, but for shorter periods, there is greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

#### **Price Risk**

The Council holds only minimal investments in UK government bonds and therefore is not exposed to any significant gains or losses arising from movements in the price of these bonds. As at 31 March 2013 these bonds were valued at cost at £3,000.

### **53. Related Party Transactions**

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

### **Central Government**

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Unringfenced grants received from government departments are set out in note 24 and grants received from government are shown in note 29 on reporting for resources allocation decisions.

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members; allowances paid in 2012/13 is shown on note 25. During 2012/13, no works and services were commissioned from companies in which members had an interest. No grants were made to organisations whose senior management included close members of the families of members. The Council maintains a Register of Members' Interests, which is open to public inspection at the Council offices during office hours.

There has been an approach to elected members and senior management seeking from them a declaration that neither they, nor close family nor anyone in the same household have been involved in any material transactions with the Council. Returns were received from all members and senior officers.

### **Officers**

During 2012/13, no officers declared a pecuniary interest in accordance with section 117 of the Local Government Act 1972.

### **Other Public Bodies**

On 1 October 2007, the Building Control Unit transferred to the South Thames Gateway Building Control Partnership (STGBCP), along with the respective units of Medway Council and Gravesham Borough Council. Previously, the accounting had been to treat this activity as a Joint Arrangement that is Not an Entity (JANE) and the Council's accounts reflected the Council's share of the STGBCP's income, expenditure, assets and liabilities for the period. However, from 2012/13 the accounts reflect the amount paid to the STGBCP for building control activities. The balances brought forward on the Balance Sheet for JANE entries have been reversed in 2012/13 and conflated as a total of £85,000.

### **Entities Controlled or Significantly Influenced by the Council**

Payment of subsidy of £80,000 was made to Faversham Pool in 2012/13 (revenue grant of £80,000). The Trust is deemed to be influenced significantly by the Council through its representation on the Trust board.

During 2012/13 the Council entered into an agreement to transfer the ownership and management of the Alexander Centre to a board of trustees. The Council is supporting the board in the transitional phase of the new arrangements.

It is our opinion that none of the above transactions have the ability to influence the Council's decisions or priorities. We have therefore considered these not to be material.

### **54. Group Accounts**

The Code contains detailed requirements for the production of group accounts and a review was undertaken to identify any subsidiaries, associates, or joint ventures, which would establish whether a group relationship exists for the purposes of the Council's Statement of Accounts.

With regard to the Faversham Swimming Pool Management Committee (FSPMC), as the Council appoints the majority of the governing body, it falls within the definition of a subsidiary. However, as the grant from the Council to FSPMC amounted to £80,000 in 2012/13, it is considered that this exposure to risk is not material. Accordingly, group accounts have not been prepared. The FSPMC is a charitable trust, which operates a swimming pool complex for the benefit of local residents.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

It is our opinion that the Council's exposure to risk because of the above grant of £80,000 is not material in comparison to the Council's net cost of services of £18.1 million.

The FSPMC accounts for 2012/13 are due to be approved in August 2013 after which details will be given of revenue income and expenditure and net assets.

The latest accounts of the Committee can be obtained from the Charity Commission as follows:

Post Charity Commission Direct, P.O. Box 1227, Liverpool L69 3UG  
Telephone 0845 3000 218 Website [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

### 55. Leases

#### Disclosures in Relation to Finance Leases – Council as Lessee

##### Finance Leases

The Council took out a finance lease in 2007/08 for blue recycling bins and glass caddies. This finance lease arrangement was in three phases and the total numbers acquired under this arrangement was 51,000 bins and 51,000 glass caddies. The lease payments are being made over the life of the contract. The rentals paid in 2012/13 were £171,200 charged to the Comprehensive Income & Expenditure Statement as £7,400 finance costs (debited to interest payable) and £163,800 relating to the write-down of obligations to the lessor (debited as part of the appropriation to Capital Adjustment Account (note 12) in the Movement in Reserves Statement). As at 31 March 2013, the outstanding principal sum was £118,800.

The Council reports the following values of assets as held under finance leases, within Property, Plant and Equipment on the Balance Sheet.

	31 March 2013 £'000	31 March 2012 £'000
Gross value	930	930
Accumulated depreciation	(660)	(526)
<b>Net Value</b>	<b>270</b>	<b>404</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2012/13 £'000	2011/12 £'000
Finance lease liabilities:		
Current	119	164
Non-current	0	119
Finance costs payable in future years	3	10
<b>Minimum Lease Payments</b>	<b>122</b>	<b>293</b>

	Minimum Lease Payments		Finance Lease Liabilities	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Not later than 1 year	122	171	119	164
Later than 1 year and not later than 5 years	0	122	0	119
<b>Total</b>	<b>122</b>	<b>293</b>	<b>119</b>	<b>283</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

### Disclosures in Relation to Operating Leases – Council as Lessee

#### Operating Leases

Plant and equipment – as at 31 March 2013 the Council had eleven vehicles on a contract hire-operating lease basis. During 2012/13 the Council entered into six new leases to replace part of its existing fleet, and all of the staff lease vehicles have now terminated. The Council is committed to making payments of £23,500 in 2013/14 and onward as detailed below. This commitment is expected to expire in 2015/16.

The amount paid under these arrangements in 2012/13 was £31,200.

	2012/13 £'000	2011/12 £'000
Not later than 1 year	24	13
Later than 1 year and not later than 5 years	44	5
<b>Total</b>	<b>68</b>	<b>18</b>

The expenditure charged to the Net Cost of Services in the Comprehensive Income & Expenditure Statement during the year in relation to these leases was:

	2012/13 £'000	2011/12 £'000
Minimum lease payments	24	32
<b>Total</b>	<b>24</b>	<b>32</b>

### Disclosures in Relation to Operating Leases – Council as Lessor

The Council holds a number of operating leases with third parties. The following table details the main classifications of usage within the portfolio:

Asset	Rentals Payable 2012/13 £'000	Rentals Payable 2011/12 £'000
Business premises	354	367
Industrial units	142	325
Community and charity usage	249	57
Sporting facilities	3	22
Other	22	1
<b>Total</b>	<b>770</b>	<b>772</b>

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

	2012/13 £'000	2011/12 £'000
Not later than 1 year	167	184
Later than 1 year and not later than 5 years	151	71
Later than 5 years	452	517
<b>Total</b>	<b>770</b>	<b>772</b>

### Disclosures in Relation to Embedded Leases – Council as Lessee

Vehicles used within the grounds maintenance contract and the cleansing contract are accounted for as 'embedded leases'.

The asset, net of depreciation is therefore shown within non-current assets and the notional liability within long-term liabilities. The asset value is depreciated over the life of the vehicles equivalent to the calculated notional lease repayment.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

	2012/13 £'000	2011/12 £'000
Value of embedded lease assets, net of depreciation	365	702
Notional long-term liability	(365)	(702)

The notional gross investment is made up of the following amounts:

	2012/13 £'000	2011/12 £'000
Finance lease liabilities	365	702
Gross investment in the lease	365	702

The notional gross investment in the lease and the minimum lease payments will be accounted for over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Not later than one year	57	380	63	403
Later than 1 year and not later than 5 years	4	57	4	63
Later than five years	0	4	0	4
<b>Total</b>	<b>61</b>	<b>441</b>	<b>67</b>	<b>470</b>

### 56. Defined Benefit Pension Scheme

#### (a) Participation in pensions schemes

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

The Council is a member of the Local Government Pension Scheme (LGPS) which is administered on its behalf by KCC. The LGPS is a national scheme that is administered locally - all employees have the right to join and the Council cannot prevent this. The scheme is a final salary one, with the pension benefits being determined based upon final salary and length of service. Employee contribution rates are set by Government and range from 5.5% to 7.5% and the fund actuary, Barnett Waddingham, sets the employer contribution rate. This is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets. The fund provides index linked pensions and other retirement benefits based upon employees final pay and length of service.

The Fund is valued once every three years and the latest valuation was at 31 March 2010. The valuation disclosed a net deficit of £17.5 million i.e. projected liabilities exceed assets. The next actuarial valuation is due to take place on 31 March 2013 and the change in contribution rates as a result of that valuation are to take effect from 1 April 2014. All local authority funds are in deficit and all local authority employers in the Kent Fund are in deficit. The employer's contribution has been agreed with the Actuary and is based on the aim of eliminating the deficit over 20 years.

#### (b) Revenue transactions relating to retirement benefits

The costs of retirement benefits are recognised in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and General Fund Balance via the Movement in Reserves Statement during the year:

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

	2012/13 £'000	2011/12 £'000
<b>Comprehensive Income &amp; Expenditure Statement Cost of Services</b>		
Current service cost	1,728	1,351
Settlements/Curtailments	111	(2)
<b>Financing and Investment Income &amp; Expenditure</b>		
Interest cost	4,097	4,249
Expected return on assets in the scheme	(2,925)	(3,469)
Total post employment benefit charges to the surplus or deficit on the provision of services	<b>3,011</b>	<b>2,129</b>
<b>Other Post Employment Benefit Charges to Comprehensive Income &amp; Expenditure Statement</b>		
Actuarial gains and (losses)	(3,301)	(12,355)
Total post employment benefit charged to the Comprehensive Income & Expenditure Statement	<b>(290)</b>	<b>(10,226)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the surplus or deficit for post employment benefits in accordance with the Code	(3,011)	(2,129)
<b>Actual Amount Charged Against the General Fund Balance for Pensions in the Year</b>		
Employers' contributions payable to scheme	2,427	2,435

The cumulative amount of actuarial losses recognised in the year to 31 March 2013 is £28.86m.

### (c) Assets and liabilities in relation to retirement benefits

See note 15 for the details of the movement of assets and liabilities.

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 (interest plus capital gain) 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 a gain of £7.32m (gain of £1.25m in 2011/12) (see note 15 expected return on assets plus actuarial gains on assets).

### (d) Pension scheme history

The underlying assets and liabilities for retirement benefits attributable to the Council are as follows:

	31 March 2013 £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Present value of liabilities in the scheme	(100,828)	(90,693)	(78,280)	(100,520)	(66,840)
Fair value of assets in the scheme	57,455	51,205	50,841	44,720	33,370
<b>(Deficit) in the Scheme</b>	<b>(43,373)</b>	<b>(39,488)</b>	<b>(27,439)</b>	<b>(55,800)</b>	<b>(33,470)</b>
Cumulative Actuarial Losses	(28,863)	(25,562)	(13,207)	(34,817)	(13,437)

The liabilities show the underlying commitments that the Council has in the end to pay post employment (retirement) benefits. The total liability of £43.37m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the LGPS by the Council in 2013/14 is £2.10m.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

### (e) 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 value of the KCC Fund liabilities has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates of the liability are based on the rolled forward value of the employer's liabilities calculated for the triennial valuation of the scheme as at 31 March 2010, allowing for the different assumptions required under IAS19.

Principal Actuary Assumptions	2012/13	2011/12
Long-Term expected rate of return on assets in the scheme:		
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 if retiring today :		
Men	20.1	20.0
Women	24.1	24.0
Longevity at 65 for if retiring in 20 years:		
Men	22.1	22.0
Women	26.0	25.9
Rate of inflation (RPI increases)	3.3%	3.3%
Rate of inflation (CPI Increases)	2.5%	2.5%
Rate of increase in salaries	4.7%	4.7%
Rate of increase in pensions	2.5%	2.5%
Rate of discounting scheme liabilities	4.2%	4.6%
Take-up option to convert annual pension into retirement lump sum	50.0%	50.0%

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

	31 March 2013		31 March 2012	
	£'000	%	£'000	%
Equity investments	40,886	71	37,994	74
Gilts	0	0	513	1
Bonds	7,486	13	5,134	10
Property	4,607	8	4,621	9
Cash	2,173	4	1,916	4
Target return portfolio	2,303	4	1,027	2
<b>Total</b>	<b>57,455</b>	<b>100</b>	<b>51,205</b>	<b>100</b>

### (f) History of experience gains and losses

The actuarial losses identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March:

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Differences between the expected and actual return on assets	7.6	(4.3)	6.2	21.1	(33.1)
Experience gains and (losses) on liabilities	(0.2)	(0.1)	10.1	0.6	0.1

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

### (g) Revision to International Accounting Standard 19

The International Accounting Standards Board have published a final version of the revised IAS19 standard, which will apply for accounting periods beginning on or after 1 January 2013. In summary, the main changes that affect the charges to the Comprehensive Income & Expenditure Account are:

- removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;
- some labelling changes to the Income and Expenditure charge e.g. “service cost” now includes what was previously described as the “current service cost” plus the “past service cost” plus any “curtailments” plus any “settlements”; and
- administration expenses are now accounted for within the cost of services; previously we made a deduction to the actual and expected returns on assets.

The changes set out above are effective for accounting periods beginning on or after 1 January 2013 so do not affect the disclosures for 2012/13. The table below shows what the charges to Income and Expenditure would have been if the revised standard had been applied for this period (see note 2).

	<b>2012/13 £'000</b>
Current service cost	1,839
Net interest on the defined liability	1,760
Administration expenses	45
<b>Total</b>	<b>3,644</b>
<b>Actual Return on Scheme Assets</b>	<b>7,363</b>

### 57. Contingent Liabilities

The position with regard to Municipal Mutual Insurance Ltd (MMI) is detailed in the Provisions note (note 47). The potential exposure to the scheme does not end with the payment of the levy. Future claims payments on our behalf by MMI will only be paid at the reduced percentage following the claw back levy.

A group of property search companies are seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £112,420.02 plus interest and costs. A second group of property search companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

### 58. Contingent Assets

The Council has settled a claim which includes the period 1958-1967 when the insurer was Norwich Union (now known as Aviva) for which a claim is outstanding. However, there is no documentation or other proof for this period and therefore it is prudent to consider only an estimated settlement of £45,450 from Aviva to the Contingent Asset.

### 59. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by N. Vickers, the Head of Finance on 28 June 2013.

### 60. Trust Funds

The Council acts as sole trustee of the Swale Recreation Trust. The funds of the trust do not represent assets of the Council and have not therefore been included in the Balance Sheet.

The Swale Recreation Trust provides facilities for recreation and other leisure occupation in the interest of social welfare with the objective of improving the conditions of life of the inhabitants of the Borough of Swale.

## NOTES TO THE CORE FINANCIAL STATEMENTS – OTHER

The Trust owns land, which is informally valued at £60,600. The annual income and expenditure of the Trust is £3,000. There are no other material assets or liabilities.

The Council administers two other trusts in a third party capacity – The United Charities of Milton Regis and the Charity of Sir William Stede. The financial activities and assets of both are de minimus in relation to the Council's overall activities. In 2012/13 the net expenditure of the United Charities of Milton Regis was £1,851 and the net income of the Charity of Sir William Stede was £333.

The administration of the Queenborough Fishery Trust, previously also undertaken by the Council, was handed over to the Trust's own management in 2011/12.

Further information on all trusts is available via the charity commission website:

<http://www.charitycommission.gov.uk/>

## COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of Swale Borough Council in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and national non-domestic rates (NNDR) (also known as business rates).

		2012/13		2011/12 Restated	
		£'000	£'000	£'000	£'000
<b>Income</b>					
Council tax	1	(58,207)		(57,704)	
Council tax benefits		(11,593)		(11,434)	
			(69,800)		(69,138)
NNDR	2		(37,588)		(40,122)
Previous year's NNDR relief fund			(212)		(214)
<b>Total</b>			<b>(107,600)</b>		<b>(109,474)</b>
<b>Expenditure</b>					
Precepts and demands –	4				
Kent County Council		50,714		50,264	
Swale Borough Council		8,525		8,445	
Kent Police Authority		6,712		6,653	
Kent & Medway Towns Fire Authority		3,289		3,260	
			69,240		68,622
NNDR relief fund			227		212
NNDR – payment to national pool		37,413		39,952	
NNDR – costs of collection		175		170	
			37,588		40,122
Bad and doubtful debts –	5				
Write offs – council tax		285		169	
Provision for non payment – council tax		113		40	
			398		209
<b>Contribution towards previous year's Collection Fund surplus –</b>					
Kent County Council		229		525	
Kent Police Authority		30		69	
Kent & Medway Towns Fire Authority		15		34	
Swale Borough Council		39		88	
			313		716
<b>Total</b>			<b>107,766</b>		<b>109,881</b>
Deficit for the year			166		407
<b>(Surplus) at 1 April</b>			<b>(439)</b>		<b>(846)</b>
<b>(Surplus) at 31 March</b>	3		<b>(273)</b>		<b>(439)</b>

The 2011/12 figure for payment to national pool has been restated to adjust for costs of collection.

### **NOTES TO THE COLLECTION FUND**

#### **1. The Calculation of the Council Tax Base**

The Council Tax is primarily a property based tax and is calculated for an average Band D property by dividing the net expenditure (to be met by the tax) of Kent County Council, Kent Police Authority, Kent & Medway Towns Fire Authority and Swale Borough Council by the Tax Base for Swale which is 48,401.04. This figure is the equivalent number of Band D properties in the area after allowing for the relative proportions payable by all other bands and the fact that some of those properties may pay a reduced amount because of discounts.

## COLLECTION FUND

The Basic Council Tax payable for each band in 2012/13 is listed below:

Band	Basic Tax £	Proportion of Band D Charge	Number of Band D Equivalent Dwellings
A	942.89	6/9	4,951.94
B	1,100.04	7/9	10,438.20
C	1,257.19	8/9	12,916.64
D	1,414.34	9/9	9,204.94
E	1,728.64	11/9	5,749.28
F	2,042.94	13/9	3,126.12
G	2,357.23	15/9	1,826.15
H	2,828.68	18/9	187.77
<b>Total</b>			<b>48,401.04</b>

Additional amounts are payable for precepts levied by the Parish and Town Councils within the borough.

The level of non-payment provided for in 2012/13 was 0.8%. The original anticipated income = 48,401.04 x £1,430.54 (band D plus average parish precept) = £69,239,624. The actual income was £69,799,695. The difference is attributable to an increase in the number of properties in the borough.

### 2. Income Collectable from Business Ratepayers

Non-domestic rates are organised on a national basis. The government specifies a rate poundage and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The rate poundage set for 2012/13 was 45.8p (2011/12 was 43.3p). Small businesses have a lower rate poundage of 45.0p (2011/12 was 42.6p). The Council is responsible for collecting the rates due from the ratepayers in its area but pays the proceeds into a NNDR Pool administered by the government. The government redistributes the sums paid into the Pool back to local authorities based on a fixed amount per head of population.

The business rate income, after reliefs and provisions, was £37.6 million for 2012/13 (£40.1 million for 2011/12). The rateable value for the Council's area at the end of the financial year 2012/13 was £107.9 million (£104.6 million in 2011/12).

### 3. Collection Fund Surplus/ Agency Arrangements

The Collection Fund surplus at 31 March 2013 of £273,600 relates solely to council tax.

Swale Council's element of the surplus (£33,800) is shown in the Balance Sheet as the Collection Fund Adjustment Account. The Movement in Reserves Statement shows the additional amount credited to the account for the year 2012/13 (note 5 to the Core Financial Statements). Amounts relating to precepting authorities are shown in the Balance Sheet as creditors (for prepaid or overpaid council tax) or as debtors (for council tax arrears). This reflects that billing authorities are acting as agents of the precepting authorities.

### 4. Significant Precepts and Demands on the Collection Fund

The names of preceptors are disclosed on the face of the Collection Fund Statement.

Parish & Town Councils	2012/13 £'000	2011/12 £'000	Parish & Town Councils	2012/13 £'000	2011/12 £'000
Bapchild	7,000	6,500	Minster	105,431	103,120
Bobbing	10,500	10,500	Newington	33,486	28,386
Borden	38,026	38,026	Newnham	1,500	2,000
Boughton-under-Blean	43,088	42,485	Norton & Buckland	5,089	5,598
Bredgar	9,000	9,000	Oare	8,400	8,400
Doddington	6,750	7,500	Ospringe	4,500	4,500
Dunkirk	12,125	10,750	Queenborough Town Council	43,000	40,500
Eastchurch	23,700	23,700	Rodmersham	5,000	5,000

## COLLECTION FUND

Parish & Town Councils	2012/13 £'000	2011/12 £'000	Parish & Town Councils	2012/13 £'000	2011/12 £'000
Eastling	2,686	2,686	Selling	7,660	7,683
Faversham Town Council	197,382	195,946	Sheldwich, Leaveland, Badlesmere	8,600	6,700
Graveney & Goodnestone	5,848	6,710	Stalisfield	2,300	2,050
Hartlip	5,000	5,000	Teynham	47,980	42,830
Hernhill	6,500	6,500	Throwley	3,166	3,321
Iwade	29,500	29,500	Tonge	1,600	1,900
Leysdown	25,500	29,982	Tunstall	8,445	8,445
Lower Halstow	19,233	19,233	Upchurch	25,023	24,996
Luddenham	0	0	Warden	16,000	16,000
Lynsted	13,049	15,000			
Milstead	2,000	2,000	<b>Total</b>	<b>784,067</b>	<b>772,447</b>

### 5. Debt Impairment

The following provisions have been made against the possible non-collection of debt relating to the Collection Fund:

	2012/13 Council Tax £'000	2011/12 Council Tax £'000	2012/13 NNDR £'000	2011/12 NNDR £'000
Balance brought forward 1 April	(980)	(940)	(1,443)	(2,597)
Less amounts written off	285	169	1,439	316
(Increase)/ decrease in Provision	(398)	(209)	(1,593)	838
<b>Balance at 31 March</b>	<b>(1,093)</b>	<b>(980)</b>	<b>(1,597)</b>	<b>(1,443)</b>

Council Tax bad debt provision was based on an analysis of the age of the debt and their recovery stage plus applying an additional percentage of non-payment to the total tax due less the write-offs in year. At 31 March 2013 the total Council Tax outstanding debt was £3.9 million of which debt 1 year old was £1.6 million, debt between 2 to 5 years old was £1.8 million and debt over 5 years old was £0.5 million.

The provision for NNDR debt is based on an assessment of each debt in respect of each financial year since 1995/96. The bad debt provision took into account the recovery action, receivership/administration arrangements and potential absconders.

## ANNUAL FINANCIAL REPORT - GLOSSARY

Accounting Policies	Accounting policies define the process whereby transactions and other events are reflected in financial statements.
Accruals	The inclusion of outstanding debtors and creditors in the year's income, expenditure and capital expenditure.
Appropriation	An Appropriation is a transfer of resources between reserves.
Asset	An item having value measurable in monetary terms. Assets can either be defined as non-current or current. A non-current asset has use and value for more than one year where a current asset can readily be converted into cash.
Balance Sheet	A summary of all the assets, liabilities, funds, reserves, etc. of the Council.
Service Expenditure Reporting Code Of Practice (SeRCOP)	This provides guidance on the content and presentation of the costs of service activities.
Billing Council	A local Council charged by statute with the responsibility for the collection of and accounting for Council Tax, NNDR and residual Community Charge. Swale Council is a billing Council.
Budget	The Council's aims and policies set out in financial terms against which performance is measured. Both capital and revenue budgets are prepared.
Capital Expenditure	Expenditure on the acquisition of a non-current asset or expenditure, which adds to and not merely maintains the value of an existing non-current asset.
Capital Financing	The raising of money to pay for capital expenditure, including borrowing, revenue financing, usable capital receipts, capital grants and capital contributions.
Capital Programme	The capital schemes the Council intends to carry out over a specified time period.
Capital Receipts	The proceeds of the sale of capital assets.
Cash and Cash Equivalents	The most liquid assets found within the asset portion of the Balance Sheet.
Code of Practice on Local Council Accounting in the United Kingdom 2012/13 (The Code)	This specifies the principles and practices of accounting required to prepare a Statement of Accounts which presents "a true and fair view" of the financial position and transactions of the Council.
Collection Fund	A separate fund maintained by a billing Council which records the expenditure and income relating to Council Tax, non-domestic rates and residual community charges.
Community Assets	Non-current assets that the local Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal.
Comprehensive Income & Expenditure Statement	This Account records all the income the Council has received to fund the day-to-day expenditure on the services it has provided during the financial year.
Contingent Assets	A contingent asset is a possible asset arising from past events whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the local Council's control.
Contingent Liability	Either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the Council's control; or, a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required.
Council Tax	A local tax set by local authorities in order to finance their budget requirement. The level set by a Council will be dependent on its net expenditure in relation to its Formula Grant.

## ANNUAL FINANCIAL REPORT - GLOSSARY

Creditor	Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.
Current Assets	An asset held which will be used or received within the next financial year.
Debtor	Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.
Defined Benefit Scheme	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.
Depreciation	The measure of the cost or revalued amount of the benefits of the non-current assets that have been consumed during the period.
Discretionary Benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers.
Estimation Techniques	The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.
Exceptional Items	These relate to events or transactions that are material in terms of the Council's overall expenditure but are not expected.
Fair Value	The Fair Value of a non-current asset is the price at which an asset could be exchanged in an arms length transaction, less, where applicable, any grants received towards the purchase or use of the asset.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.
General Fund	This is the main reserve account for the Council and is a statutory account for council tax setting purposes.
Government Grants	Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Council in return for past or future compliance with certain conditions relating to the activities of the Council.
Heritage Assets	A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained by the Council principally for its contribution to knowledge and culture.
Impairment	A reduction in the value of an asset below its carrying amount on the Balance Sheet.
Income	Monies received or due from rents, fees and charges for services, specific grants and investment interest.
Infrastructure Assets	Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created.
Intangible Assets	These are non-financial fixed assets that do not have physical substance but are identifiable and controlled by the Council through custom legal rights (e.g. computer software).
International Financial Reporting Standards	Guidelines and rules set by the International Accounting Standards Board (IASB) that companies & organisations can follow when compiling financial statements.
Investment Properties	Interest in Land and/or buildings in respect of which construction work and development have been completed; and, which is held for its investment potential, with any rental income being negotiated at arm's length.

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Liabilities	Amounts which will become payable by the Council in the short or long-term.
Materiality	A threshold quality ensuring that information is of such significance as to justify its inclusion in the Statement.
National Non-Domestic Rates	National Non-Domestic Rate is a standard rate in the pound set by the government on the assessed rateable value of properties used for business purposes.
Net Expenditure	Gross expenditure for a service less directly related income.
Net Realisable Value	The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.
Non-Current Assets	Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.
Non-Operational Assets	Non-current assets held by a local Council but not used or consumed in the delivery of services or for the service or strategic objective of the Council.
Operating Lease	A lease where the ownership of the non-current asset remains with the lessor.
Operational Assets	Non-current assets held and occupied, used or consumed by the local Council in the direct delivery of those services for which it has either a statutory or a discretionary responsibility or for the service or strategic objectives of the Council.
Outturn	The actual results for the financial year in question.
Precept	The levy made by those authorities which do not run the local taxation system, e.g. county councils, on those authorities which do so, e.g. districts, requiring them to collect the required income from local taxpayers on their behalf.
Projected Unit Method	An accrued benefits valuation method in which the pension scheme liabilities make allowance for projected earnings.
Property, Plant, Furniture and Equipment	An asset that is vital to business operations but cannot be easily liquidated. The value of property, plant, furniture and equipment is depreciated over the estimated life of the asset as even the longest-term assets become obsolete or useless after a period of time.
Provision	An amount set aside for liabilities or losses that are certain to arise but owing to their inherent nature cannot be quantified with any certainty.
Recharge	An internal charge made by one Service in respect of services provided for another.
Reserves	The accumulation of surpluses and deficits over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council.
Revenue Expenditure Funded From Capital Under Statute (REFCUS)	Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in a non-current asset on the Balance Sheet. Such expenditure is charged to the Comprehensive Income & Expenditure Statement.
Soft Loans	Loans made below prevailing interest rates and include loans made to organisations that undertake activities that the Council considers benefits the local population.
Useful Economic Life	The period over which the Council derives benefits from the use of a non-current asset.

## **BACKGROUND AND SCOPE OF RESPONSIBILITY**

Swale Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and 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 services, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Members and senior officers are responsible for putting in place proper arrangements for the governance of Swale Borough Council's affairs, the stewardship of the resources at its disposal, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

In April 2013 Cabinet agreed a new 'Local Code of Corporate Governance' reflecting the CIPFA/SOLACE 'Delivering Good Governance' document published in late 2012. The documents considered how the Council was performing against the principles identified.

This statement explains how Swale Borough Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of the Annual Governance Statement.

Swale Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and management of risk.

This is a corporate document owned by all senior officers and Members of the Council.

## **THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The Governance Framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled, and the activities through which it accounts to, engages with, and leads the community. It enables the authority to monitor 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 based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's aims and objectives, to evaluate the likelihood and the impact of those risks should they be realised, and to manage them efficiently, effectively and economically. The system is designed to manage risk to a reasonable level – it cannot eliminate all risk of failure to achieve stated aims and objectives, and can therefore only provide reasonable rather than absolute assurance of effectiveness.

The Governance Framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of the Annual Statement of Accounts.

## **THE GOVERNANCE FRAMEWORK**

### **Introduction**

This section of the Statement sets out the key issues for the Council in the year relating to the overall governance arrangements. Its focus is on changes in the year rather than restating the core governance arrangements of the Council.

In May 2011 for the first time the Council held all out elections which returned 32 Conservatives, 13 Labour, 1 Liberal Democrat and 1 Independent. The Conservatives then formed the governing Administration working under the 'Strong Leader' model.

### **Vision and Corporate Priorities**

A new Corporate Plan was agreed by Cabinet in April 2012 and Council in May 2012. The Council's three strategic priorities are:

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- Embracing Localism – demonstrating how we (the Council) will embrace the localism agenda whilst empowering individuals and communities to take more responsibility for their own futures;
- Open for Business – working with the private sector and other public service partners to create the conditions for growth and to promote a positive image for the Borough; and
- Healthy Environment – nurturing the place which is Swale in its broadest sense, both a physical place and as a community.

An annual refresh report was made to Cabinet in February 2013 as the next full rewrite of the Corporate Plan is not due until 2015. The refresh showed substantial progress being made.

### Management Processes

There have been limited changes to the senior management structure of the Council in the year. The Interim Head of Legal has been replaced with a permanent Head of Legal Partnership and the Head of Planning also now covers that post at Tunbridge Wells Borough Council-both changes reflecting the Council's commitment to partnership working. The weekly meeting of the Strategic Management Team is still at the heart of the management process of the Council; links to the broader Head of Service tier have been strengthened by a monthly joint SMT/Heads of Service meeting now known as the Corporate Leadership Team.

The structure of a monthly team brief and quarterly Third Tier Manager and four-monthly all Staff Briefings has also been maintained. The staff engagement forum, the Staff Panel, with representatives of staff meeting with the Chief Executive on a regular basis has continued.

During the Head of Human Resource and Development took the lead in developing a new set of corporate values. The corporate values are:

- Fairness
- Integrity
- Respect
- Service
- Trust

To embed the FIRST values a set of interactive exercises were developed for each value which were then undertaken at team meetings or staff meetings.

A Pay Policy Statement has been published.

### Performance Management

For 2012/13 the Council had in place a comprehensive performance management arrangements. This monitored performance against corporate performance indicators and progress on actions and projects from Services Plans. Monthly reports were made to Strategic Management Team and quarterly reports to Cabinet and Scrutiny Committee.

The outturn position for 2012/13 on monthly performance indicators is:

- twenty-three indicators (82%) met their targets;
- two indicators (7%) missed their targets by no more than 5%; and
- three indicators (11%) missed their targets by more than 5%.

The outturn on the annual performance indicators is not available for this report.

Of the three indicators which missed their targets by more than 5%, two related to Planning and one to Housing. Performance on processing major planning applications did not meet the target, but performance was still above the national median. The proportion of planning decisions delegated to officers also failed to meet the target, and was in the lowest quartile nationally, but this was to some extent a function of the Council's

constitution. Detailed work is being undertaken to improve performance on these indicators. The housing target related to the number of households in temporary accommodation – there has been an increase in homelessness and at the end of February there were 68 households in temporary accommodation. This is a demand led area and the Housing Department has been very proactive in limiting this figure through a range of initiatives.

### **Financial Management**

The Council's Gross Expenditure has reduced over the last 5 years from £29.2m to £24.3m a 17% reduction. Over the same period Central Government funding through Revenue Support Grant and Business Rates has reduced by 35%. The Council over that period has made base budget savings totalling £6.3m. Further significant funding reductions are forecast, a 15% reduction in Revenue Support Grant for 2014/15 and the 2015/16 figure will be known on 26 June.

Despite the funding reductions the Council has been able to set balanced budgets with no call on reserves, indeed the Council has added to its reserves over the period. Additionally the Council has now held its level of Council Tax, the third lowest in the County, for 3 years. This has been possible through:

- A genuine medium term approach to the budget.
- A realistic approach to what is possible in a much tighter financial environment.
- Substantial savings on all major contracts.
- Use of New Homes Bonus to support the base budget as well as supporting new projects via the Regeneration Fund.

The approach taken has worked well to date but the 2014/15 and 2015/16 budgets will be major challenges. To achieve balanced budgets further savings will be required and better links made between the Council's highest corporate priorities and its financial planning.

In year provisionally an underspend of £210,000 (excluding specific grants) is forecast. This is a fine margin on a budget of £16.2m in 2012/13. Budget management has improved and this largely reflects the greater experience and knowledge of budget managers.

The Finance Department delivered a high quality set of final accounts for 2011/12 which were commended by the external auditor. With the Head of Finance role continuing to be covered by a secondee from Kent County Council but at a reduced level (one and a half days a week) a heavy burden falls on the Chief Accountant and the senior staff and they have managed admirably. The Finance Department is well placed to support the Council through the next round of budget challenges.

### **Partnerships**

The Council has continued to work with Maidstone Borough Council and Tunbridge Wells Borough Council through the Mid Kent Improvement Partnership (MKIP). The main focus has been Information Technology and in April 2012 the three Cabinets determined to create a single shared service hosted by Maidstone Borough Council. This gives the opportunity for greater sharing of IT and for a more resilient service to all 3 Councils. Significant progress has also been made on progressing shared arrangements for Environmental Health and Planning Administration.

The Locality Board has continued to oversee and shape local delivery of the public services across the Borough for greater effectiveness and efficiency, particularly the local delivery of county functions.

Other key partnerships such as the Thames Gateway Kent Partnership, and the South Thames Gateway Building Control Partnership, remain effective.

### **Procurement**

The most significant procurement activity was the joint waste contract with Kent County Council, Maidstone Borough Council and Ashford Borough Council. This is the Council's largest contract with an annual value of

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£4.1m (with street cleansing). From the start of the project both the collection and disposal elements were combined and highly innovative approaches taken to the actual procurement. The three borough council's Cabinets agreed the contractor and waste approach at a joint meeting in July 2012. The Council will make very substantial savings and introduce a food waste service when the contract goes live in the last quarter of 2013/14.

Savings on major contracts and more professional procurement of other spend have been major deliverables over the last three years and are fundamental to how the Council has achieved savings to the level it has.

### Internal Audit

The Internal Audit service continues to be provided through a four-way shared service with Maidstone Borough Council, Tunbridge Wells Borough Council, and Ashford Borough Council.

A total of 24 audit projects have been completed during the year. Of the 24 audits the results were as follows:

Control Assurance	2012/13	2011/12
High	1	1
Substantial	13	17
Limited	6	4
Minimal	1	0
Not Given	3	4
<b>Total</b>	<b>24</b>	<b>26</b>

67% of assessed reports had a positive assurance assessment at the time of the audit, identifying control assurance as 'substantial' or 'high'.

Of the seven audits which received a 'limited' or 'minimal' controls assurance assessment during the year, two (Property Maintenance and Grounds Maintenance Contract Monitoring) had been subject to follow-up review prior to year-end. Both audits were reassessed as having an improved control environment at the time of the follow-up, thereby providing 'substantial' controls assurance. The remaining 5 audit projects, which were awaiting follow-up at 31 March 2013, (CCTV, Cemeteries, Staying Put Service, Sports Development Administration and Sports Development Investigation), are scheduled for a follow-up review during 2013/14 – allowing sufficient time for management action to be taken to address identified control weaknesses.

In February a significant irregularity was identified which was then investigated by management and Internal Audit. The total value of the irregularity is £8,676. The member of staff has been dismissed. The investigation undertaken was very thorough and it did not identify any systemic weaknesses.

### Risk Management

Last year's Annual Governance Statement identified the need for improved strategic and operational risk management processes.

Strategic Risk management has been led by the Head of Audit Partnership and Audit Manager. With support from Zurich Municipal a clear methodology was developed and applied both with Cabinet and Strategic Management Team. The Strategic Risk Register has been agreed by Cabinet and Audit Committee and has also been updated and refreshed. This work has been highly successful and is now well embedded in the Council.

A process for identifying operational risks is now embedded as part of the service planning process and is monitored as part of the performance management report.

### Bribery Act

The Bribery Act 2010 (the Act) came into force on 1 July 2011 following the publication of detailed guidance by the Justice Department on 31 March 2011. A report was considered by Cabinet in October 2011, which agreed an anti bribery policy and an action plan to address the implications of the report on the range of Council

services. A progress report was considered by SMT in March 2013 and a revised timetable to achieve the outcomes agreed.

### REVIEW OF EFFECTIVENESS

#### Introduction

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority, who have responsibility for the development and maintenance of the governance environment, and also by comments made by the work of internal and external audit.

#### Standards

This year has marked something of a major change in relation to the approach to the Code of Conduct and the registration of members' interests. The Standards provisions contained within the Localism Act 2011 became effective. The Council adopted its new Code of Conduct in May 2012, effective from 1 July 2012 and this includes revised arrangements for the Standards Committee, registration and disclosure of interests and dispensations

Within the spirit of the lighter touch approach, the Council has sought to have as consistent and proportionate approach across the Borough's parish and town councils as possible. The lateness of the publication of the regulations covering the declaration of disposable pecuniary interests meant some councils chose to adopt a Code prepared by the National Association of Local Councils.

A review of the Constitution was concluded in March 2013 and covered amongst other things:

- Updating the Standards Committee procedure rules including any amendments to public participation rules.
- Update of the terms of Reference of the Audit Committee.
- Consideration of the Community Right to Challenge provisions.
- Council procedure rules including process for themed debates at council, handling of and number of questions.

The Council will continue to consider further amendments to its decision making processes to support good governance.

#### Scrutiny Committees

A 'Call-in' procedure is in place which allows Scrutiny to review Cabinet decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. Both Scrutiny Committees have a well developed forward looking work programme, and are providing a healthy and robust challenge to Cabinet and senior management. There were no call ins during the year.

#### Audit Committee

The Audit Committee receives regular updates from the Head of Audit Partnership on the assurance which can be placed against various systems and processes reviewed during the year, along with an annual assessment at the year-end. The Committee keeps a check on those areas that have not achieved a satisfactory level of assurance. The Committee received training on risk management and the role of Internal Audit during the year.

#### Internal Audit

Based on internal work undertaken throughout the year, current risk assessments, and the adequacy of action plans provided by Heads of Service, the Head of Audit Partnership assesses the overall level of internal controls in place to inform his Annual Internal Audit report. The Annual Internal Audit report provides evidence to support the Annual Governance Statement. Going forward under MKIP, the Internal Audit Service will be

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measuring itself against best practice. The Internal Audit service has adopted the new Public Sector Internal Audit Standards (effective from 1 April 2013) and will be subject to an external compliance assessment during 2013/14

### External Audit

With the abolition of the Audit Commission the Council's external auditor following a national tender process run by the Audit Commission is Grant Thornton UK LLP. Key relationships have remained constant and good initial discussions have taken place between the Council and Grant Thornton.

### SIGNIFICANT GOVERNANCE ISSUES

On the basis of this Annual Governance Statement compiled and reviewed by the Council's Strategic Management Team, we are satisfied that the Corporate Governance arrangements for the Council are adequate and are operating effectively.

The main areas for members and senior management attention moving forward are:

- Sittingbourne Town Centre Regeneration – this project is hugely important to the Council and the Scrutiny report identified a range of governance issues which need to be addressed.
- Localisation of Business Rates – the localisation of business rates gives rise to a whole new set of financial opportunities and risks for the Council. These need to be much better understood in the early part of 2013/14.
- Prioritisation – with a continued reduction in the resource base it will be necessary to reassess lower priority activities to ensure that resources are available to allow the Council's highest priorities to be achieved.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signatures

.....  
Leader of the Council Andrew Bowles  
Date

.....  
Chief Executive Abdool Kara  
Date

## **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SWALE BOROUGH COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Swale Borough Council for the year ended 31 March 2013 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 2012/13.

This report is made solely to the members of Swale Borough 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed

### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of the Head of Finance's Responsibilities, the Head of Finance 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. Our 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 us 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 Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Swale Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Opinion on other matters**

In our 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 we report by exception**

We report to you if:

- in our 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we 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
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

**Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Swale Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

**Certificate**

We certify that we have completed the audit of the financial statements of Swale Borough 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, Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Grant Thornton House  
Melton Street  
Euston Square  
LONDON  
NW1 2EP

26 September 2013