Gravesham Borough Council

FINANCIAL REVIEW

and

STATEMENT OF ACCOUNTS

for the year ended

31 March 2012

J GIBBS CPFA

Assistant Director – Finance

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EXPLANATORY FOREWORD

Introduction

This foreword provides an explanation of the Council's accounts for the year ending 31 March 2012. The accounts are set out on pages 17 to 89 and are presented in accordance with International Financial Reporting Standards (IFRS). The accounts are supported by the Statement of Accounting Policies and by various notes to the accounts, with both of these sections supporting and providing explanations of the IFRS financial statements. There is a glossary of Financial Terms on pages 95 to 97.

The Council's Statement of Accounts are set out in this booklet and consist of the following financial statements as required for IFRS:

- **Movement in Reserves Statement** - this statement provides detailed information on the major reserves held by the Council and is separated between those reserves that are available for use in funding ongoing revenue expenditure and those that are required to be held for accounting purposes. This split of reserves is also repeated at the foot of the Balance Sheet.
- **Comprehensive Income and Expenditure Statement** – this account gives detailed information about total expenditure on the services that we provide. Income for each service is matched against the expenditure to show the net cost of services. The account also shows how much is received from council taxpayers and from general government grants to help meet the cost of services.
- **The Balance Sheet** - the balance sheet shows the overall financial position of the Council at the end of the financial year. It shows the balances and reserves at the Authority's disposal and its long-term indebtedness, the non-current assets and net current assets employed in its operations, and summarised information on the non-current assets held.
- **Cash Flow Statement -** this statement summarises the total cash movements during the year for both capital and revenue purposes. The statement summarises in simple terms where the money came from and how it was spent.

The following supplementary financial statements are also included for 2011-12:

- **Housing Revenue Account** - this account shows the net cost relating to Council housing and associated services.

- **Statement of Movement on the Housing Revenue Account Balance** - this statement reconciles the Housing Revenue Account Income and Expenditure Account to the Housing Revenue Account Balance as at 31 March 2012.

- **Collection Fund** - there is a statutory requirement for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The Collection Fund records the income we receive from local taxpayers and the money that is distributed as precepts. The Collection Fund is consolidated with other accounts of the billing authority within the Balance Sheet.

The accounts are supported by a Statement of Responsibilities, together with various notes.

This foreword provides a brief explanation of the financial aspects of the Council's activities and comments on the main features of the Council's financial position.

The Main Changes to the 2011-12 Statement of Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has introduced a change in relation to the treatment of heritage assets held by the Council. A heritage asset is an asset that is held and maintained principally for its contribution to knowledge or culture, e.g. Monuments and Civic Regalia. Heritage assets where the Council holds information on their cost or value are to be recognised on the Balance Sheet. Where the Council does not hold information on the cost or value and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts, such details as the Council holds are included in note 21 to the financial statements

Summary of Financial Performance in the Year

The General Fund

The Council's financial plans for the year were supported by a freeze in the level of Council Tax from that charged in 2010-11. This therefore gave a Band D Council Tax of £165.69. The original General Fund net revenue budget of £12,563,310 was approved by Council on 22 February 2011. This budget was largely financed by £6,487,450 of business rates and general government grants and £6,083,040 of Council Tax income (including £226,570 from Parish Precepts). It also assumed that the Council would not be transferring any significant amounts to working balances, but would instead be drawing amounts down from working balances to finance major capital spend.

A revised (probable) budget of £12,833,690 (net of the additional transfers to and from working balances and reserves) was approved on 21 February 2012, providing for a forecast budget deficit of £270,380 for the 2011-12 financial year. The final outturn position for 2011-12 was £12,466,310 representing an under spend of £97,000 against the original budget for 2011-12. During 2011-12 Members made decisions to earmark resources into specific reserves (see note 9B to the Core Financial Statements).

Major Variances

The following analysis has been grouped in accordance with the Portfolios of the Executive Members, which were in place during 2011-12, to present the information in a more local context. The analysis is not therefore directly comparable to the Comprehensive Income and Expenditure Statement. However, the Comprehensive Income and Expenditure Statement includes a number of accounting adjustments, such as International Accounting Standard 19 pension adjustments, capital and impairment charges, within the Net Cost of Services which are subsequently removed so that no cost falls to the local taxpayer. As such, they do not form part of the budget monitoring process. The analysis below does not include these accounting adjustments so as to provide a clearer picture of the individual variances shown at each line. Accordingly, the expenditure and income for each portfolio has been adjusted to negate the effects of these accounting adjustments.

	Original Budget £'000	Adjusted Actual £'000	Variance over/(under) £'000
PORTFOLIO			
Leader	3,184	3,155	199
Planning Delivery	1,048	1,032	(16)
Business & Partnerships	1,663	1,111	(552)
Community & Environment	4,922	4,416	(506)
Public & Private Sector Housing	863	815	(48)
Performance & Administration	1,797	794	(1,003)
Savings	(1,251)	0	1,251
NET SERVICE EXPENDITURE	12,226	11,153	(1073)
Capital expenditure funded by Balances and Reserves	1,244	1,595	351
Net transfers to/(from) Reserves	(907)	(452)	625
BUDGET REQUIREMENT (excluding parish precepts)	12,563	12,466	(97)
Amount raised from Council Tax	(6,083)	(6,083)	0
Contribution to previous year's Collection Fund surplus	7	7	0
Revenue Support Grant	(1,532)	(1,532)	0
Contribution from NNDR Pool	(4,956)	(4,956)	0
Net (Surplus) / Deficit 2011-12	0	(97)	(97)

As reported above, expenditure on services, before transfers to reserves and other accounting adjustments, was £97,000 less than the original estimate. The majority of this was caused by:

- Employee costs - Lower than originally anticipated due to vacancies held within various departments as a result of specific management actions introduced during the year to meet reductions in central government funding.
- Supplies and Services - Further to the above, the authority introduced the requirement during the year for all purchase orders to be approved either by a Director or Assistant Director. This management action has resulted in significant savings on supplies and services being accrued during the year.

However there were also areas of overspend, that included:

- Bank Charges – Due to increased usage of electronic payment methods, the authority has seen an increase in the charges made for banking during the year, albeit promotion of cheaper payment methods, most notably by Direct Debit which is the cheapest payment method, continues on an ongoing basis.

The Housing Revenue Account (HRA)

As with the General Fund analysis above, the Housing Revenue Account (for monitoring purposes) is not directly comparable to the Housing Revenue Account shown within the accounts, other than at the bottom line of the Statement of Movement on the Housing Revenue Account balance. The analysis below does not include any accounting adjustments so as to provide a clearer picture of the individual variances shown at each line. Accordingly, the expenditure and income for each area within the Housing Revenue Account has been adjusted to negate the effects of these accounting adjustments.

In 2011-12, the HRA recorded a surplus of £1,016,000 (2010-11, £311,000 surplus) on the annual running expenses compared to a budgeted deficit of £563,000, as follows:

	Original Budget £'000	Adjusted Actual £'000	Variance over/(under) £'000
INCOME			
Rents and Service Charges	(22,472)	(22,771)	(299)
Other Income	(554)	(620)	(66)
General Fund Contribution	(11)	(9)	2
TOTAL INCOME	(23,037)	(23,400)	(363)
EXPENDITURE			
Supervision and Management	5,354	4,696	(658)
Supporting People	144	51	(93)
Repairs and Maintenance	11,778	11,401	(377)
Housing Subsidy Payments	6,360	6,188	(172)
Capital Financing Costs	(36)	48	84
TOTAL EXPENDITURE	23,600	22,384	(1,216)
(SURPLUS)/DEFICIT FOR THE YEAR	563	(1,016)	(1,579)

The difference between the actual spending and the original estimate reflects the following:

- Employee costs being lower than originally anticipated due to management action taken to hold vacancies open within various departments as they arose.
- Reductions in contracted maintenance expenditure as a result of efficiencies within the Operational Services contract and renegotiations of some of the cyclical and service contracts. This includes savings made on the procurement of new repairs, maintenance and major works contracts for the Council's housing stock beyond 2011-12 which has been delivered at a significantly lower cost to the Council than first envisaged.
- The amount of debts written off and the arrears level was much lower than budgeted due to proactive debt collection.

- Leaseholder service charges income was higher due to more works being recharged than budgeted.

Capital

In 2011-12, the Council spent £3,114,183 on General Fund capital schemes (including Renovation Grants and Assistance to Housing Associations) compared to the Original Estimate of £3,642,930 and a Revised Estimate (which includes slippage from 2010-11) of £3,920,460. Slippage occurred mainly on the Town Pier Pontoon, Sports Pitches provision and Disabled Facilities Grants work.

Similarly, for housing services, expenditure was £5,272,171 against an Original Estimate of £4,829,570 and a Probable Estimate of £5,453,570. In addition to these figures however, the authority also incurred a HRA Self-financing settlement payment to the Communities and Local Government (CLG) Department. At £106,246,000, this took the total level of Housing Capital spending to £111,518,171 for the financial year, however, due to the exceptional nature of this transaction, it is shown separately within the remainder of this financial statement. The underlying underspend on housing capital was largely due to slippage on the Improvements and Conversion Budgets, and the new Housing Computer System.

The Council had long-term external borrowing of £111,951,000 as at 31 March 2012, which represents an increase of £102,885,000 due to the undertaking of the loans necessary to support the HRA self-financing settlement payment to the CLG department. In practice, these loan repayments are met through the abolition of the national housing subsidy system, and the resulting ability of the authority to retain approximately £6 million in negative subsidy which previously was paid annually to central government.

The level of Capital expenditure is reviewed and approved annually in accordance with the estimated resources available. As at 31 March 2012, the Council had reserves of £2,600,800 for capital expenditure purposes. These reserves may be supplemented by loans raised under Prudential Borrowing, grants, new capital receipts and contributions from the revenue accounts. The approved Capital expenditure budget for 2012-13 is £7,726,030. The estimated total resources for 2012-13 will be sufficient to finance the Council's planned expenditure.

The Primary Financial Statements

A summary of the Primary Financial Statements can be seen below:

The Movement in Reserves Statement (Page 17)

This statement provides detailed information on the major reserves held by the Council and is separated between those reserves that are available for use in funding ongoing revenue expenditure and those that are required to be held for accounting purposes.

Financial Year 2011-12	Total Usable Reserves £'000	Unusable Reserves £'000
Balance as at 31 March 2011	9,883	220,870
Increase / (Decrease) in year	817	(124,337)
Balance as at 31 March 2012	10,700	96,533

The Comprehensive Income and Expenditure Statement (Page 18)

This statement provides detailed information about total expenditure on the services that we provide. The account also shows how much is received from council taxpayers and from general government grants to help meet the cost of services.

	2010-11 Actual £'000	Movement During the Year	2011-12 Actual £'000
Net Cost of Services	71,377	50,450	121,827
Other Income and expenditure	(13,608)	1,401	(12,207)
(Surplus) and Deficit on Provision of Services	**57,769**	**51,851**	**109,620**
Gains or losses on non-assets and pension assets	(20,356)	35,107	14,751
Total Comprehensive Income and Expenditure	**37,413**	**86,958**	**124,371**

The Balance Sheet (Page 19)

The balance sheet shows the overall financial position of the Council at the end of the financial year. It shows the balances and reserves at the Authority's disposal and its long-term indebtedness, the non-current assets and net current assets employed in its operations, and summarised information on the non-current assets held.

	Restated 31 March 2011 £'000	Movement During the Year £'000	As At 31 March 2012 £'000
Total Non Current Assets	260,567	(1,917)	258,650
Total Current Assets	20,509	(1,166)	19,343
Total Current Liabilities	(9,558)	(1,462)	(11,020)
Non-current assets plus net current assets	**271,518**	(4,545)	**266,973**
Non-current Liabilities	(40,765)	(118,977)	(159,742)
Total Assets less Current Liabilities	**230,753**	(123,522)	**107,231**
Financed by:			
Unusable Reserves	220,870	(124,338)	96,532
Usable Reserves	9,883	816	10,699
Net Worth	**230,753**	(123,522)	**107,231**

It should be noted that a significant movement in the value of the Balance Sheet has been in relation to the change in the Pension Fund Liability accruing to the Authority. The Pension Fund assets and liabilities are formally valued on a triennial basis, with the results of the last formal valuation being as at 31 March 2010, with "desk-top" valuations in between the formal valuations, in line with the requirements of International Accounting Standard (IAS) 19.

Accordingly, the fund has been subjected to a desk-top valuation for 2011-12, with this resulting in the changes to pension fund liabilities outlined below.

Gravesham Borough Council's net liability on the Kent County Council Pensions Fund at 31 March 2012 is £47,184,000, (£30,673,000 at 31 March 2011), giving a significant increase in liability of £16,511,000.

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. The liabilities are valued using a real discount rate based on corporate bond yields in excess of expected inflation. Corporate bond yields have steadily fallen during the year leading to an increase in liabilities. Also, this year has seen falls in scheme assets, notably equities, due to large falls in the values of these in the summer of 2011.

It is important to note that IAS 19 does not have any impact on the actual level of employer contributions. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields). The next formal valuation is due on 31 March 2013.

The Cash Flow Statement (Page 20)

The Cash Flow Statement summarises the total cash movements during the year for both capital and revenue purposes. The statement summarises in simple terms where the money came from and how it was spent.

	2010-11 £'000	Movement During the Year £'000	2011-12 £'000
Net (Surplus) or Deficit on the Provision of services	57,769	51,851	109,620
Adjust net surplus or deficit on the provision of services for non cash movements	(66,032)	49,678	(16,354)
Net Cash flows from Operating Activities	1,502	(25)	1,477
Net Cash flows from Investing Activities	10,863	(2,916)	7,947
Net Cash flows from Financing Activities	(4,343)	(102,910)	(107,253)
Net (increase) or decrease in cash or cash equivalents	**(241)**	**(4,322)**	**(4,563)**
Cash and cash equivalents at the beginning of the reporting period	(5,637)	(241)	(5,878)
Cash and cash equivalents at the end of the reporting period	**(5,878)**	**(4,563)**	**(10,441)**

The Current Economic Climate

The effects of the current downturn in the economy were taken into account when preparing both the original and the probable budget for 2011-12 and the economic downtown has had an effect on actual expenditure and income figures for 2011-12. The impacts have been on fuel and energy prices, a reduction in planning fees, land charges income and car parking income. The variances against the budget have been carefully managed throughout the year. The Council has continued to see low levels of income generated through investment activities and the downgrading of many financial institutions and sovereignties has meant that the Treasury Management Strategy has had to be significantly revised towards the end of the year.

Treasury Management Performance

The actual income received from investments in 2011-12 was £109,000 (2010-11, £98,000). The overall rate of return for 2011-12 was 0.11% above the LIBID benchmark (2010-11, 0.3%). The slightly decreased return above the benchmark and low overall returns arose from a significant reduction in the available rate for investing monies with financial institutions due to a low Bank of England Base Rate and uncertainties in financial markets.

Total investments managed in-house as at 31 March 2012 stood at £10.8 million, whilst the authority also had £112.0 million of long-term borrowing as at 31 March 2012, primarily in the form of an £8 million Stock Issue loan taken out by the authority in 1995 and due for repayment in 2020, and the £106.2 million PWLB borrowing undertaken during the year in relation to HRA self-financing as detailed earlier. Short-term borrowing rose from £0.4 million to £3.4 million as a result of the HRA self-financing principal repayments due within the next twelve months.

Investments were only made with the institutions listed in the Council's approved lending list. The Council invests for a range of periods dependent on the Council's cash flows, its interest rate view and the interest rates on offer.

The main borrowers continued to be the UK banking sector and Money Market Funds, which are used for short-term deposits. As at 31 March 2012, there was £5.3 million invested in UK banks, £2.0 million in UK Building Societies and £3.5 million was held in Money Market Funds and other forms of short-term investments.

The Level of Reserves and Balances

The Council's level of General Fund balances stood at £2,647,511 as at 31 March 2012. There has been a decrease in balances of £462,999 from 31 March 2011 to 31 March 2012. An analysis of the movement in the level of reserves can be seen in the table below;

	General Fund £'000
Working Balances as at 1 April 2011	(3,111)
Budget Variances & Slippage B/Fwd	(691)
Transfers to/(from) Reserves	40
Capital Expenditure met from Balances	1,595
VAT Reclamations (see note 6 - exceptional items)	(541)
Transfer to Provision	170
Slippage Items from 2011-12 to 2012-13	(109)
Working Balances as at 31 March 2012	**(2,647)**

The Council also holds earmarked reserves, which are kept for specific types of expenditure in the future. Some reserves are held for statutory reasons and some are needed to comply with proper accounting practices. Examples include the decriminalisation reserve and insurance excess reserve. A full list of these reserves as at 31 March 2012 can be seen below;

Reserves (as at 31 March 2012)	2011-12 £'000
Provision For Ins Excess	(11)
Decriminalisation Parking Reserve	(8)
Local Development Framework Reserve	(250)
Olympics 2012 Reserve	(164)
Repair & Renewals Reserve	(95)
Spend to Save Reserve	(380)
Leisure Centres Reserve	(155)
Buildings Improvements Reserve	(244)
Corporate Priorities Reserve	(141)
Pensions Reserve	(72)
Town Pier Pontoon Reserve	(44)
LA Mortgage Scheme Reserve	(100)
DSO Provision Excess 3rd Party Ins	(10)
Decriminalisation Reserve	(37)
Total Specific Reserves	**(1,711)**

2012-13 and Beyond

External Auditor

In August 2010, the Communities and Local Government (CLG) department announced plans to disband the Audit Commission and put in place new arrangements for auditing England's local public bodies. Since then CLG have issued a consultation document on the 'Future of local public audit'. In January 2012 CLG published the government's response to the consultation. In the Queen's Speech in May 2012 the government confirmed its intention to publish a draft Bill on the future arrangements for local public audit for further scrutiny and comment. The draft Bill will outline how the current audit regime and the Audit Commission will be replaced. The Audit Commission's in-house Audit Practice currently undertakes the majority of audits for local public bodies. In July 2011, CLG Ministers confirmed their preference for transferring this work to the private sector by outsourcing contracts. The Commission's Board agreed this approach and carried out a procurement exercise to give private sector bidders the chance to compete for the Commission's audit work. This means all of the Commission's in-house work will be outsourced in time for the audit of the 2012-13 accounts. In March 2012 the Commission announced the results of the procurement exercise awarding five-year contracts to four private firms. The contract for Kent, South London and Surrey was awarded to Grant Thornton for the five year period 2012-13 to 2016-17. The new audit appointment will start on 1 September 2012. The Audit Practice staff in the Kent team will be transferring to Grant Thornton on 31 October 2012.

Local Government Finance Bill

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The Local Government Finance Bill is to receive Royal Assent in the summer of 2012 enabling measures contained in the bill to be implemented by Councils on 1 April 2013. In summary the Local Government Finance Bill will provide legislative backing for:

- The introduction of a Business Rates Retention scheme that will allow local councils to retain a proportion of the business rates they raise locally.
- The introduction of Tax Increment Financing which will enable councils to borrow against future increases in business rates.
- A framework of Localisation of Support for Council Tax in England instead of the current benefit system, which will be abolished, and;
- Various changes in the way that Council Tax is levied, including the ability for councils to vary charges on empty properties.

The Local Government Finance Bill is one of the most important pieces of legislation affecting the funding of local councils in recent years. Firm estimates of the financial effects of these changes are still unknown at individual Council level. Therefore it is important that we continue to evaluate the likely effect through our medium term financial plan. It is imperative that the Council maintains sufficient balances to cope with any potential funding changes.

New Homes Bonus

The aim of the New Homes Bonus (NHB) is “to create a powerful, simple, transparent and permanent incentive which rewards local authorities that deliver sustainable housing development”. The scheme will reward local authorities with a bonus, paid through Section 31 of the Local Government Act 2003 as unfenced grant, equal to the national average Band D Council Tax on each additional property and paid for the following six years. The Council received the first year’s allocation of £207,500 for 2011-12 in April 2011 and will receive a further £523,690 in 2012-13 (albeit the first months payment for 2012-13 is accounted for in 2011-12). Local authorities will receive funding through the New Homes Bonus scheme based upon increases to effective housing stock (based on Council Tax band) and affordable homes (which began in 2012-13 based on increases in affordable homes between October 2010 and October 2011). The NHB will be paid as a specific grant for 2011-12 to 2014-15 then “rolled” into the Revenue Support Grant (RSG). The redistribution of RSG based on the NHB is not envisaged by the CLG to increase the RSG “pot”.

Council Housing Finance System

The Localism Act put in place the legislative framework for the abolition of the National Housing Subsidy system with effect from 1 April 2012, and with it, a legal requirement for all stock retaining local authorities to make a debt settlement on 28 March 2012 to the Communities and Local Government department. In October 2011 the Government announced that authorities would be able to borrow the necessary funds from the Public Works Loans Board (PWLB) at 0.85% below market rates making PWLB the borrowing of choice and thus simplifying the borrowing options. On 1 February 2012, the authority received notification that the final debt settlement for Gravesham Borough Council was £106.246 million. In addition, the authority’s debt cap was set at £117.283 million. The Council borrowed £106.246 million on 28 March 2012 from the PWLB through a portfolio of loans over the 17 year life of the housing business plan. The Council will continue to monitor the loan portfolio and business plan over the forthcoming years.

Welfare Reform Act 2012

On 8 March 2012 the Welfare Reform Act received Royal Assent. The aim of the Act, through the introduction of a wide range of reforms, is to make the benefits and tax credits system fairer and simpler by:

- Creating incentives to get more people into work by ensuring work always pays;
- Protecting the most vulnerable in our society, and;
- Delivering fairness to those claiming benefit and to the tax payer.

Universal Credit will be implemented from October 2013. New claimants will receive Universal Credit instead of Jobseekers Allowance, Employment Support Allowance, Housing Benefit, Working Tax Credit and Child Tax Credit. There are a number of changes which affect our customers, our finances and our resources. A Corporate Working Group has been set up to monitor the effects of these changes through the forthcoming period.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

Gravesham Borough Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gravesham, that officer is the Assistant Director (Finance);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- ensure the un-audited Statement of Accounts is certified subject to audit prior to 30 June by the Assistant Director (Finance), and that the audited statement of accounts is approved prior to 30 September by the relevant body. In Gravesham, that body is the Finance & Audit Committee to which the Council has delegated the appropriate authority.

The Assistant Director (Finance) - Responsibilities

The Assistant Director (Finance) is responsible for the preparation of the Council'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 of Practice').

In preparing the Statement of Accounts, the Assistant Director (Finance) has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice.

The Assistant Director (Finance) has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities, further details of which are contained in the Annual Governance Statement.

Certification of Assistant Director (Finance)

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the date shown and its income and expenditure for the year ended 31 March 2012.

J GIBBS CPFA   Date:

Certification of Chair of Finance & Audit Committee

I confirm that the adoption process for the 2011-12 Statement of Accounts has been formally completed and that the Financial Review and Statement of Accounts for the year ended 31 March 2012 was approved by Gravesham Borough Council at the meeting of the Finance & Audit Committee on 19 September 2012.

Councillor   Date:

MOVEMENT IN RESERVES STATEMENT

Financial Year 2010-11 (Restated)	General Fund Balance £'000	General Fund Earmarked Reserves £'000	HRA £'000	Capital Receipts £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2010	**2,609**	**1,580**	**2,280**	**3,118**	**149**	**9,736**	**258,389**	**268,125**
Surplus/(Deficit) on Provision of Services	(57,769)	0	0	0	0	(57,769)	0	(57,769)
Other Comprehensive Expenditure or Income	0	0	0	0	0	0	20,359	20,359
Total Comprehensive Expenditure and Income	**(57,769)**	**0**	**0**	**0**	**0**	**(57,769)**	**20,359**	**(37,410)**
Adjustment between accounting basis and funding basis (Note 11)	58,289	0	311	(711)	(11)	57,878	(57,878)	0
Net increase/(decrease) before transfers to Earmarked Reserves	**520**	**0**	**311**	**(711)**	**(11)**	**109**	**(37,519)**	**(37,410)**
Transfers to/(from) Earmarked Reserves	(18)	18		38		38		38
Increase/(Decrease) in year	**502**	**18**	**311**	**(673)**	**(11)**	**147**	**(37,519)**	**(37,372)**
Balance at 31 March 2011	**3,111**	**1,598**	**2,591**	**2,445**	**138**	**9,883**	**220,870**	**230,753**

Financial Year 2011-12	General Fund Balance £'000	General Fund Earmarked Reserves £'000	HRA £'000	Capital Receipts £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2011	**3,111**	**1,598**	**2,591**	**2,445**	**138**	**9,883**	**220,870**	**230,753**
Surplus/(Deficit) on Provision of Services	(109,621)	0	0	0	0	(109,621)	0	(109,621)
Other Comprehensive Expenditure or Income	0	0	0	0	0	0	(13,879)	(13,879)
Total Comprehensive Expenditure and Income	**(109,621)**	**0**	**0**	**0**	**0**	**(109,621)**	**(13,879)**	**(123,500)**
Adjustment between accounting basis and funding basis (Note 11)	109,271	0	1,016	175	(5)	110,458	(110,458)	0
Net increase/(decrease) before transfers to Earmarked Reserves	**(350)**	**0**	**1,016**	**175**	**(5)**	**837**	**(124,337)**	**(123,500)**
Transfers to/(from) Earmarked Reserves	(113)	113	0	(20)	0	(20)	**0**	(20)
Increase/(Decrease) in year	**(463)**	**113**	**1,016**	**156**	**(5)**	**817**	**(124,337)**	**(123,520)**
Balance at 31 March 2012	**2,648**	**1,711**	**3,607**	**2,601**	**133**	**10,700**	**96,533**	**107,233**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

2010-11 Actual £'000		2011-12 Exp £'000	2011-12 Inc £'000	2011-12 Net Cost £'000
1,204	Central Services to the Public	2,109	(698)	1,411
4,892	Cultural and Related Services	5,553	(1,759)	3,794
4,240	Environmental and Regulatory Services	4,687	(867)	3,820
2,429	Planning Services	4,374	(1,693)	2,681
526	Highways and Transportation Services	1,253	(1,715)	(462)
1,731	Housing Services	72,328	(68,648)	3,680
1,839	Corporate & Democratic Core	1,689	(18)	1,671
(759)	Other Services	3,142	(3,697)	(555)
64,665	Exceptional Items (Note 6)	106,424	(719)	105,705
(9,390)	Non Distributed Costs	82	0	82
71,377	**NET COST OF SERVICES**	201,641	(79,814)	121,827
426	Other Operating Expenditure (Note 12)			72
1,961	Financing and Investment Income and Expenditure (Note 13)			1,512
(15,995)	Taxation and Non-Specific Grant Income (Note 14)			(13,791)
57,769	**(SURPLUS) OR DEFICIT ON PROVISION OF SERVICES**			109,620
7,691	(Surplus) or Deficit on revaluation of non-current assets			(2,118)
(28,047)	Actuarial (gains) or losses on pension assets and liabilities (Note 31)			16,869
(20,356)	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**			14,751
37,413	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**			124,371

BALANCE SHEET

At 1 April 2010 Restated £'000	At 31 March 2011 Restated £'000	BALANCE SHEET	Notes	At 31 March 2012 £'000	At 31 March 2012 £'000
		Property, Plant and Equipment	20		
		Operational assets			
295,621	217,424	- council dwellings			214,414
17,744	21,552	- other land and buildings			22,310
1,583	1,518	- vehicles, plant and equipment			1,485
207	198	- infrastructure assets			188
2,487	2,474	- community assets			2,474
2,914	2,914	- heritage assets	21		2,991
		Non-operational assets			
291	580	- assets under construction			2,011
4,538	5,170	- land and buildings			4,170
325,385	251,830	**Total Non Current Assets**			250,043
365	413	Intangible Assets			421
8,092	8,092	Investment Properties	26		7,900
191	232	Long Term Debtors	27		286
334,033	260,567	**Total Long-term Assets**			258,650
36	22	Inventories		24	
17,380	17,218	Short -term Debtors (Gross)	27	12,999	
(3,091)	(3,609)	Debt Impairment Provision	27	(4,121)	
5,637	5,878	Cash and Cash Equivalents	30	10,441	
0	1,000	Short Term Investments	34	0	
19,962	20,509				19,343
353,995	281,076	**Total Assets**			277,993
		Current Liabilities:			
365	354	Short-term Borrowing	34	3,367	
8,151	9,204	Short-term Creditors	29	7,653	11,020
345,479	271,518	**Total Assets less Current Liabilities**			266,973
		Long Term Liabilities:			
67,073	30,673	Liability Related to Defined Benefit Pension Scheme	31	47,184	
9,165	9,066	Long-term Borrowing	34	111,951	
1,116	1,026	Capital Grants Receipts in Advance		437	
0	0	Provisions	37	170	
77,354	40,765	**Total Long-term Liabilities**		159,742	
268,125	**230,753**	**NET ASSETS**			**107,231**
		FINANCED BY:			
		Unusable Reserves			
19,028	11,088	Revaluation Reserve	10A		12,623
306,834	240,787	Capital Adjustment Account	10B		131,358
(59)	(41)	Employees Reserve	10D		(123)
66	44	Deferred Receipts			121
(34)	(15)	Collection Fund Adjustment Account			15
(373)	(320)	Financial Instruments Adjustment Account	10C		(278)
(67,073)	(30,673)	Pensions Reserve	31		(47,184)
258,389	220,870				96,532
		Usable Reserves			
3,118	2,445	Usable Capital Receipts	9A		2,601
149	138	Capital Grants Unapplied			133
1,580	1,598	Specific Reserves	9B		1,711
4,889	5,702	Revenue Balances			6,254
268,125	**230,753**	**TOTAL RESERVES**			**107,231**

CASH FLOW STATEMENT

2010-11 £'000	CASH FLOW STATEMENT	2011-12 £'000	2011-12 £'000
57,769	**a) Net (Surplus) or Deficit on the Provision of Services**		**109,620**
	b) Adjust net (surplus) or deficit on the provision of services for noncash movements		
(5,747)	Depreciation	(5,949)	
(67,286)	Impairment and downward valuations	(5,712)	
(518)	Increase in impairment provision for bad debts	(512)	
(1,052)	Movement in Creditors	1,551	
(162)	Movement in Debtors	(4,219)	
(14)	Movement in Stock (Inventories)	2	
8,353	Movement in Pension liability	358	
(1,030)	Carrying amount of non-current assets sold	(921)	
(636)	Net Interest payable	(633)	
(63)	Soft Loans	(135)	
2,123	Other non-cash items charged to the net surplus or deficit on the provision of services	(184)	
(66,032)			**(16,354)**
	c) Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		
(98)	Proceeds from short term and long term investments	(109)	
1,600	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,586	
1,502	**d) Net Cash Flows from Operating Activities**		**1,477**
	e) Investing Activities		
8,349	Purchase of Property, plant and equipment, investment property and intangible assets	7,692	
2,514	Other Payments for investing activities	255	
10,863	**Net cash flows from investing activities**		**7,947**
	f) Financing Activities		
(4,452)	Other receipts from financing activities	(1,355)	
109	Repayments of short and long term borrowing	348	
0	HRA Self-financing loan	(106,246)	
(4,343)	**Net cash flows from financing activities**		**(107,253)**
(241)	**g) Net (increase) or decrease in cash or cash equivalents**		**(4,563)**
(5,637)	**h) Cash and cash equivalents at the beginning of the reporting period**		(5,878)
(5,878)	**i) Cash and cash equivalents at the end of the reporting period**		(10,441)

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

1.1 General

With effect from the financial year commencing 1 April 2010, Local Authorities have been required to produce their annual financial statements in accordance with International Financial Reporting Standards (IFRS).

Each year CIPFA produces a “Code of Practice on Local Authority Accounting in the United Kingdom” (The Code) to assist practitioners interpret the requirements of IFRS. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS), International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board, International Public Sector Accounting Standards (IPSAS) and the Urgent Issues Task Force’s (UITF) Abstracts.

The accounting policies that have been adopted are set out in the following paragraphs. Where an accounting policy has not been adopted, or where it has been varied, then a note to that effect has been provided.

1.2 Accounting Concepts & Qualitative Characteristics

In general, the accounts are prepared on the basis of historical cost modified by the revaluation of land, buildings, vehicles and plant, subject to and in accordance with the fundamental accounting concepts set out below:

Relevance

In accordance with IAS 8, Accounting Polices, Changes in Accounting Estimates and Errors, the accounts are prepared so as to provide readers with information about the Council’s financial performance and position that is useful for assessing the stewardship of public funds.

Reliability

The accounts are prepared on the basis that the financial information contained within them is reliable, i.e. they are free from material error, deliberate or systematic bias, complete within the bounds of materiality and represent faithfully what they intend to represent. Where there is uncertainty in measuring or recognising the existence of assets, liabilities, income and expenditure then caution or prudence has been used as a basis to inform the selection and application of accounting policies and estimation techniques.

Comparability

The accounts are prepared so as to enable comparison between financial periods. To aid comparability the Council has applied its accounting policies consistently both during the year and between years.

Understandability

Every effort has been made to make the accounts as easy to understand as possible. Nevertheless, an assumption has been made that the reader will have a reasonable knowledge of accounting and local government. Where the use of technical terms has been unavoidable, an explanation has been provided in the Glossary of Terms.

Materiality

Certain information may be excluded from the accounts on the basis that the amounts involved are not material either to the fair presentation of the financial position and transactions of the Council or to the understanding of the accounts.

Accruals

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.

Going Concern

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.

Primacy of Legislative Requirements

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

1.3 Revenue Recognition

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

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

1.4 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.

1.5 Cash and Cash Equivalents

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and are shown on the balance sheet at their nominal value. The authority has defined cash equivalents as including investments with a maturity of three months or less from the date of acquisition.

1.6 Assets Held for Sale (Non Current Assets)

These are assets that have been declared surplus to the Council's operational requirements and are being actively marketed and have an estimated sale date within twelve months of the Balance Sheet date. They will be reported on the balance sheet date 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.

1.7 Property, Plant and Equipment

- Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure on the acquisition of an asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, should be capitalised, provided that it yields benefits to the authority and the services it provides for a period of more than one year.

Expenditure that should be capitalised will include

- expenditure on the: acquisition, reclamation, enhancement or laying out of land
- acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

In this context, enhancement means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the local authority concerned.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred.

In defining capital expenditure, the Council operates a de minimis level of £12,000 for such assets. Any expenditure below this level is charged to revenue in the year of acquisition.

- Measurement

Initially the assets are measured at cost, comprising the purchase price, less any costs assosciated with bringing the asset into use. The measurement of assets acquired other than through purchase is deemed to be its fair value.

In accordance with The Code, Property Plant and Equipment, can be further analysed as:

- Council Dwellings
- Other Land and Buildings
- Infrastructure assets
- Vehicles, Plant, Furniture and Equipment

- Community Assets
- Heritage Assets (new for 2011-12)
- Assets under Construction

Each of these asset classifications are revalued cyclically 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, community assets and assets under construction – depreciated historical cost
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (EUV)

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets (such as vehicles, plant and equipment) have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

As the Council's principal assets are revalued, any gains or losses arising from revaluation are reflected in the Revaluation Reserve. 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.

- 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.
- depreciation is calculated using the straight-line method.

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

Asset	Depreciation Methodology
Operational Land	30 to 50 years (usually relating to car parks)
Operational Buildings	Usually 50, although this can vary according to the individual asset
Non-Operational Buildings	40 to 60 years depending on the individual asset
Council Dwellings	Use of the Major Repairs Allowance as a proxy for depreciation
Infrastructure	40 Years

Vehicles, Plant & Equipment	Vehicles & Plant - 5 to 10 Years depending on the type of asset IT Equipment - 3 to 7 years depending on the nature of the asset Non-IT Equipment - 10 to 20 years depending on the nature of the asset

There is no change in the depreciation charge for 2011-12, other than that caused by revaluations carried out during the year.

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 should be estimated on a realistic basis. They should be reviewed regularly and, where necessary, revised. Where the useful life of a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining useful life.

Depreciation is not normally provided for on freehold land, certain Community Assets (whether operational or non-operational), and Heritage Assets on the basis that such assets do not have a determinable useful life. Depreciation is also not provided for on assets which are not yet available for use (i.e. assets under construction).

- Valuation

The freehold properties which comprise part of the Council’s property portfolio have been valued at the direct request of the Council's Service Manager (Financial Services) in accordance with CIPFA's accounting arrangements. Valuations are undertaken by external firms of surveyors, or by suitably qualified internal staff as practicable, on the under-mentioned basis in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Plant and machinery is included in the valuation of the buildings. Properties regarded by the Authority as Operational were valued on the basis of open market value for their existing use, or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. Properties regarded by the Authority as Non-Operational have been valued on the basis of open market value.
Council dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). Further details are contained in Note 4 to the Housing Revenue Account.

- Components

The IFRS Code requires local authorities to identify elements of major assets that have either a capital cost that is significant in relation to the total cost of the asset and/or has a different useful life or depreciation method. The Council proposes to account for components of assets with a gross book value in excess of £1m and where any individual component has a value in excess of £100,000. The componentisation proposals for the HRA dwelling stock differ from that above. Current guidance allows for the ongoing use of the MRA as a proxy for depreciation and this accounting policy will continue for the first five years of the transition to HRA self-financing, pending an alternative method of depreciation being consulted upon and implemented. The requirement to implement component accounting commenced on 1st April 2010 but only applies to properties valued after that date or where there has been significant capital expenditure in respect of the individual asset.

- Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line/s in the Comprehensive Income and Expenditure Statement.

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

- Disposal

At the point at which the disposal of an asset becomes probable (and the carrying value will be principally recovered through the sale proceeds), the asset is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Depreciation is not charged on Assets Held for Sale.

If an asset no longer meets the criteria to be classified as an Asset Held for Sale, it is reclassified back to non-current assets and valued at the lower of its carrying amount before it was classified as being held for sale (less depreciation, amortisation and revaluations that would have occurred) and its recoverable amount at the date upon which the decision not to sell was reached.

Income from the disposal of Property, Plant and Equipment is accounted for on an accruals basis. Such income, following payment of the pooling liability to central government (in respect of housing capital receipts from the sale of dwellings through the Right to Buy scheme), is included in the Balance Sheet as usable capital receipts.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet, together with any receipt from disposal (net of any costs associated with the disposal), are accounted for in the Comprehensive Income and Expenditure Statement, so comprising any gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.8 Intangible Assets

Intangible assets are “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the local authority through custody or legal rights”. Examples are licences, quotas, patents, copyrights, franchises and trademarks. The most common intangible asset that is held by local authorities is purchased software licences.

Control of an intangible asset is normally secured by legal rights: a licence grants access to benefits for a fixed period.

Purchased intangible assets (e.g. software licences) should be capitalised as assets. Internally developed intangible assets should only be capitalised where there is a readily ascertainable market value, which is unlikely to occur in a local authority’s single entity financial statements.

Software development costs that are directly attributable to bringing a computer system or other computer-operated machinery into working condition for its intended use should be treated as part of the cost of the related hardware rather than as a separate intangible asset.

Intangible assets are amortised on a systematic basis over their economic lives, typically over a period of 5 to 7 years depending upon the nature of the asset. Where access to the economic benefits associated with an intangible asset is achieved through legal rights that have been granted for a finite period, the economic life will not extend beyond that period unless the legal rights are renewable and renewal is assured. The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised if necessary. In amortising an intangible asset a residual value may be assigned to the asset only if such residual value can be measured reliably. In practice the residual value of an intangible asset is usually nil or insignificant. The method of amortisation will reflect the expected pattern of depletion. A straight-line method is therefore chosen unless another method can be demonstrated to be more appropriate.

For intangible assets held at historical cost, General Fund and Housing Revenue Account service revenue accounts are charged with a provision for amortisation and where required, any related impairment loss (due to a clear consumption of economic benefits), for all intangible assets used in the provision of the service.

1.9 Heritage Assets

The 2011-12 financial statement requires the adoption of FRS 30 “Heritage Assets” by the Council. This requires separate disclosure of the carrying amounts of any heritage assets at ‘valuation’, whereby valuation can be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. Thus assets identified as Heritage Assets by Gravesham, that exceed the de minimis level of £12,000, will be reflected in the accounts at their insurance valuation for those assets not formerly included on the Balance Sheet, and at existing carrying value if reclassified from a different asset category (e.g. community assets)..

Recognition – The Code requires authorities to recognise heritage assets where the authority has information on the cost or value of the asset. The initial recognition of the asset will be in accordance with our accounting policy on recognising Property, Plant & Equipment (See note 1.6). Where information on the cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, we will not recognise that asset on the Balance Sheet, although an appropriate disclosure will be made instead.

Revaluation – The insurance valuations of heritage assets will be reviewed every 5 years.

Depreciation – Depreciation is not required on heritage assets that have indefinite lives. Due to the historic nature of the heritage assets likely to be identified by the authority, we will not apply depreciation charges to assets in this category.

1.10 Investment Properties

Investment Property is property (land and / or buildings) held solely to earn rental income or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods, or if the property is held for sale.

Investment Property is initially recognised at cost, but is subject to valuation at fair value at the end of each accounting period, losses or gains shall be recognised in the Comprehensive Income and Expenditure Statement. Depreciation is not charged against Investment Property.

1.11 Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, central support services and trading accounts are charged with the following amounts in relation the use of assets during the year;

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses used by the service (where these are above accumulated gains held in the Revaluation Reserve)
- amortisation of intangible fixed assets used by the relevant service

On the basis that these are not chargeable to Council Tax payers, a corresponding entry equal to these charges is taken to the Movement in Reserves Statement (from the Capital Adjustment Account), which ensures that the overall revenue effect is neutral and that no cost falls to the local taxpayer.

The authority is however required to make an annual contribution towards the reduction in its overall borrowing requirement, refered to as the Minimum Revenue Provision (MRP) (a statutory provision for debt repayment). This charge is taken to the Comprehensive Income and Expenditure Statement, against the General Fund Balance. For 2011-12 the MRP charge is based upon the useful lives of the assets financed through the use of borrowing.

1.12 Revenue Expenditure Funded from Capital under Statute

Revenue Expenditure Funded from Capital Under Statute (REFCUS) represents expenditure that may be capitalised under statutory provisions but does not result in the creation of non-current assets. The expenditure items are generally grants and expenditure on property not owned by the authority. Such revenue expenditure incurred during the year should be charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement. Where the council has determined to meet the cost of the revenue expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged against the General Fund Balance in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

1.13 Government Grants and Contributions

Government Grants and contributions are recognised as due to the authority when there is reasonable assurance that;

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

Where conditions have not yet been complied with, the grants are carried within the Authority's balance sheet as creditors. When conditions are satisfied, amounts are released to the individual Service Revenue Accounts within the Comprehensive Income and Expenditure Statement.

For Capital Grants, a corresponding entry is taken to the General Fund Balance in the Movement in Reserves Statement to ensure that the overall revenue effect is neutral and that there is no impact upon the tax-payer. Capital Grants that have not yet been used to finance capital expenditure are then posted to the Capital Grants Unapplied Reserve; those that have been applied are credited to the Capital Adjustment Account.

1.14 Leases

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease.

Finance leases are accounted for when the risks and rewards relating to the leased asset are substantially transferred to the council, with rentals payable being apportioned between;

- a charge for the acquisition of the interest in the asset, with a liability in the balance sheet at the start of the lease, written down as leasing payments are due, and;
- a finance charge against net Operating Expenditure in the authority's Comprehensive Income and Expenditure Statement as the leasing payments are due.

Assets recognised by way of finance leases are treated in the same way as Property, Plant and Equipment assets, with the only notable exception being that depreciation is charged over the term of the lease where this is shorter than asset's estimated useful life. Finance leases are recognised within the Balance Sheet at fair value (at the date of the lease's inception).

1.15 Repurchase of Borrowing

Gains and losses on the repurchase of or early settlement of borrowing are credited and debited to Financing and Investment Income in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio and therefore;

- old debt is replaced with new debt by means of an exchange of debt instruments between an existing borrower and lender or the terms of an existing liability are modified, and;
- the terms of the loan debt exchanged are not substantially different or the modification of the terms of an existing liability is not substantial,

the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. In the case of the Housing Revenue Account, in accordance with Local Authority Accounting Panel (LAAP) Bulletin 26 the amount chargeable to the HRA is amortised over a maximum period of 10 years.

The reconciliation of amounts charged to the Comprehensive Income and 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.

1.16 Debtors and Creditors

The accounts of the Council are maintained on an accruals basis 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 deducted as a provision for bad debts.

Interest payable has been accrued to 31 March 2012 on all loans outstanding at that date. Interest on short-term investments due, but not received as at 31 March 2012 has also been accrued where this is material.

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.

Housing Revenue Account gross rent income is brought into account for the full year irrespective of debit and collection dates.

1.17 Inventories and Long Term Contracts

Inventories in the central stores are valued at the latest price paid. This is a departure from the requirements of the code of practice, which require invertories to be shown at actual cost or net realisable value, if lower. The effect of the different treatment is not considered material. Bar, kiosk and other small stocks are valued at cost price.

Work-in-progress, representing uncompleted rechargeable jobs as at 31 March 2012, is valued at cost including an allocation of overheads.

Long Term contracts are defined as “contracts entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods” The Council makes a disclosure in the notes to the Core Financial Statements in respect of any capital contracts meeting this definition.

1.18 Cost of Management and Support Services

The principles recommended by CIPFA (under the Service Reporting Code of Practice 2011-12 - SeRCOP) on accounting for management and support services have been followed with the following exceptions:

- cost allocations have been based on the time spent by the various officers on performing duties for all services as recorded on time sheets and
- costs have been allocated using the probable out-turn unit prices calculated during the year rather than the actual outturn for the year.

These exceptions have been made in order to speed up the preparation of the accounts, the impact of which is not considered to be material.

The cost of computing services is allocated on the basis of actual use and the expenses of administrative buildings are apportioned on the basis of space used.

1.19 Provisions

Provisions represent sums set aside for liabilities or losses which are likely, or certain, to be incurred, but it is uncertain as to the amounts or the dates on which they will arise. Provisions are charged direct to the appropriate revenue account, and when the expenditure is incurred to which the provision relates it is charged direct to the provision.

1.20 Reserves

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Certain items such as the Revaluation Reserve and the Capital Adjustment Account can only be used for specific statutory purposes and thus are not available for discretionary purposes earmarked by the Council, further details of which appear in the Movement in Reserves Statement.

Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management. Statements concerning the purpose and usage of all provisions and specific reserves appear in the notes to the core financial statements.

1.21 Investments

Long-term investments are shown in the Balance Sheet at the original purchase price plus related costs (brokerage, fees, etc.). Short-term investments are shown in the Balance Sheet as 'Current Assets' at the actual sums lent.

1.22 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. Input VAT which is not recoverable from HM Revenue & Customs will be charged to service revenue accounts. The Council’s partial exemption status is reviewed on an annual basis.

1.23 Employee Costs

Three categories of employee benefits exist, under IAS 19 and IPSAS 25 Employee Benefits as detailed below.

Benefits payable during employment covers the following:

a) Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.

b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued in accordance with the accruals concept adopted by the Authority.

- **Termination benefits**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred.

1.24 Provision for Debt Impairment

The provision for bad and 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, NNDR, Rents, sundry debtors etc. is based on historical evidence and the methodology and individual percentages applied to calculate the provisions are reviewed regularly.

1.25 Provision for Pensions

As part of the terms and conditions of employment of its employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments which therefore need to be disclosed at the time that employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Under International Accounting Standard 19 (IAS 19), the authority is required to recognise as an asset or liability the surplus/deficit in the pension scheme. The surplus / deficit in the pension scheme is the excess/shortfall of the value of assets when compared to the present value of the scheme liabilities. A pre-requisite of the introduction of IAS 19 was that it did not impact on taxation requirements. Where the contributions paid to the pension scheme do not match the change in the authority's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from a pensions reserve. Actuarial gains/losses are shown as movements on the pensions asset/liability account and pensions reserve. There is no impact on the Comprehensive Income and Expenditure Statement. The balance sheet shows the net pension asset or liability and an equivalent pension reserve balance.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Council Pension Fund for funding purposes was at 31 March 2010 and changes to contribution rates as a result of that valuation took effect from 1 April 2011.

In the case of the HRA, an adjustment is made in respect of current service cost only. An equivalent appropriation to the Pensions reserve however means that there is no impact on the surplus for the year nor ultimately on rent levels.

The restriction of the adjustment to current service cost only is not fully in accordance with the Code of Practice. However, it is considered there is no actuarial basis for appropriating the scheme's assets and liabilities between the HRA and General Fund which is required to determine the remainder of the adjustment.

Liabilities are discounted to their value at current prices. The discount rate employed is the yield available on long-dated, high quality corporate bonds (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years). The assets attributable to the Council are included in the Balance Sheet at their fair value. More details are available in the notes.

The change in the net pensions liability is analysed into seven components:

Current Service Cost – the increase in liabilities as result of the years of service earned by employees this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.

Past Service Cost – the increase in liabilities arising from current-year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

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

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

Gains/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 – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

Actuarial Gains 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 – debited to the Pensions Reserve.

Contributions paid to the Funds – cash paid as employer contributions to the pension fund.

Statutory provisions limit the Council to only raising council tax to cover the amounts payable by the Council to the pension fund in the year. 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 any amounts payable to the fund but unpaid at the year-end.

Further information in respect of the Council's pension commitments and contributions paid can be found in Note 31 to the Core Financial Statements.

1.26 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For all of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

1.27 Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition (i.e. cessation or transfer of the loan) of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Soft Loans

Where the Council makes loans with interest at less than market rates, for instance in respect of Improvement Grants, these are termed “Soft Loans”. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the residents, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain 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. This approach will also be adopted where the income pertaining to a capital receipt is received over several years rather than in a lump sum at the time of disposal.

Available for Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Assets. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

1.28 Group Accounts

The Code of Practice specifies detailed requirements for the production of group accounts and determination of the authority's relationship with external organisations, namely, where;

- The authority has an interest in another body and that body is delivering a service or carrying on a trade or business of its own;
- The authority has access to benefits and exposure to risks inherent in realising those benefits;
- The authority controls the majority of equity capital or equivalent voting rights or appoints the majority of the governing body;
- The authority exercises or has the right to exercise dominant influence, and;
- The authority is able to exercise a significant influence over the entity without support from other participants.

Having undertaken a review of all potential subsidiaries, associates, and joint ventures against the above criteria, it has been determined that the production of group accounts are not necessary in relation to 2011-12.

1.29 Events after the Balance Sheet Date

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 statements 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'.

Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue. The date when the Statement of Accounts was authorised for issue, and who gave that authorisation is disclosed in the notes to the Statement of Accounts, including confirmation that this is the date up to which events after the Balance Sheet date have been considered.

1.30 Contingent Assets/Liabilities

Any contingent assets as at the Balance Sheet date are disclosed within the accounts by way of a note if the inflow of a receipt or economic benefit is probable.

Contingent liabilities as at the Balance Sheet date are disclosed within the accounts by way of a note if a payment or transfer of economic benefit is possible.

1.31 Exceptional Items

Exceptional items are shown separately within the Comprehensive Income and 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.

1.32 Prior Period Adjustments

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.

1.33 Council Tax & National Non-Domestic Rate (NNDR) Income

The Council is a billing authority and as such is required to bill local residents and businesses for Council Tax and National Non-Domestic (Business) Rates. The Council acts as an agent on behalf of the major precepting authorities, Kent County Council, Kent Police Authority and Kent and Medway Towns Fire Authority, for Council Tax and the Government for National Non-Domestic (Business) Rates.

As such the accounts only show the amount owed by and to taxpayers in respect of our Council Tax. Major precepting authorities will be shown as net debtors or creditors on the Balance Sheet. Similarly the accounts only show the net debtor or creditor in respect of National Non-Domestic (Business) Rates received and paid over to the Government

The amount shown in the Comprehensive Income and Expenditure Statement as the demand on the collection fund includes the accrued amount of council tax collected as well as amounts from previous year's estimates. This adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

2. Prior Period Adjustment

Both the Balance Sheet and Movement in Reserves Statement for 2010-11 have been restated in accordance with the introduction of Financial Reporting Standard 30 (Heritage Assets), and the requirement therefore to retrospectively show the valuation of such assets within the council's financial statements prior to 2011-12. Further details regarding heritage assets held by the authority, and the respective valuations as at each Balance Sheet date, can be seen in Note 21. Notes to the accounts affected by this adjustment have been restated where applicable.

3. Accounting Standards issued, not adopted

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

4. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision. Furthermore, it is anticipated that expected cuts in government grant funding will not be significantly different to that reflected in the Council's Medium Term Financial Strategy.

- The authority has a management agreement with Gravesend Community Leisure Limited an Independent Prudential Society that operates the leisure centres owned by the Authority. It has been determined that the Authority does not have control of the Company and it is not a subsidiary of the Authority.

- The cost of the localised council tax support scheme can largely be met, if not in full, by the grant from the Department for Work and Pensions.

- The Council will not be significantly better or worse off under the Business Rates Retention scheme than under the current formula government grant funding arrangements.

- The 'New Homes Bonus' scheme where councils receive non-ringfenced grant based on the delivery of new homes in their area will continue in its current form until at least 2015-16.

- Income from the Councils major income streams will not fall significantly further than current income levels.

5. Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The items in the Authority's Balance Sheet at 31 March 2012 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
Property, Plant and Equipment	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 Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	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 £100,000 for every year that useful lives had to be reduced.
Pensions	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 actuaries is enganged to provide the Authority with expert advice about the assumptions to be applied.	A 0.1% change in the discount rate (the iboxx Corporate Bond Index) would result in a change in the liability of £2.6m. A 1 year change in the mortality assumptions would result in a £4.4m change in the pension liability.

6. Exceptional Items

The Comprehensive Income and Expenditure Statement includes the following exceptional items, which have been shown separately on the face of the Statement, in order to avoid distorting the analysis of income and expenditure by category in accordance with the SeRCOP groupings.

VAT reimbursements from HM Revenues and Customs during the year totalling £719,000 (of which £178,000 was paid to Pricewaterhouse Coopers as a consultancy fee) relate to the recovery of overpaid VAT amounts by the authority between 1978 and 1994 on the provision of trade waste services. Due to the fact that this transaction falls outside of the normal operating activities of the Council, and by nature of the fact that its inclusion elsewhere on the Comprehensive Income and Expenditure could lead to the accounts not presenting the Authority's operating income and expenditure in a true and fair fashion, it has been disclosed separately on the face of the Statement within Exceptional Items.

On 28 March 2012 the Council paid to the government £106.246 million which was set out in the Settlement Payments Determination 2012 in order to exit the current housing subsidy system. The authority borrowed the full amount from the PWLB through a portfolio of loans over the 17 year life of the business plan. Due to the fact that this transaction is highly material for the authority and it needs to be easily identifiable within the financial statement it has been disclosed separately within Exceptional Items.

7. Events after the Balance Sheet Date

At the time of publishing the statement there were no items to be disclosed.

8. 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. IAS 24 "Related Party Disclosures" was designed to ensure that the financial statements contain the necessary disclosures to draw attention to the possibility that the reported financial position and results have been affected by the existence of related parties and by material transactions within them. The disclosure information is intended to permit readers to judge the extent of any effect.

UK Government

The UK government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 15.

Elected Members and Officers

Elected Members and officers of the Council have direct control over the Coucil's financial and operating policies. The key data sources used in identifying material related party transactions are for officers and members are:

- The Register of Members' Interests (as maintained in accordance with the Local Authorities (Members' Interests) Regulations 1992).

- Disclosure of direct or indirect pecuniary interests made in accordance with Section 94 of the Local Government Act of 1972.

This has been supplemented by 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 of the 44 current Councillors.
Returns were received from all Councillors that either stood down or were not re-elected in May 2011. Returns from all current Chief Officers have been received. One return is outstanding from a former Chief Officer. At the time of departure no disclosures were notified. For the 2011-12 financial year, there were the following disclosures;

Officer/ Member	Nature of Related Party Transaction	Value of Transaction
Cllr G Bungar	Secretary of Shri Guru Ravidass Temple	Nil
Cllr J Burden	Director of Alpha Trust	7,290
Cllr J Burden	Member of South Thames Gateway Building Control	105,440
Cllr J Burden	Director of Age UK	Nil
Cllr J Cubitt	Director of Groundwork Kent and Medway	450
Cllr G Handley	Director of Gravesend Fencing	169,375
Cllr G Handley	Director of Deneholm Fish Bar	Nil
Cllr S Howes	Father is a member of Bat & Ball Sports Ground	10,112
Cllr L Hills	Member of Darent Valley Foundation Trust	Nil
Cllr L Hills / Cllr G Goatley	Member of Citizens Advice Bureau	106,180
Cllr W Lambert	Member of Christopher Centre Community Association	Nil
Cllr M Snelling	Trustee for Gads Hill House School	7,955
Cllr N Singh-Thandi	Trustee of Guru Nanak Dalbar Gudwara	29,447
	Guru Nanak Sports Club	850

9. Movement on Reserves

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.

9A. Usable Capital Receipts

Statement of Capital Receipts	2010-11	2011-12
Movements in Year		
- Receipts from sale of assets	1,639	1,513
- Receipts from mortgage repayments	23	65
- Deferred Capital Receipts	0	7
- Amounts applied to finance new capital investment in the year	(1,555)	(915)
- Appropriation to Income and Expenditure Account to meet payments in respect of the Capital Receipt Pool	(780)	(514)
Total increase/(decrease) in realised capital resources for the year	**(673)**	**156**
Balance brought forward at 1 April	3,118	2,445
Balance carried forward at 31 March	**2,445**	**2,601**

Usable capital receipts are receipts from the disposal of assets that have not yet been used to finance expenditure or repay debt. As indicated in Note 7 to the Housing Revenue Account, a proportion of specified housing related capital receipts is payable into a Government pool for redistribution. The code requires any amount paid to the pool to be disclosed as expenditure in the Comprehensive Income and Expenditure Statement even though the capital receipts themselves have not been recognised as income within the Comprehensive Income and Expenditure Statement. The deficit is made good by an equivalent appropriation from Usable Capital Receipts.

9B. Earmarked Reserves

The following statement shows the expenditure and income in respect of Earmarked Reserves for the year:

	Balance 01-Apr-11 £'000	Exp. 2011-12 £'000	Inc. 2011-12 £'000	Balance 31-Mar-12 £'000
Insurance Excess - Vehicles	15	5	1	11
Decriminalised Parking Reserve	9	0	0	9
Repairs & Renewals Reserve	65	70	100	95
Decriminalisation Reserve	14	36	59	37
Spend to Save Reserve	473	109	16	380
Olympics 2012 Reserve	191	27	0	164
Local Development Framework Reserve	250	0	0	250
Corporate Priorities Reserve	172	31	0	141
Buildings Improvement Reserve	169	18	93	244
Leisure Centre Reserve	26	143	272	155
Leisure Centre Maintenance Reserve	133	133	0	0
Pensions Reserve	21	0	51	72
Older Persons & Third Sector Reserve	50	50	0	0
DSO Provision for 3rd Party Insurance	10	0	0	10
Town Pier Pontoon	0	0	43	43
Local Authority Mortgage Scheme	0	0	100	100
	1,598	**622**	**735**	**1,711**

Expenditure funded by a reserve is charged direct to revenue, and not to the reserve, with an equivalent sum being shown as Contributions from Reserves.

These reserves have been established for the following purposes:-

Insurance Excess - Vehicles and Provision for 3rd Party Insurance - To meet liabilities in respect of insurance excesses for operational vehicles and 3rd party insurance claims.

Decriminalised Reserve and Decriminalised Parking Reserve - To provide replacement equipment and uniforms as and when required.

Repairs and Renewals Reserve - To assist in meeting the backlog in repairs and maintenance works to the council's assets over the forthcoming financial years.

Spend to Save Reserve - To assist in delivering savings over the forthcoming Medium Term Plan period.

Olympics 2012 Reserve – To assist in delivering the Olympics agenda within Gravesham. Funding of £135,000 towards this reserve was met from Kent Agreement 1 Grant, the balance coming from Gravesham's General Fund Balances.

Local Development Framework Reserve – To meet the financial liabilities arising from the Framework over the next three years.

Corporate Priorities Reserve - to deliver specific items during 2011-12 in line with the Authority's Corporate Plan.

Buildings Improvement Reserve - to assist with funding potential obligations over the forthcoming Medium Term Financial Plan cycle in relation to lease agreements.

Leisure Centre Reserve – to ring-fence accumulated gains arising from the Management Agreement for the Leisure Centres to contribute to any major infrastructure liabilities that may accrue.

Leisure Centre Maintenance Reserves – to fund ongoing landlord liabilities in relation to maintenance of the authority's two Leisure Centres within the Borough.

Pension Reserve – to assist in meeting the authority's longer-term liabilities in relation to its Pension Fund administered by Kent County Council.

Older Persons and Third Sector Reserve – to provide funding for the delivery of initiatives aimed at older persons and those organisations operating within the third sector.

Town Pier Pontoon – to assist with the ongoing maintenance costs in respect of the town pier pontoon

Local Authority Mortgage Scheme (LAMS) – the authority is exploring the benefits of entering into a LAMS agreement with Kent County Council to provide assistance with mortgages for residents in the Gravesham area. The council has deemed it prudent to set aside a fixed amount in order to cover the possibility of defaults on these mortgages.

10. Unusable Reserves

	2010-11 Restated £'000	2011-12 £'000
Revaluation Reserve Account	11,088	12,623
Capital Adjustment Account	240,787	131,358
Financial Instruments Adjustment Account	(320)	(278)
Deferred Capital Receipts Reserve (Mortgages)	44	121
Pensions Reserve (Note 31)	(30,673)	(47,184)
Collection Fund Adjustment Account (Note 5 Collection Fund)	(15)	15
Accumulated Absences Account	(41)	(123)
Total Unusable Reserves	**220,870**	**96,532**

10A. Revaluation Reserve Account

The Revaluation Reserve Account summarises the net gains or losses arising from Operational Asset revaluations during the year. The balance is reduced when assets with previously accumulated gains are:

- revalued downwards or impaired and the previous gains are lost or
- disposed of and the gains are realised in the Comprehensive Income and Expenditure Statement, with the Revaluation Reserve values being written off as part of the disposal.

The closing balance on the Revaluation Reserve Account represents the net gain realised on non-current assets from 2008-09 onwards:

	2010-11 Restated £'000	2011-12 £'000
Council Dwellings	(13,530)	0
Other Land and Buildings - GF	4,489	2,328
Other Land and Buildings - HRA	163	241
Community Assets	0	1
Non Operational Land and Buildings - GF	1,042	(768)
Non Operational Land and Buildings - HRA	145	(60)
Heritage Assets - GF	0	77
Total movement on reserve for the year	**(7,691)**	**1,819**
Adjustment between Historic and Current Depreciation	(249)	(284)
Balance brought forward at 1 April	19,028	11,088
Balance carried forward at 31 March	**11,088**	**12,623**

10B. Capital Adjustment Account

	2010-11 £'000	2011-12 £'000
Revenue Expenditure Funded from Capital under Statute Written Down	(2,997)	(694)
Capital Expenditure Financed by Revenue	520	1,595
Capital Receipts Financing Cap Expenditure	1,554	915
Government Grants Released	1,565	893
Capital Expenditure Financed by Commuted Sums	50	102
Minimum Revenue Provision	316	327
Grant Funding of REFCUS	2,373	409
MRA used to Finance Capital Expenditure	4,367	4,473
Reclassification of Assets	0	0
Depreciation Charge for the Year	(5,497)	(5,948)
Impairment Losses	(67,286)	(5,712)
Disposals During the Year	(1,030)	(921)
Principal Repaid - Transferred Services	18	17
Revaluation Reserve Adjustment	0	1,411
HRA Self Financing Loans	0	(106,246)
Long Term Debtors	0	(50)
Total movement on reserve for the year	**(66,047)**	**(109,429)**
Balance brought forward at 1 April	306,834	240,787
Balance carried forward at 31 March	**240,787**	**131,358**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve Account to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve Account was created to hold such gains.

10C. Financial Instruments Adjustment Account

This account is a balancing account to allow for differences in statutory requirements and proper accounting practices on borrowings and investments. This account represents the differences between costs in relation to financial instruments calculated in accordance with the Code where charges are different to those as calculated in accordance with statutory requirements.

	2010-11 £'000	2011-12 £'000
Premiums & discounts	93	93
Private Sector renovation loans	(40)	(51)
Total increase/(decrease) in Financial Instruments	53	42
Balance brought forward at 1 April 2011	(373)	(320)
Balance carried forward at 31 March 2012	**(320)**	**(278)**

10D. Accumulated Absences Account

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

	2010-11 £'000	2011-12 £'000
Balance at 1 April	(59)	(41)
Reversal of accrual from preceding year	59	41
Amount accrued at the end of the current year	(41)	(123)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	18	(82)
Balance at 31 March	(41)	(123)

11. Adjustments Between Accounting Basis and Funding Basis under Regulations

2010-11 (Restated)	Consolidated Income & Expenditure £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for impairment of non-current assets	67,286	0	0	(67,286)
Charges for depreciation of non-current assets	5,658			(5,658)
Amortisation of intangible assets	87	0	0	(87)
Capital grants and contributions applied	(8,344)	0	(11)	8,355
Revenue expenditure funded from capital under statute	2,997	0	0	(2,997)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,030	0	0	(1,030)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Statutory provision for the financing of capital investment	(316)	0	0	316
Capital expenditure charged against the General Fund and HRA balances	(520)	0	0	520
Repayment of Long Term Borrowing	(18)	0	0	18
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,600)	1,600	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,553)	0	1,553
Contribution from the Capital Receipts Reserve to finance the payments to the Governments capital receipts pool.	780	(780)	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	23	0	(23)
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(52)	0	0	52
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,836)	0	0	4,836
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,517)	0	0	3,517
Adjustment between General Fund and HRA				
Transfer of Revenue Balance	0	0	0	0
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(19)	0	0	19
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(17)	0	0	17
Total Adjustments	**58,599**	**(710)**	**(11)**	**(57,878)**

2011-12	Consolidated Income & Expenditure £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for impairment of non-current assets	5,521			(5,521)
Charges for depreciation of non-current assets	5,816			(5,816)
Movement in the fair value of Investment Properties	192			(192)
Amortisation of intangible assets	132			(132)
Capital grants and contributions applied	(5,871)		(5)	5,876
Revenue expenditure funded from capital under statute	694			(694)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	920			(920)
Statutory provision for the financing of capital investment	(327)			327
Capital expenditure charged against the General Fund and HRA balances	(1,595)			1,595
Repayment of Long Term Borrowing	(17)			17
HRA Self Financing	106,246			(106,246)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,589)	1,589		
Use of the Capital Receipts Reserve to finance new capital expenditure		(916)		916
Contribution from the Capital Receipts Reserve to finance the payments to the Governments capital receipts pool.	514	(514)		
Adjustments primarily involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		16		(16)
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(42)			42
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	2,709			(2,709)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,067)			3,067
Adjustment between General Fund and HRA				
Transfer of Revenue Balance				
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(30)			30
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	82			(82)
Total Adjustments	**110,288**	**175**	**(5)**	**(110,458)**

12. Other Operating Expenditure

2010-11 £'000		2011-12 Expenditure £'000	Income £'000	Net Expenditure £'000
216	Parish Precepts	227	0	227
780	Payments to the Housing Capital Receipts Pool	514	0	514
(570)	(Gains)/Losses on the disposal of non-current assets	920	(1,589)	(669)
426	**TOTAL**	1,661	(1,589)	72

13. Financing and Investment Income and Expenditure

2010-11 Net Expenditure £'000		2011-12 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
734	Interest payable and Similar Charges	742	0	742
1,744	Pensions Interest cost and return on pension assets	701	0	701
(98)	Interest receivable and similar income	0	(109)	(109)
12	(Gain)/Loss on Trading Undertakings (see below)	580	(646)	(65)
(431)	Income and Expenditure in relation to Investment Properties and changes in their fair value	954	(711)	243
1,961	**Total**	**2,977**	**(1,466)**	**1,512**

Trading Operations

The following surpluses and deficits have been realised in relation to Trading Operations carried out during 2011-12;

2010-11 Net Expenditure £'000		2011-12 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
6	Industrial Estates (not classified as Investment Properties)	107	(195)	(88)
63	Spotlites Café	137	(97)	40
(57)	Trade Refuse Services	336	(353)	(17)
12	**Total**	**580**	**(645)**	**(65)**

14. Taxation and Non-Specific Income

The Borough's funding requirements, including those of the parish councils, are met by a demand on the Collection Fund. These are shown as an expenditure item in the Comprehensive Income and Expenditure Statement of the Collection Fund.

2010-11 Income £'000		2011-12 Income £'000
(6,041)	Council Tax (see notes to the collection fund)	(6,113)
(7,370)	Business Rates (NNDR)	(4,955)
(1,184)	Non Ringfenced Government Grants (see table below)	(1,740)
(1,418)	Capital Grants and Contributions (see table below)	(990)
18	Transfer to the Collection Fund	7
(15,995)	**Total**	**(13,791)**

The following is an analysis of general government grants as per the Comprehensive Income & Expenditure Statement;

2010-11 Income £'000	General Government Grants	2011-12 Income £'000
(1,070)	Revenue Support Grant	(1,532)
(114)	Area Based Grant	(208)
(1,184)	**Total**	**(1,740)**

Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2011-12 in respect of funding capital expenditure for the year:

2010-11 Income £'000	Capital Grants and Contributions	2011-12 Income £'000
0	Southfield School Site	(26)
(79)	KCC Town Pier Pontoon	(483)
(322)	Transport Quarter Stage 3	0
(655)	Great Expectations Project	(145)
(28)	Cobham Woods Heritage Project (phases 1 and 2)	(27)
(23)	Civic Centre KCC Gateway	0
(6)	Manor Road Gate	0
(172)	Housing and Communities Agency	(172)
(38)	Leith Park Road (S106)	(102)
(43)	Big Lottery Fund	(7)
(52)	Woodlands Park Play Equipment (Union Railways)	0
0	Safer Stronger Communities	(28)
(1,418)	**Total**	**(990)**

15. Service Subjective Analysis (Segment Accounting)

Due to a change in political administration at the authority the portfolios have changed so the 2010-11 analysis has been restated to reflect these changes.

Service Subjective Analysis - Segment Reporting 2010-11 (Restated)

Heading	Leader £'000	Planning Delivery £'000	Business & Partnerships £'000	Community & Environment £'000	Public & Private Sector Housing £'000	Performance & Administration £'000	Total of Services £'000	HRA £'000	NCOS £'000	Corporate Accounting £'000	Total £'000
Brought Forward	0	0	0	0	0	0	0		0	(4,888)	(4,888)
Fees Charges and Other Service Income	(1,697)	(1,857)	(901)	(626)	(127)	(48)	(5,258)	(22,919)	(28,177)		(28,177)
Interest and Investment Income	0	0	0	0	0	0	0	(21)	(21)	(88)	(109)
Income from Council Tax	(19)	0	0	0	0	0	(19)	0	(19)	(14,444)	(14,463)
Government Grants	(37)	(88)	(625)	(218)	(215)	(41,693)	(42,876)	5,469	(37,407)	(1,543)	(38,950)
Other Income	(6,887)	(2,273)	(838)	(3,762)	(446)	(4,076)	(18,283)	(3,224)	(21,507)		(21,507)
Total income	**(8,640)**	**(4,219)**	**(2,365)**	**(4,606)**	**(789)**	**(45,818)**	**(66,437)**	**(20,695)**	**(87,131)**	**(20,963)**	**(108,095)**
Employee Expenses	**(5,460)**	**1,970**	1,248	4,127	369	2,340	4,593	2,627	7,220	10,097	17,317
Other Operating Expenses	4,714	630	1,543	3,153	256	665	10,960	9,205	20,165	(419)	19,746
Support Services	3,965	2,577	867	1,780	981	4,141	14,311	3,907	18,218		18,218
Capital and Financing Charges	(1,368)	112	2,058	930	669	78	2,480	69,689	72,169	(66,988)	5,181
Interest Payments	41	0	0	0	0	0	41	(93)	(52)	768	716
Precepts and Levies	(0)	0	0	0	0	0	(0)	0	(0)	216	216
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	0	0	0	780	780
Gain or Loss on the Disposal of Fixed Assets	0	0	0	0	0	0	0	0	0	(570)	(570)
Other Expenditure	729	0	0	0	0	39,813	40,543	245	40,788		40,788
Total Expenditure	**2,621**	**5,289**	**5,717**	**9,990**	**2,274**	**47,037**	**72,928**	**85,581**	**158,509**	**(56,116)**	**102,393**
Net Cost of Services	**(6,019)**	**1,070**	**3,352**	**5,384**	**1,485**	**1,219**	**6,491**	**64,886**	**71,377**	**(77,079)**	**(5,701)**

Service Subjective Analysis - Segment Reporting 2011-12											
Heading	Leader	Planning Delivery	Business & Partnerships	Community & Environment	Public & Private Sector Housing	Performance & Administration	Total of Services	HRA	NCOS	Corporate Accounting	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Brought Forward	0	0	0	0	0	0	0	0	0	(5,701)	(5,701)
Fees Charges and Other Service Income	(1,599)	(1,913)	(999)	(637)	(133)	(26)	(5,306)	(24,109)	(29,416)	0	(29,416)
Interest and Investment Income	(33)	0	0	(0)	(0)	0	(33)	(27)	(60)	(62)	(122)
Income from Council Tax	(30)	0	0	0	0	0	(30)	0	(30)	(12,563)	(12,593)
Government Grants	(203)	(94)	(340)	(208)	(255)	(43,715)	(44,815)	6,044	(38,771)	(1,197)	(39,969)
Other Income	(6,537)	(1,437)	(1,238)	(3,570)	(435)	(4,108)	(17,326)	(3,042)	(20,368)	0	(20,368)
Total income	**(8,403)**	**(3,444)**	**(2,577)**	**(4,415)**	**(823)**	**(47,848)**	**(67,510)**	**(21,135)**	**(88,645)**	**(19,524)**	**(108,169)**
Employee Expenses	3,541	1,919	1,194	3,978	308	2,217	13,157	2,479	15,635	1,059	16,694
Other Operating Expenses	2,926	641	1,545	3,074	279	252	8,718	114,736	123,453	(308)	123,145
Support Services	3,951	1,751	869	1,733	1,030	4,352	13,686	4,358	18,044	0	18,044
Capital and Financing Charges	771	167	1,515	66	354	59	2,931	7,553	10,484	(110,052)	(99,568)
Interest Payments	51	0	0	0	0	0	51	11	62	672	734
Precepts and Levies	0	0	0	0	0	0	0	0	0	227	227
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	0	0	0	514	514
Gain or Loss on the Disposal of Fixed Assets	0	0	0	0	0	0	0	0	0	(669)	(669)
Other Expenditure	847	0	0	0	0	41,643	42,491	302	42,793	0	42,793
Total Expenditure	**12,088**	**4,478**	**5,122**	**8,850**	**1,971**	**48,523**	**81,034**	**129,439**	**210,472**	**(108,557)**	**101,914**
Net Cost of Services	**3,685**	**1,034**	**2,546**	**4,436**	**1,148**	**675**	**13,524**	**108,304**	**121,827**	**(128,082)**	**(6,254)**

16. Members' Allowances

Members' allowances (including all payments in relation to remuneration) to the value of £221,504 were paid during 2011-12 (2010-11, £223,334) in accordance with the Gravesham Borough Council Members' Allowances Scheme.

Copies of the Scheme and the details of the allowances paid to elected Members for duties for 2011-12 can be inspected during office hours at the Civic Centre, Windmill Street, Gravesend, Kent, DA12 1AU.

17. Officers' Remuneration and Exit Packages

The number of employees whose remuneration, excluding pension contributions payable by the employer, was £50,000 or more, in bands of £5,000, are set out below. The second table provides additional detailed information in respect of senior officer remuneration.

The third table lists the exit packages that have been agreed by the authority during 2011-12.

2010-11 no.	Remuneration Band	2011-12 no.
4	£50,000 - £54,999	3
5	£55,000 - £59,999	6
3	£60,000 - £64,999	1
0	£65,000 - £69,999	2
2	£70,000 - £74,999	3
0	£75,000 - £79,999	1
0	£80,000 - £84,999	0
3	£85,000 - £89,999	0
1	£90,000 - £94,999	3
0	£95,000 - £99,999	0
0	£100,000 - £104,999	0
0	£105,000 - £109,999	0
0	£110,000 - £114,999	0
0	£115,000 - £119,999	0
1	£120,000 - £124,999	0

2010-11 (Restated)

Post Holder	Salary	Allow-ances	Expenses	Benefits in kind	Total Remuner-ation	Pension conts.	Total inc Pensions
Chief Executive	113,025	7,130	64	0	**120,219**	32,921	**153,140**
Director (Communities)	81,042	6,835	0	0	**87,877**	23,742	**111,619**
Director (Transformation and Finance)	81,042	1,794	0	5,059	**87,895**	29,946	**117,841**
Director (Business)	81,042	2,100	41	4,700	**87,883**	25,159	**113,043**
Director (Housing and Environment	81,042	1,683	0	3,448	**86,173**	29,946	**116,119**
Asst. Director (Business and Law)	65,380	1,684	223	4,721	**72,008**	23,472	**95,480**
Asst. Director (Transformation and Finance)	57,597	1,788	0	4,641	**64,026**	20,748	**84,774**

2011-12

Post Holder	Salary	Allow-ances	Expenses	Benefits in kind	Compensation for loss of office	Total Remuner-ation	Pension conts.	Total inc Pensions
Chief Executive	37,990	2,371	223	0	0	**40,584**	10,018	**50,602**
Director (Housing & Regeneration)	83,575	1,683	214	3,528	0	**89,000**	23,631	**112,631**
Director (Finance & Environment)	83,575	1,683	111	5,206	0	**90,575**	22,338	**112,913**
Director (Communities)	83,575	6,807	150	0	0	**90,532**	22,338	**112,870**
Assistant Director (Governance and Law)	65,380	1,683	0	4,721	0	**71,784**	17,571	**89,355**
Assistant Director (Finance)	62,267	1,683	285	4,685	0	**68,920**	16,755	**85,675**
Director (Housing)	34,201	1,131	0	2,442	40,000	**77,774**	15,012	**92,786**

The former Chief Executive of Gravesham Borough Council retired in August 2011. David Hughes was appointed as the joint Chief Executive of Tonbridge and Malling Borough Council and Gravesham Borough Council with effect from August 2011. He was previously the full time Chief Executive of Tonbridge and Malling Borough Council. He continues to be employed by Tonbridge and Malling Borough Council, and is shared with Gravesham Borough Council on a 50:50 basis, with the cost attributable to Gravesham Borough Council during 2011-12 being £60,654. The table of senior officer remuneration now reflects the fact that the previous Chief Executive retired part way through 2011-12, and the current Chief Executive is paid directly by Tonbridge and Malling Borough Council rather than Gravesham Borough Council.

The Director (Housing and Environment) left the authority in October 2011. Rather than recruit a new Director, it was decided to restructure the senior leadership team and as a consequence only three Directors are now employed by Gravesham Borough Council. This is reflected in the change in the post holder names compared to 2010-11.

The table above represents the monetary amounts or equivalents paid to officers during the year. Differences between officers are partly attributable to the form in which benefits (e.g. leased cars) are taken.

Pension contributions are those amounts paid by the authority into the KCC pension fund and are not directly receivable by the employee.

Expenses covers such items as train travel when attending external conferences and training events.

Exit Packages

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

	2010-11		2011-12	
	Number of Employees	Total Cost £	Number of Employees	Total Cost £
Compulsory Redundancies				
£0 - £19,999	-	-	2	12,183
£20,000 - £49,999	-	-	-	-
Other Agreed Departures				
£0 - £19,999	-	-	1	1,684
£20,000 - £49,999	1	20,587	3	82,050
TOTAL	1	20,587	6	95,917

18. Audit Commission Fees

In respect of 2011-12 the Council incurred the following fees relating to external audit and inspection.

2010-11 £'000		2011-12 £'000
114	Fees payable to the Audit Commission with regard to external audit services carried out	108
0	Fees payable to the Audit Commission in respect of statutory inspection	0
34	Fees payable to the Audit Commission for the certification of grant claims and returns	21
148		129

19. Agency Income and Expenditure

Under statutory powers, the Council has an agreement with Kent County Council to carry out Highways verge Maintenance on their behalf, with the Council being reimbursed by the

County Council to the extent of approved expenditure together with a contribution towards administrative costs. In accordance with the Code, expenditure and income in relation to the provision of this Agency service is not accounted for within the authority's Comprehensive Income and Expenditure Statement. During 2011-12, the following income and expenditure in relation to the provision of agency services was undertaken;

2010-11	Agency Service	2011-12		
Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
(16)	Highways Verge Maintenance	62	(78)	(16)
(16)	**Total**	**62**	**(78)**	**(16)**

20. Property Plant and Equipment

2010-11 Restatement

	Operational Assets (Restated)						Non-Op Assets		
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Heritage Assets	Assets Under Construction	Other Land & Buildings	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation									
As at 1 April 2010	295,621	26,292	4,878	355	7,064	2,914	290	6,468	**343,882**
Additions	5,537	1,367	228	0	691	0	290	2	**8,115**
Disposals	(662)	0	0	0	0	0	0	(369)	**(1,031)**
Revaluation increases recognised in the Revaluation Reserve	0	784	0	0	0	0	0	786	**1,570**
Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on Provision of Services	(13,529)	(46)	0	0	0	0	0	(2)	**(13,577)**
Reclassifications	(118)	5	0	0	(17)	0	0	135	**5**
Other Movements	0	0	0	0	(1)	0	0	0	**(1)**
As at 31 March 2011	**286,849**	**28,402**	**5,106**	**355**	**7,737**	**2,914**	**580**	**7,020**	**338,963**
Accumulated Depreciation and Impairments									
As at 1 April 2010	0	(8,548)	(3,295)	(148)	(4,576)	0	0	(1,930)	**(18,497)**
Depreciation charge for year	(4,367)	(989)	(293)	(9)	0	0	0	0	**(5,658)**
Accumulated Depreciation and Impairment written back on revaluation	0	4,196	0	0	0	0	0	85	**4,281**
Accumulated depreciation and impairment written back on disposal	0	0	0	0	0	0	0	1	**1**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(65,058)	(1,509)	0	0	(691)	0	0	(2)	**(67,260)**
Reclassifications	0	0	0	0	4	0	0	(4)	0
Other movements	0	0	0	0	0	0	0	0	0
As at 31 March 2011	**(69,425)**	**(6,850)**	**(3,588)**	**(157)**	**(5,263)**	**0**	**0**	**(1,850)**	**(87,133)**
Balance Sheet - 31 March 2011	**217,424**	**21,552**	**1,518**	**198**	**2,474**	**2,914**	**580**	**5,170**	**251,830**
Balance Sheet - 1 April 2010	**295,621**	**17,744**	**1,583**	**207**	**2,488**	**2,914**	**290**	**4,538**	**325,385**
Nature of Asset Holding									
Owned	217,424	21,552	1,518	198	2,474	2,914	580	5,170	**251,830**
Finance Lease	0	0	0	0	0	0	0	0	**0**

2011-12

	Operational Assets (Restated)						Non-Op Assets		
	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Heritage Assets £'000	Assets Under Construction £'000	Other Land & Buildings £'000	**Total £'000**
Cost or Valuation									
As at 1 April 2011	286,849	28,402	5,106	355	7,737	2,914	580	7,020	**338,963**
Additions	4,696	182	364	0	171	0	2,111	0	**7,524**
Disposals	(347)	0	0	0	0	0	0	(589)	**(936)**
Revaluation increases recognised in the Revaluation Reserve	0	140	0	0	0	77	0	0	**217**
Revaluation increases/ (decreases) recognised in the Surplus/ Deficit on Provision of Services	0	(1,047)	(7)	0	0	0	0	(413)	**(1,467)**
Reclassifications	680	0	0	0	0	0	(680)	0	**0**
Other movements	0	(85)	0	0	0	0	0	1	**(84)**
As at 31 March 2012	**291,878**	**27,592**	**5,463**	**355**	**7,908**	**2,991**	**2,011**	**6,019**	**344,217**
Accumulated Depreciation and Impairments									
As at 1 April 2011	(69,425)	(6,850)	(3,588)	(157)	(5,263)	0	0	(1,850)	**(87,133)**
Depreciation charge for year	(4,472)	(1,064)	(271)	(10)	0	0	0	0	**(5,817)**
Accumulated Depreciation and Impairment written back on revaluation	0	2,729	0	0	0	0	0	0	**2,729**
Accumulated depreciation and impairment written back on disposal	0	0	0	0	0	0	0	15	**15**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(3,567)	(182)	(119)	0	(171)	0	0	(14)	**(4,053)**
Other movements	0	85	0	0	0	0	0	0	**85**
As at 31 March 2012	**(77,464)**	**(5,282)**	**(3,978)**	**(167)**	**(5,434)**	**0**	**0**	**(1,849)**	**(94,174)**
Balance Sheet - 31 March 2012	**214,414**	**22,310**	**1,485**	**188**	**2,474**	**2,991**	**2,011**	**4,170**	**250,043**
Balance Sheet - 1 April 2011	**217,424**	**21,552**	**1,518**	**198**	**2,474**	**2,914**	**580**	**5,170**	**251,830**
Nature of Asset Holding									
Owned	214,414	22,310	1,485	188	2,474	2,991	2,011	4,170	**250,043**
Finance Lease	0	0	0	0	0	0	0	0	**0**

21. Heritage Assets

The requirement to separately disclose Heritage Assets on the Council's Balance Sheet resulted in the reclassification of a number of existing assets, and the introduction of some assets not previously included within the accounts.

As a result the Council has restated its Balance Sheet as at 1 April 2010 and 31 March 2011. This restatement resulted in the introduction of the asset class 'Heritage Assets', with three assets being reclassified from Community Assets, and four assets being recognised on the balance sheet for the first time (with a corresponding credit to the Revaluation Reserve). Items reclassified remain at the carrying value (historic cost), whilst the newly disclosed items have been included using their insurance valuations which is the best estimate of their value without incurring additional valuation fees.

	At 1 April 2010 £'000	At 31 March 2011 £'000	At 31 March 2012 £'000
Fort Gardens - Bandstand	67	67	67
Clock Tower	57	57	57
Telegraph Hill - Obelisk	1	1	1
Cobham Woods Mausoleum	2,500	2,500	2,575
Mayoral Chains	23	23	23
Civic Regalia	182	182	182
Museum Exhibits	84	84	86
TOTAL	2,914	2,914	2,991

Heritage Assets where the Council holds information on their cost or value are recognised on the Balance Sheet and detailed in the table above. Heritage Assets where the Council does not hold information on their cost or value, and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts, is not included in the Balance Sheet but disclosed in this note. These include the Fort Gardens Tunnels, and various war memorials in the borough.

22. Commitments under Capital Contracts

The Council has approved expenditure in future years of £8,341,530 (2010-11, £9,125,250) under its capital programme of which £1,496,000 (2010-11, £3,759,000) had been contracted as at 31 March 2012. The split between schemes contracted and not contracted are as follows:

Scheme	Expenditure approved and contracted at 31-Mar-12 £'000	Expenditure approved but not contracted 31-Mar-12 £'000
Decent Homes Expenditure	1,496	3,344
Health & Safety Works	0	900
Minor/Other Works	0	544
Renovation Grants	0	590
Other Schemes	0	1,468
TOTAL	1,496	6,846

23. Capital Expenditure and Sources of Finance

2010-11 Restated				2011-12		
Non-HRA £'000	HRA £'000	Total £'000		Non-HRA £'000	HRA £'000	Total £'000
9,412	(1,166)	8,246	*Opening Capital Financing Requirement*	9,593	(763)	8,830
			Capital Investment			
2,336	5,773	8,109	Operational Assets	2,359	111,411	113,770
18	118	136	Intangible Assets	32	108	140
2,997	0	2,997	Revenue Expenditure Funded from Capital Under Statute	694	0	694
104	0	104	Long Term Debtors	122	0	122
5,455	5,891	11,346		3,207	111,519	114,726
			Sources of Finance			
642	911	1,553	Capital Receipts	389	526	915
0	4,367	4,367	Major Repairs Reserve	0	4,472	4,472
3,765	172	3,937	Grants and Contributions	1,129	275	1,404
533	38	571	Revenue Contributions	1,595	0	1,595
4,940	5,488	10,428		3,113	5,273	8,386
316	0	316	Statutory Charge for Past Capital Expenditure	239	0	239
0	0	0	Voluntary Charge for Past Capital Expenditure	88	0	88
18	0	18	Charge for Transferred Debt	17	0	17
9,593	(763)	8,830	*Closing Capital Financing Requirement*	9,343	105,483	114,826
			Explanation of movements in year			
181	403	584	Increase in underlying need to borrowing (supported by Government financial assistance)	(250)	106,246	105,996
181	403	584	*Increase/(decrease) in Capital Financing Requirement*	(250)	106,246	105,996

24. Depreciation and Impairment

Service revenue accounts (excluding HRA) have been charged with an annual provision for depreciation during the year of £1,344,000, (£1,292,000, 2010-11) together with any impairment losses arising in respect of fixed asset revaluations. A reversing entry ensures that the overall revenue effect is neutral and that no cost falls to the local taxpayer.

The HRA depreciation is disclosed in note 8 of the notes to the HRA (page 85).

Impairment losses totalling £5,713,000 (£67,286,000 2010-11) have been recognised within the Comprehensive Income and Expenditure Statement during 2011-12, where these are in excess of the accumulated revaluation gains held within the Revaluation Reserve Account.

25. Revenue Expenditure Funded by Capital Under Statute

Revenue Expenditure Funded by Capital under Statute (REFCUS) relates to capital spend for which there will be no fixed asset (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 and Expenditure Statement in the same year that it was incurred.

	Expenditure 2010-11 £'000	Expenditure 2011-12 £'000
Transport Quarter	1,977	12
Neighbourhood Development Forum	40	0
Youth Initiatives	6	0
Empty properties	103	0
Housing Association Grants	13	0
Private Sector Renewal Grants	163	1
Disabled Facilities Grants	576	605
Coldbusters Grants	118	36
Community Engagement	0	40
Other	1	0
Total	**2,997**	**694**

26. Investment Properties

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

Investment Properties - Revenue Movements	2010-11 £'000	2011-12 £'000
Rental Income from Investment Property	(1,003)	(954)
Direct operating expenses from Investment Property	572	711
Net (Gain)/Loss	**(431)**	**(243)**

The market value of Investment Properties on the Balance Sheet as at 31 March 2012 is £7,900,000 (2010-11 £8,092,000). The asset valuations were conducted by BPS Chartered Surveyors.

27. Debtors including Impairment Provision

2010-11 £'000		2011-12 £'000
	Current (falling due within one year)	
6,823	Government departments	2,660
1,967	Kent County Council (inc. Collection Fund)	1,630
244	Kent Police (Collection Fund)	194
119	Kent Fire and Rescue (Collection Fund)	95
1,651	Housing tenants	1,689
4	Mortgagors (instalments)	4
601	Advance payments	341
858	Council Tax payers	839
4,951	Sundry debtors	5,547
0	Holding Accounts	0
17,218		12,999
(3,609)	Debt Impairment Provision	(4,121)
13,609		8,878
	Long-term (falling due after one year)	
1	Long Term Investments	
	Car Loans	1
187	Private Sector Renewal Loans	257
44	Mortgagors (principal outstanding)	28
232		286
13,841		9,164

The Debt Impairment Provision is in respect of arrears for the following: Housing Rents £969,000 (2010-11, £897,000), Council Tax £593,000 (2010-11, £580,000), Costs and Penalties £552,000 (2010-11 £460,000) and Sundry Debtors £2,007,000 (2010-11, £1,672,000).

28. Current Assets Held for Sale

Current Assets Held for Sale are those assets that are available for immediate sale, that are being actively marketed and are expected to be sold within one year of the date of classification. As at 31 March 2012 the Council has no properties that satisfy the criteria for classification as Current Assets Held for Sale (2010-11 nil).

29. Creditors

2010-11 £'000	Source	2011-12 £'000
1,030	Government departments	688
876	Kent County Council (Collection Fund)	469
70	Kent Police Authority (Collection Fund)	57
34	Kent Fire and Rescue Service (Collection Fund)	28
389	Housing tenants	401
103	Depositors	96
376	Advance receipts	887
89	Council Tax payers	72
41	Accumulated Absences	123
5,607	Sundry creditors	4,493
589	Holding Accounts	339
9,204		7,653

30. Cash and Cash Equivalents

The net balance of Cash and Cash Equivalents at the Balance Sheet date is made up of the following elements.

			Movement
2010-11 £'000		2011-12 £'000	2011-12 £'000
(1,022)	Cash in hand/(Overdrawn)	(309)	713
6,900	Short Term Deposits	10,750	3,850
5,878	Balance outstanding at 31 March	10,441	4,563

31. Pension Costs

Participation in the Pension Scheme

Employees of Gravesham Borough Council may participate in the Kent County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme. The fund is administered by Kent County Council in accordance with the Local Government Pension Scheme Regulations 2007-08 as amended. The latest formal valuation of the Kent County Council Pension Fund for funding purposes was at 31 March 2012. As required under IAS 19 ‘Employee Benefits’, the valuation method used is the projected unit method of valuation. With this method, where the age profile of the active membership is rising, the current service cost will increase as the members of the scheme approach retirement.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, in accordance with IAS19, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure. This ensures there is no cost to the local taxpayer.

Under IAS19, the Council is required to provide details of assets and future liabilities for pensions payable to Council staff, both past and present.

The movement in the net pension liability is as follows:

2010-11 £'000		2011-12 £'000
(67,073)	**Surplus/(Deficit) at 1 April**	**(30,673)**
(2,953)	Current Service Cost	(2,113)
3,517	Employer Contributions	3,067
172	Contributions re: Unfunded Benefits	168
9,373	Past Service Costs	0
(12)	Settlements & Curtailments	(63)
(1,744)	Net Return on Assets	(701)
28,047	Actuarial Gains/(Losses)	(16,869)
(30,673)	**Surplus/(Deficit) at 31 March**	**(47,184)**

The following transactions, derived from an Actuarial Valuation for the purposes of IAS19 have been made in the Comprehensive Income and Expenditure Statement during the year:

2010-11 £'000		2011-12 £'000
	Income and Expenditure Account	
2,953	Current service cost	2,113
(9,373)	Past service costs	0
12	Settlements and Curtailments	63
(172)	Contributions re: Unfunded Benefits	(168)
(6,580)		**2,008**
	Net Operating Expenditure:	
6,182	Interest cost	5,488
(4,438)	Expected return on assets in the scheme	(4,787)
1,744	**Net Charge to the Income and Expenditure Account**	**701**
8,353	Movement on pensions reserve	358
3,517	**Employers' contributions payable to scheme**	**3,067**

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2012 are as follows:

2010-11 £'000		2011-12 £'000
69,975	Estimated assets in scheme	71,023
98,825	Present Value of Scheme Liabilities	116,322
1,823	Present Value of Unfunded Liabilities	1,885
100,648	Total Value of Liabilities	118,207
(30,673)	**Net Asset/(Liability)**	**(47,184)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net pension liability is matched by an equivalent Pensions Reserve of £47,184,000. 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. Barnett Waddingham, an independent firm of actuaries, has assessed the Fund's liabilities.

Gravesham Borough Council's net liability on the Kent County Council Pensions Fund at 31 March 2011 is £47,184,000, (£30,673,000 at 31 March 2011), giving a increase in liability of £16,511,000.

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. The liabilities are valued using a real discount rate based on corporate bond yields in excess of expected inflation. Corporate bond yields have steadily fallen during the year leading to an increase in liabilities. Also, this financial year has seen falls in the value of scheme assets, notably equities.

IAS19 does not directly impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contributions are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The movement to the Fund is set out in more detail in this note to the Core Financial Statements. The total liability has an impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains sound. The deficit on the scheme will be recovered through increased contributions over the remaining life of the employees as assessed by the actuary.

The reconciliation of the present value of the scheme liabilities is shown below;

2010-11 £'000		2011-12 £'000
129,150	**Liabilities Brought Forward**	**100,648**
2,953	Current Service Cost	2,113
6,182	Interest Cost	5,488
788	Contributions by Employees	743
(24,422)	Actuarial (gains) and losses	13,801
(9,373)	Past Service Costs	0
12	Losses and (gains) on Curtailments	63
(4,470)	Benefits Paid	(4,481)
(172)	Unfunded Benefits Paid	(168)
100,648	**Liabilities Carried Forward**	**118,207**

The reconciliation of fair value of employer assets is shown below;

2010-11 £'000		2011-12 £'000
62,077	**Assets Brought Forward**	**69,975**
4,438	Expected Return on Assets	4,787
788	Contributions by Employees	743
3,517	Contributions by the Employer	3,067
172	Contributions re: Unfunded Benefits	168
3,625	Actuarial Gains/(Losses)	(3,068)
(172)	Unfunded Benefits Paid	(168)
(4,470)	Benefits Paid	(4,481)
69,975	**Assets Carried Forward**	**71,023**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000		2011-12 £'000
57,220	46,060	62,077	69,975	Fair Value of Employer Assets	71,023
(85,610)	(83,750)	(129,150)	(100,648)	Present Value of Defined Benefit Obligation	(118,207)
(28,390)	**(37,690)**	**(67,073)**	**(30,673)**	**Surplus/(Deficit)**	**(47,184)**
(10,050)	(15,190)	13,054	3,625	Experience Gains/(Losses) on Assets	(3,068)
1,170	80	456	11,096	Experience Gains/(Losses) on Liabilities	(34)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £47,184,000 has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority 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 Local Government Pension Scheme by the council in the year to 31 March 2013 is £2,877,000.

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 County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, with estimates for the County Council Fund being based on the last full valuation of the scheme as at 31 March 2011.

The main assumptions used in their calculations have been:

2010-11		2011-12
	Long Term Expected Rate of Return on Scheme Assets;	
7.4%	Equity Investments	6.3%
4.4%	Gilts	3.3%
5.5%	Bonds	4.6%
5.4%	Property	4.3%
3.0%	Cash	3.0%
	Mortality Assumptions (Years)	
19.8	Longevity at 65 for Current Pensioners (Men)	20
23.9	Longevity at 65 for Current Pensioners (Women)	24
21.9	Longevity at 65 for Future Pensioners (Men)	22
25.8	Longevity at 65 for Future Pensioners (Women)	25.9
	Other Assumptions	
3.5%	Rate of Inflation (RPI)	3.3%
2.7%	Rate of Inflation (CPI)	2.5%
5.0%	Rate of increase in Salaries	4.7%
2.7%	Rate of increase in Pensions	2.5%
6.9%	Expected Return on Assets	5.8%
5.5%	Rate of discounting Scheme Liabilities	4.6%

The discount rate employed is the yield available on long-dated, high quality corporate bonds (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years), at the IAS19 valuation date, in accordance with CIPFA guidance.
Local Government Pension Scheme Assets consist of the following categories, by proportion of the assets held;

2010-11			2011-12	
Fund Value £'000	Proportion %		Fund Value £'000	Proportion %
53,181	76.0	Equities	52,558	74.0
700	1.0	Gilts	710	1.0
8,397	12.0	Bonds	7,102	10.0
6,298	9.0	Property	6,392	9.0
1,399	2.0	Cash	2,841	4.0
0	0.0	Target Return Portfolio	1,420	2.0
69,975	**100.0**		**71,023**	**100.0**

History of Experience Gains and Losses
The history of actuarial gains/ losses identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities:

2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000		2011-12 £'000
(10,050)	(15,190)	13,054	3,625	Experience Gains/(Losses) on Assets	(3,068)
57,220	46,060	62,077	69,975	Value of Assets	71,023
-17.6%	-33.0%	21.0%	5.2%	Percentage of Assets	-4.3%
1,170	80	456	11,096	Experience Gains/(Losses) on Liabilities	(34)
85,610	83,750	129,150	100,648	Total Present Value of Liabilities	118,207
1.4%	0.1%	0.4%	11.0%	Percentage of the Total Present Value of Liabilities	0.0%

Included within "experience gains/losses on liabilities" in the table above is a loss of £1,885,000 (2010-11: £1,823,000) relating to unfunded pension liabilities.

Information can also be found in Kent County Council's Superannuation Funds Annual Report which is available upon request from the Investment Section, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

32. Contingent Gains/Assets

A contingent gain or asset arises where a possible asset could arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

There are no contingent gains/assets relevant to the authority at this time.

33. Contingent Liabilities

Contingent Liabilities may arise from past events but their existence is uncertain and may arise from circumstances outside of the authority's control.

The following areas have been highlighted as potential Contingent Liabilities that may result in additional cost (unbudgeted) to the authority in the future:

Personal Search Fees
Fees charged in respect of property searches during the period 2005 – 2010 are the subject of ongoing group litigation between all local authorities in England & Wales, and a number of property search companies. We await the outcome of this legal process.

POST BALANCE SHEET EVENTS

There are no other events arising after the balance sheet date known at this time which either have a material effect on the financial position at the year-end or the fair presentation of the financial statements. The last date on which post balance sheet events were considered was 29 June 2012.

34. Financial Instruments and Financial Risks

(a) <u>Financial Instruments – Classifications</u>

The requirements for accounting for financial instruments are based on IFRS 7 and IFRS 9. The 2010 Code of Practice notes that where they continue to be relevant, the transitional provisions of the UK standards adopted by the 2007 SORP remain.

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 and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives. Typical financial instruments are:

Liabilities
- trade payables and other payables
- borrowings
- financial guarantees

Assets
- bank deposits
- trade receivables
- loans receivable
- other receivables and advances
- investments
- derivatives, swaps, forwards, options

Some types of financial instruments covered by IAS 39 are not covered by the Code because they are not relevant to entities that do not issue equity instruments. These are shown below and are covered in more detail elsewhere in the Council's Statement of Accounts:-

- rights and obligations under leases
- employers' rights and obligations under pension schemes and
- joint ventures

A financial asset or a financial liability should be recognised on the Balance Sheet when, and only when, the holder becomes a party to the contractual provisions of the instrument. Trade receivables are an exception. The receivable is not recognised when an authority becomes committed to supply the good or service but when the ordered goods or services have been delivered or rendered. Similarly, a trade payable is recognised when the ordered goods or services have been received.

In the case of a financial liability an authority does not become a party to the contractual provisions of the instrument unless one of the parties has performed. For example, a loan debt contract is recognised when the cash lent is received rather than when the authority became committed to the loan agreement.

IAS 39 requires financial assets to be classified as one of:

- Fair value through profit or loss
- Available-for sale - this category includes Money Market Funds and are initially measured and carried at fair value. Money Market Funds 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
- Held to maturity, or
- 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 must be classified as:

- Fair value through profit or loss, or
- Financial liabilities

Financial assets and liabilities are initially recognised at fair value plus, if not categorised as fair value through profit or loss, transaction costs.

Subsequent measurement depends which of the above categories the financial instrument is classified as. 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 associated risks and rewards are transferred.

Financial liabilities are derecognised when the obligation specified in the contract expires, is cancelled or discharged

Balances in money market funds and call accounts at 31st March 2012 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) <u>Financial Instruments – Balances</u>

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31-Mar-11 £000s	31-Mar-12 £000s	31-Mar-11 £000s	31-Mar-12 £000s
Financial liabilities (principal amount) ‘+ accrued Interest (note accrued interest will be S/T)	9,066 -	111,951 -	104 250	3,368 -
Financial liabilities at amortised cost (1)	9,066	111,951	354	3,368
Total borrowings	**9,066**	**111,951**	**354**	**3,368**
Total creditors	**-**	**-**	6,237	4,955
Cash Overdrawn			1,022	309
TOTAL FINANCIAL LIABILITIES	**9,066**	**111,951**	**7,613**	**8,632**
Loans and receivables (principal amount)	**1**	**1**	**-**	**-**
Loans and receivables at amortised cost (1)	**1**	**1**	**7,900**	**10,750**
Total investments	**1**	**1**	**7,900**	**10,750**
Loans and receivables	44	28	-	-
Financial assets carried at contract amounts	-	-	8,439	5,547
Total debtors	**44**	**28**	**8,439**	**5,547**
Soft loans provided (4)	**187**	**257**	**-**	**-**
TOTAL FINANCIAL ASSETS	**232**	**286**	**16,339**	**16,297**

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measures by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instruments, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Fair value has been measures by:

- Direct reference to publishe price quotations in active marke; and/or
- Estimating using a valuation technique.

The Council has made 10 loans to private sector residents at less than market rates (soft loans). The details of these are below. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest that the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed tby a transfer to or from the Finanacial Instruments Adjustment Account. The detailed soft loans information is as follows:

Soft Loans	31 March 2012	31 March 2011
Opening Balance	187	124
'+ New loans granted	122	104
'- Fair value adjustment	(65)	(50)
'+ Increase in the discounted amount	13	9
Balance carried forward	**257**	**187**
Nominal value carried forward	**257**	**187**

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the PWLB rate equivalent to the remaining life of the loan and adding an allowance for the risk that loan might not be repaid of 2%.

Employee Car Loans

The authority has issued one loan of £2,500 for car purchase to an employee in the authority during 2011-12 at a rate of 6.25%.

Financial instruments Gains/Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

Financial Instruments Gains and Losses 2011-12					
	Financial liabilities	Financial Assets			
	Liabilities measured at amortised cost £000s	Loans and receivables £000s	Available-for-sale assets £000s	Fair value through the I&E £000s	Total £000s
Interest expense	741				741
Impairment losses (Debt Impairment Provision)	4,121				4,121
Impairment losses (soft loans)	51				51
Total expense in Surplus or Deficit on the Provision of Services	**4,913**	**-**	**-**	**-**	**4,913**
Interest Income		(109)	-	-	(109)
Total income is Surplus or Deficit on the Provision of Services	**-**	**(109)**	**-**	**-**	**(109)**
Net gain/(loss) for the year	**4,913**	**(109)**	**-**	**-**	**(109)**

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, borrowing/premature repayments rates from the PWLB have been applied to provide fair value under PWLB debt redemption procedures
- For loans receivable prevailing benchmark market rates have been used to provide the fair value
- No early repayment or impairment is recognised
- Where an instrument has a maturity of less than 12 months or is trade or other receivable the fair value is taken to be the carrying amount or the billed amount
- The fair value of trade and other receivables is taken to be the invoice or billed amount

The fair value of EIP loan was incorrect stated for 2010-11 short term investments as it did not include £1 million short term debtors, it has been restated to reflect trade debtor only. The fair values calculated are as follows:

Restated				
Carrying Amount 2010-11 £'000	**Fair Value 2010-11 £'000**		**Carrying amount 2011-12 £'000**	**Fair Value 2011-12 £'000**
729	721	PWLB debt (EIP Loan)	648	680
-	-	PWLB debt (Maturity Loan)	106,246	98,232
8,418	11,239	Other Long term borrowing	8,401	12,254
273	273	Short term borrowing	24	24
6,237	6,237	Short term creditors	4,955	4,955
15,657	**18,470**	**Total Liabilities**	**120,274**	**116,145**

5,878	5,878	Cash and Cash Equivalents	10,441	10,441
1,000	1,000	Short term investments (not inc above)	0	0
1	1	Long term investments	1	1
8,439	8,439	Short term debtors	5,547	5,547
187	187	Long term debtors – soft loans	257	257
44	44	Long term debtors - mortgages	28	28
15,549	**15,549**	**Total Assets**	**16,274**	**16,274**

The fair value of liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Disclosure of nature and extent of risk arising from Financial Instruments

Key Risk

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit Risk** – the possibility that other parties might fail to pay amounts due to the Council.

- **Liquidity Risk** – the possibility that the authority might not have the funds available to meet its payment commitments.

- **Re-financing Risk** – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.

- **Market Risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markes, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003. These require the Council to comply with the CIPFA Prudential Code and the CIPFA Code of Treasury Management in the Public Services and investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses within its constitution;
- By approving annually in advance prudential and treasury indicators for the following thre years limiting:
    - The Council's overall borrowing
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start if the year to which they relate. These itemsa are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is mid-year update.

The annual treasury management strategy was approved by Council on 22 February 2011. An update to the treasury management strategy was approved by Council on 18 October 2011 and included revised prudential indicators. Both documents are available on the Council website. The key issues within the strategy were:

- The authorised Limit for 2011/12 was set at £143.2m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £141.7m. The is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% based on the Council's net debt.

These policies are implemented by a team within Financial Services. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are periodically reviewed.

Credit Risk

Credit Risk arises from deposits with banks and financial institutions (counterparties), as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied.

This Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three agencies – Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current ratings of counterparties but also uses the following overlays:

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factorsm, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by Gravesham BC.

The Authority's maximum exposure to credit risk in relation to its investment in banks and building societies of £2m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at 31 March 2012 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect and losses from non-performance by any of its counterparties in relation to deposits and bonds.

	Value as at 31 March 2012	% Default based on previous experience	% Default adjusted for current market conditions	Estimated maximum exposure to default
	£'000	**%**	**%**	**£'000**
Deposits with Banks/Financial Institutions				
Barclays	2,000	0.00%	0.00%	0
Lloyds	1,000	0.00%	0.00%	0
Nationwide	2,000	0.00%	0.00%	0
Deutsche Managed Sterling Fund	500	0.00%	0.00%	0
Goldman Sachs Sterling Reserves Fund	2,000	0.00%	0.00%	0
Invesco STIC Global Sterling Institutional Shares	1,000	0.00%	0.00%	0
Natwest - Special Interest Bearing Account	2,000	0.00%	0.00%	0
Co-op Public Sector Reserve	250	0.00%	0.00%	0
	10,750			0

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

Counterparty	Credit Rating Criteria Met When Investment Placed?	Credit Rating Criteria Met on 31/03/2012?	Balance Invested as at 31 March 2012 £000			Total £'000
	YES/NO	**YES/NO**	**Up to 1 month**	**Up to 2 month**	**Up to 3 month**	
			£'000s	**£'000s**	**£'000s**	
Banks - UK	YES	YES	2,250	0	3,000	**5,250**
Banks - Non UK	N/A	N/A	N/A	N/A	N/A	**N/A**
Total Banks			**2,250**	**0**	**3,000**	**5,250**
Building Societies - UK	YES	YES	0	0	2,000	**2,000**
Money Market Funds	YES	YES	3,500	0	0	**3,500**
Call Accounts	N/A	N/A	0	0	0	**0**
Total			**5,750**	**0**	**5,000**	**10,750**

Collateral – During the reporting period the council held no collateral as security.

(i) Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a cash flow management, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has access to borrowing from the Public Works Loans Board and money markets for longer term funds. The Council is also required to provide a balanced budget through the Local Government Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of financial liabilities, excluding sums due from customers, is a follows:

Restated 2010-11 £000s		2011-12 £000s
98	Less than 1 year	3,367
98	Between 1 and 2 years	2,142
98	Between 2 and 3 years	2,082
197	Between 3 and 5 years	5,727
8,397	Between 5 and 10 years	33,251
32	Between 10 and 15 years	45,709
245	More than 15 years	23,040
9,165	Total	**115,318**

The financial assets can also be categorised by lender

2010-11 £000s		2011-12 £000s
8,000	LGS Investment PLC	8,000
648	Public Works Loans Board (PWLB)	106,894
418	Administered by other Local Authorities	418
0	Other Borrowings	6
9,066	Total	**115,318**

Refinancing and Maturity risk

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

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

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Full Council in the Treasury Management Strategy).

Actual 31 March 2011 £000s	Actual 31 March 2011 %		Approved limits		Actual 31 March 2011 £000s	Actual 31 March 2011 %
			Min	Max		
98	1.07	Less than 1 year	0%	50%	3,367	2.91
98	1.07	Between 1 and 2 years	0%	50%	2,142	1.86
98,073	3.22	Between 2 and 5 years	0%	75%	7,809	6.77
8,397	91.62	Between 5 and 10 years	0%	75%	33,251	28.83
277	3.02	More than 10 years	0%	100%	68,749	59.62
106,943	**100**	**Total**			**115,318**	**100**

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 and 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 and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, 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, subject to influences from Government grants (i.e HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. The risk of interest rate loss is partially mitigated by government grant payable on financing costs.

Albeit those interest rates have remained static and at historically low levels over the last couple of years, the Council remains exposed to risk due to potential movements in interest rates. If all interest rates had been 1% higher (with all other variables held constant) the financial effect on investment income would be about £178,000.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilites carried at Amortised Cost.

<u>Price Risk</u>

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 2012, these bonds were valued at cost at £413.

<u>Foreign Exchange Risk</u>

The Council has no financial assets or liabilities held in foreign currency and therefore are not exposed to any gains or losses arising from movements in exchange rates.

35. Leasing

The requirements of the IFRS reporting standards impact significantly on the Council's leasing arrangements. This has led to a detailed review of the leases operated by the Council for both Vehicles Plant and Equipment and for Land and property as both lessee and lessor. The existing lease registers have been amended to satisfy the requirements of IFRS both in representing this document and for future assessment and management of the lease portfolio.

Finance Leases

At 31 March 2012, the Council had not entered into any finance leases, and as such, no non-current assets held on the Balance Sheet are in relation to finance lease arrangements.

Operating Leases

The Council uses "leased cars", fleet vehicles, computer hardware and printing equipment financed under the terms of operating leases. The amount paid under these arrangements in 2011-12 was £536,000 (2010-11, £586,000).
The future cash payments required under these leases are payable as follows:

	Vehicles Plant and Equipment £'000	Land and Property £'000
Amounts payable next year	468	228
Amounts payable in the 2nd to 5th subsequent years	322	296
Amounts payable from the 6th subsequent year onwards	0	21
Total	**790**	**545**

An analysis of the operating lease payments that the authority is committed to make in the next financial year analysed between those leases that will expire in the next year, in the second to fifth subsequent years, and from the sixth subsequent year onwards:

	Vehicles Plant and Equipment £'000	Land and Property £'000
Expiring in the next Financial year	259	62
Expiring in the 2nd to 5th subsequent years	209	145
Expiring from the 6th subsequent year onwards	0	21
Total	**468**	**228**

Disclosure as a Lessor

The Council acts as a lessor on a portfolio of commercial properties for which rentals for 2011-12 amounted to £1,234,000 (£1,362,000 2010-11). The net book value of these assets within the balance sheet is £9,555,000 (2010-11 £9,979,000).

Property	Income 2010-11 £'000	Income 2011-12 £'000	Balance Sheet Value £'000	Depreciation £'000
Imperial	150	173	0	0
Springhead			3,300	0
- A	31	31		
- D, E, F, G	139	22		
- H, I	67	36		
- J1	36	46		
- K + Option	46	76		
- K	14	14		
- Other	216	155		
Brookvale Workshop	15	14	100	0
Miscellaneous	122	119	0	0
Stonebridge Road	7	7	167	0
HRA Shops	201	218	1,388	81
Norfolk Road	123	128	1,800	0
St Georges	195	195	2,800	0
Total	**1,362**	**1,234**	**9,555**	**81**

The future cash receipts expected over the full life of the leases are as follows:

As at 31 March 2012	Land and Property £'000
Amounts receivable next year 2012-13	802
Amounts receivable in the 2nd to 5th subsequent years	2,087
Amounts receivable from the 6th subsequent year onwards	25,576
Total	**28,465**

An analysis of the operating lease sums receivable that the authority is expected to receive in the next financial year analysed between those leases that will expire in the next year, in the second to fifth subsequent years, and from the sixth subsequent year onwards:

As at 31 March 2012	Land and Property £'000
Amounts receivable next year 2012-13	67
Amounts receivable in the 2nd to 5th subsequent years	306
Amounts receivable from the 6th subsequent year onwards	429
Total	**802**

	Land and Property £'000
Amounts receivable next year	412
Amounts receivable in the 2nd to 5th subsequent years	302
Amounts receivable from the 6th subsequent year onwards	441
Total	**1,155**

36. Trust Funds

The Council currently administers five trust funds, all of which are registered charities. In none of these cases does the Council act as sole trustee.

The charities are varied in nature and relate principally to legacies left by individuals. These funds do not represent assets of the Council and, consequently, have not been included in the Balance Sheet. Funds are invested both in external marketable securities and on short-term deposit, either with Banks or Building Societies, or with the Council itself.

The principal fund is the Bonham Hayes Fund established for the relief of poverty in the Parish of Cobham. It had a fund balance as at 31 March 2011 of £35,840 (market value £54,940) and in 2011-12 gross income and expenditure were £2,260 and £1,800 respectively. The remaining four funds had a total fund balance of £1,160 and a combined gross income and expenditure of £20 and £0 respectively.

37. Provisions

Municipal Mutual Insurance Company (MMI) was the leading provider of local authority insurances for many years until 1992 when the company failed and went into ‘run-off’. Currently, what remains of MMI is still solvent and the known and anticipated liabilities arising from prior years’ insured risks will be met from the company’s assets. If a solvent run-off is not achieved, councils (and other creditors) may be liable to repay sums that have previously been paid out on their behalves in settlement of claims. It appears likely that the call on the council’s contribution will be required, although nothing is confirmed at this stage, thus requiring a provision. As at 31 March 2012 the estimated maximum liability to clawback is the total carried forward claim payments is £169,400.

HOUSING REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

2010-11 Actual £'000		2011-12 Actual £'000
	EXPENDITURE	
7,002	Repairs and Maintenance	6,826
5,353	Supervision & Management	5,285
7	Rents, rates, taxes and other charges	11
5,699	Negative HRA Subsidy payable [note 10]	6,188
	Depreciation of Non Current Assets [note 8]	
4,367	Dwellings	4,472
89	Non-dwellings	160
65,058	Impairment of Non Current Assets [note 9]	3,614
43	Debt Management Costs	93
142	Debt Impairment Provision [note 13]	194
	Sums directed by the Secretary of State	
0	Payment to the Secretary of State (Self Financing Settlement) (note 17)	106,246
87,760	**Total – Expenditure**	133,089
	INCOME	
(21,056)	Dwelling rents [note 12]	(22,053)
(467)	Non-dwelling rents	(524)
(1,305)	Charges for Services and Facilities [note 14]	(1,450)
(346)	Contribution towards expenditure [note 16]	(336)
(23,174)	**Total – Income**	(24,363)
64,586	**NET COST OF SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**	108,726
71	HRA Services Share of Corporate & Democratic Core	69
64,657	**NET INCOME FOR HRA SERVICES (COST IF POSITIVE)**	108,795
(571)	Gain or (loss) on sale of HRA non-current assets	(398)
93	Amortised Premiums and Discounts	94
(19)	Interest and Investment Income [note 15]	(27)
	Taxation and Non-specific grant income	(275)
64,160	**(SURPLUS) OR DEFICIT FOR THE YEAR ON HRA SERVICES**	108,189

STATEMENT OF MOVEMENT ON THE HRA BALANCE

The HRA income and expenditure account shows the Income and Expenditure on HRA services included in the whole authority Income and Expenditure Account.

This reconciliation statement summarises the differences between the out-turn on the HRA Income and Expenditure Accounts and the HRA Balance.

2010-11 Actual £'000		2011-12 Actual £'000
(2,280)	**HRA BALANCE BROUGHT FORWARD**	**(2,591)**
64,160	**(SURPLUS) OR DEFICIT FOR THE YEAR ON HRA SERVICES**	**108,189**
	ITEMS INCLUDED IN THE HRA INCOME AND EXPENDITURE ACCOUNT BUT EXCLUDED FROM THE MOVEMENT ON HRA BALANCE FOR THE YEAR;	
(65,058)	Adjustments between accounting basis and funding basis under statute	(3,397)
	Self Financing Settlement (note 17)	(106,246)
571	Gain/(Loss) on sale of HRA non-current assets	398
105	HRA share of contributions to or from the Pensions Reserve (Note 11)	142
(64,382)		**(109,103)**
(89)	Transfer to/(from) Major Repairs Reserve (Note 5)	**(102)**
(311)	**(INCREASE) OR DECREASE IN THE HRA BALANCE DURING THE YEAR**	**(1,016)**
(2,591)	**BALANCE ON THE HRA AT THE END OF THE CURRENT YEAR**	**(3,607)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. General

The Housing Revenue Account (HRA) is subject to a financial regime prescribed by the government whereby it is effectively 'ring-fenced', which means the extent to which rents can be subsidised from the general income of the Council has been limited to special circumstances. Similarly, transfers from the HRA to the General Fund are also subject to control.

2. Housing Stock

As at 31 March 2012, the Council had 5,804 dwellings (2010-11, 5,876). This represents a net reduction in Council housing stock of 72 properties during 2011-12, as a result of the sale of properties under the Right to Buy scheme, Phase 3 of Christianfields demolitions and five new built properties.

A profile of the age and type of dwellings held is set out below:

	AGE				
	Pre 1919	1919-44	1945-64	Post 1964	Total
FLATS					
- 1 bedroom	0	18	480	1,288	1,786
- 2 bedrooms	0	0	153	283	436
- 3 bedrooms	0	0	105	235	340
HOUSES and BUNGALOWS					
- 1 bedroom	0	18	67	104	189
- 2 bedrooms	17	144	357	207	725
- 3 bedrooms	3	819	993	285	2,100
- 4 bedrooms	0	117	95	16	228
TOTALS	**20**	**1,116**	**2,250**	**2,418**	**5,804**

3. HRA Asset Values

The opening and closing balance sheet values for HRA assets is shown below:

31-Mar 2011 £'000		31-Mar 2012 £'000
217,424	Operational Assets – Dwellings	214,414
2,112	Operational Assets – Land & Buildings	2,250
116	Infrastructure Assets	111
1,653	Non-Operational Assets	1,604
158	Vehicles, Plant & Equipment	129
288	Intangible Assets	338
210	Assets Under Construction	0
221,961		218,846

4. Vacant Possession Value of HRA Dwellings

Every five years an external valuation of the housing stock is carried out. The most recent full valuation was as at 31 March 2011. For the years between valuations, a desk top exercise is carried out and as a result of this the Council dwellings had a market valuation of £670,042,300 as at 31 March 2012 . However, a regional adjustment factor of 32% is applied to this valuation to reflect the fact that local authority housing is let at sub-market rents and to give a valuation on the basis of Existing Use Value for Social Housing (EUV-SH). After applying the regional adjustment factor, the valuation of Council dwellings on the basis of EUV-SH is £214,413,500 as at 31 March 2012.

5. Major Repairs Reserve

This reserve provides resources for major repair to the Council's housing stock

2010-11 £'000		2011-12 £'000
0	**Opening Balance – 1 April**	
	Amount transferred to MRR in year	
4,367	Dwellings	4,472
89	Non-Dwellings	102
	Amounts transferred from MRR in year	
(89)	Non-Dwellings	(102)
(4,367)	Capital financed by the MRR	(4,472)
0	**Closing Balance – 31 March**	**0**

6. Financing of HRA Capital Expenditure

Capital expenditure of £111,518,000 (2010-11, £5,891,000) on HRA assets was financed as follows:

2010-11 £'000		2011-12 £'000
911	Capital Receipts	526
4,367	Major Repairs Reserve	4,472
403	Supported Capital Expenditure	0
172	Specified Capital Grants	172
38	Commuted Sums	102
0	HRA Self Financing Settlement	106,246
5,891		111,518

With effect from 1 April 2012, the system of capital controls was replaced with a self-financing system whereby the Government has decided a borrowing limit for each local authority (£117,283,000 for Gravesham B.C.). The new system is also governed by CIPFA's *'Prudential Code for Capital Finance in Local Authorities'* and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

7. Capital Receipts

Capital receipts are sums received in respect of the disposal of any interest in an asset. The use of capital receipts is restricted by a general requirement to pool a proportion of these.

A summary of the total capital receipts received during 2011-12 is identified below:

2010-11 £'000		2011-12 £'000
(1,306)	Sale of Council Dwellings	(739)
(50)	Sale of Land	(22)
(23)	Principal Repayments of Mortgages	(16)
(1,379)		(777)

8. Depreciation

The depreciation charge in respect of Council dwellings in 2011-12 was £4,471,600 (2010-11, £4,367,000) and is a real charge on the HRA. This was calculated on the basis of the Major Repairs Allowance (MRA) receivable in 2011-12, which the Assistant Director (Finance) and the authority's valuer deemed to be a reasonable proxy for depreciation.

The HRA depreciation charge in respect of non-dwellings is £159,600 (2010-11, £89,000) but this is reversed out by a transfer from the Major Repairs Reserve (MRR), so that the net effect on HRA costs is nil.

The depreciation charge broken down by the categories of HRA assets is identified below:

2010-11 £'000		2011-12 £'000
4,367	Council Dwellings	4,472
89	Operational Assets	160
4,456		4,632

9. Impairment of Assets

An impairment loss of £3,614,000 (2010-11, £65,058,000) has arisen from the desk top review of the HRA stock values.

10. HRA Subsidy

Following legislation, major changes to the HRA subsidy arrangements came into effect on 1 April 2004. This change has resulted in a 'negative subsidy', i.e. surplus rental income on the subsidy account is payable to the Secretary of State and, in turn, used to fund the new arrangements.

However 2011-12 is the last year of 'negative subsidy' as a new self-financing system has been introduced from 1 April 2012.
In February 2012 CLG has issued a Special Subsidy Determination in which "The interest on the self-financing settlement payment is £38,086 being an adjustment to the Council's subsidy entitlement to take account of interest charges occasioned by the implementation of sections 167 to 175 of the Localism Act 2011.'

A breakdown of Housing Subsidy is set out below:

2010-11 £'000		2011-12 £'000
10,265	Management & Maintenance	10,436
4,367	Major Repairs Allowance	4,472
905	Charges for Capital	1041
(6)	Interest on Receipts	(3)
(21,238)	Guideline Rent Income	(22,176)
8	Prior Year Adjustment	4
0	Special Subsidy Determination	38
(5,699)		(6,188)

11. Movement on Pensions Reserve

In accordance with Accounting Policy 1.24, the Net Cost of Services has been adjusted to reflect the cost of pensions in accordance with IAS 19 *'Employee Benefits'*. The adjustment is in respect of current service cost only. Adjustments in respect of past service cost, return on assets and interest costs have only been made within the Comprehensive Income and Expenditure Statement, as there is no robust way of apportioning any of these costs to the Housing Revenue Account. The current service cost adjustment amounts to a reduction of £142,500, (2010-11, £105,000) which has been reversed out to the Pensions Reserve in order that there is no impact on the surplus for the year and subsequent rent levels.

12. Dwelling Rents

This item includes all rent rebates granted by the Council to HRA tenants but excluding rental income in respect of empty properties. To comply with the Government's policy on rent restructuring and the Supporting People Programme, the Council as of 2003-04 has 'unpooled' charges for services previously included as part of the tenant's rent (see Note 14 below).

13. Rent and Service Charge Arrears

At the end of the year, arrears as a proportion of gross rent and service charge income for current and former tenants had increased to 5.24% (2010-11, 4.37%). The arrears for current tenants were £599,000 as at 31 March 2012 (2010-11 £399,000). Arrears attributable to former tenants increased to £639,000 as at 31 March 2012 (2010-11, £585,000).

Arrears to the value of £123,000 were written off in 2011-12 (2010-11, £92,000). The provision for bad and doubtful debts was increased during the financial year to £969,000 (2010-11 £897,000).

2010-11 £'000		2011-12 £'000
399	Current Tenants Arrears (gross of prepayments)	599
585	Former Tenants Arrears	639
984	**Total gross arrears**	**1,238**
92	Rent Arrears Written Off	123
897	Provision for Bad Debts	969

14. Charges for Services and Facilities

The total income received is set out below:

2010-11 £'000		2011-12 £'000
(829)	Service Charges - Tenants	(912)
(175)	Service Charges - Leaseholders	(183)
(301)	Support Charges	(355)
(1,305)		(1,450)

15. HRA Investment Income

This item is the HRA's share of income derived from investments, mortgages and interest on notional cash balances:

2010-11 £'000		2011-12 £'000
(5)	Mortgage Interest	(3)
(14)	Interest on Notional Cash Balance	(24)
(19)		(27)

16. Contribution towards Expenditure

This reflects grant monies received from Kent County Council in respect of the Supporting People Programme.

17. Self-financing Settlement

With effect from 1 April 2012 the Government has replaced the HRA subsidy system with a devolved system called self-financing. The new system has changed the way social housing is funded to pass more power to a local level. The self-financing system is part of the Localism Act and received royal assent in Autumn 2011 giving powers to the government to replace subsidy through a set of legal determinations which prescribe:

- A settlement payment based on a new valuation of the council stock (£106 million)

- A limit on the amount of housing debt that each landlord can hold (£117 million)

- Adjustments to 2011-12 subsidy to reflect in-year debt costs arising from the settlement payments

- Adjustments to the share of interest costs between the General Fund and HRA to enable the HRA ring-fence to operate under a devolved system of funding

As a result Gravesham Borough Council was required to make a settlement payment to the Secretary of State of £106,246,000 on 28 March 2012. The settlement amount was borrowed from PWLB on the same date.

18. Further Information

The authority is required to provide tenants with further information about housing activities, and copies of this information are available from Gravesham Housing, Civic Centre, Windmill Street, Gravesend, Kent, DA12 1AU.

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT			
2010-11		2011-12	
£'000		£'000	£'000
	INCOME:		
42,443	Income from Council Tax		42,733
	Transfers from General Fund:		
7,996	Council Tax Benefits		7,996
19,034	Income collectable from Business Ratepayers		20,740
	Contributions:		
158	Towards previous year's Collection Fund deficit		62
69,631			71,531
	EXPENDITURE:		
	Precepts and demands:		
(36,724)	Kent County Council	(37,035)	
(4,861)	Kent Police Authority	(4,902)	
(2,382)	Kent & Medway Towns Fire Authority	(2,402)	
(6,023)	Gravesham Borough Council	(6,083)	
(49,990)			(50,422)
	Business Rates:		
(18,910)	Payment to National Pool	(20,738)	
(25)	Increase in Bad and Doubtful Debts Provision	97	
(100)	Costs of Collection	(99)	
(19,035)			(20,740)
	Council Tax		
0	Amounts written off		
(446)	Increase in Bad and Doubtful Debts Provision	(113)	
(446)			(113)
0	Towards previous year's Collection Fund surplus		0
(69,471)			(71,275)
162	**SURPLUS/(DEFICIT) FOR THE YEAR**		256
(294)	Balance brought forward		(132)
(132)	**FUND BALANCE AT 31 MARCH - SURPLUS/(DEFICIT)**		124

NOTES TO THE COLLECTION FUND

1. General

This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to National Non-Domestic Rates, Council Tax and the distribution to the major preceptors and the General Fund. The account is consolidated with other accounts of the Council.

2. Council Tax

The Council's tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings) for 2011-12 was approved on 14 January 2011 as follows:

Band	Estimated equivalent no. of taxable properties after effect of discounts	Ratio	Band D Equivalent Dwellings
A*	4.00	5/9ths	2.22
A	2,892.32	6/9ths	1,928.21
B	5,814.35	7/9ths	4,522.27
C	12,728.32	8/9ths	11,314.06
D	8,821.32	9/9ths	8,821.32
E	4,134.14	11/9ths	5,052.84
F	1,825.24	13/9ths	2,636.46
G	911.31	15/9ths	1,518.85
H	84.55	18/9ths	169.10
Totals	37,215.55		35,965.33
Less adjustment for collection rate and contributions in lieu			(629.39)
Add adjustment for Ministry of Defence - Contributions in lieu			10.00
COUNCIL TAX BASE		2011/12	35,345.94

A* = Disabled Band A

The tax rate per Band D property, excluding Parish Council precepts, was £1,420.10 (2010-11, £1,420.10).

3. Income from Business Ratepayers

The Council collects National Non-Domestic Rates for its area, which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by central government, which in turn pays back to Councils their share of the pool based on a standard amount per head of resident population. The total non-domestic rateable value at 31 March 2012 was £58,527,795. The respective multipliers for the year were 43.3p (non-domestic rating multiplier) and 42.6p (small business non-domestic rating multiplier) per £ of rateable value.

4. Collection Fund Surpluses and Deficits

The Council is required to estimate on 15 January the amount of the surplus or deficit on the Collection Fund for the financial year in respect of Council Tax. The estimated surplus or deficit is to be shared in the following year between the Borough Council, Kent County Council, Kent Police Authority and the Kent and Medway Towns Fire Authority in proportion to the value of their respective precepts. The actual surplus of £124,000 at 31 March 2012 will be taken into account when estimating the surplus/deficit for 2012-13. Each of the major precepting authorities' share of the surplus/deficit is shown in the table below.

Authority	(Surplus)/Deficit at 31 March 2011 £'000	Movement in the Year £'000	(Surplus)/Deficit at 31 March 2012 £'000
Kent County Council	98	189	(91)
Kent Police Authority	13	25	(12)
Kent and Medway Towns Fire Authority	6	12	(6)
Gravesham Borough Council	15	30	(15)
Total	**132**	**256**	**(124)**

5. Collection Fund Adjustment Account

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

	2010-11 £'000	2011-12 £'000
Balance at 1 April	(34)	(15)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Account is different from council tax income calculated for the year in accordance with statutory requirements	19	30
Balance at 31 March	(15)	15

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAVESHAM BOROUGH COUNCIL

Opinion on the Authority financial statements

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

This report is made solely to the members of Gravesham 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.

Respective responsibilities of the Assistant Director of Finance and auditor

As explained more fully in the Statement of the Assistant Director of Finance Responsibilities, the Assistant Director 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. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

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

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

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

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

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

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

Conclusion

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

Certificate

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

Darren Wells
District Auditor

Audit Commission
1st floor,
Millbank Tower
Millbank
London
SW1P 4HQ

28 September 2012

GLOSSARY OF TERMS

ACCOUNTING PERIOD
This is the period covered by the Accounts which is the 12 month period commencing 1 April each year.

ACCOUNTING POLICIES
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements

AUDIT COMMISSION
An Independent body created by the Local Government Finance Act 1982 with responsibility for the external audit of local authority accounts.

CAPITAL ADJUSTMENT ACCOUNT
This account provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system.

CAPITAL EXPENDITURE
Expenditure to acquire non-current assets that will be used in providing services beyond the current accounting period or expenditure that adds value to an existing fixed asset.

CAPITAL FINANCING
Funds used to pay for capital expenditure.

CAPITAL RECEIPTS
Funds received by the Council from the sale of non-current assets. Capital receipts are used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)
The principal accountancy body dealing with local government finance.

COMMUNITY ASSETS
Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions in their disposal. Examples of community assets are parks and historical buildings.

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Local Authority's control

CONTINGENT LIABILITY
A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Alternatively, a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of that obligation cannot be measured with sufficient reliability.

CURRENT ASSETS
A current asset is one that is expected to be consumed or realised by the end of the next accounting period.

CURRENT LIABILITIES
A current liability is one that is expected to be paid or discharged by the end of the next accounting period.

DE MINIMIS
The Council applies a de-minimis value of £12,000 for the acquisition, creation or enhancement of non-current assets. Any expenditure below this level is charged to revenue in the year of acquisition.

DEPRECIATION / AMORTISATION
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

HOUSING BENEFITS
A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT
A separate account to the General Fund, which includes the expenditure and income arising with the provision of housing accommodation by the Council.

IMPAIRMENT
Impairment is where the value of an asset exceeds the amount that could be recovered through use or sale of the asset.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The accounting standards that have been produced and adopted to govern accounting and move to a globally similar basis.

INVESTMENTS
Investments fall into two categories. Short-term investments where the duration between the Balance Sheet date and the date the Council intends to redeem the investment is less than one year and long-term investments where the duration between the Balance Sheet date and the date the Council intends to redeem the investment is more than one year. Internally managed short-term highly liquid investments of three months or less from the date of acquisition are recognised as cash equivalents.

LEASES
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Leases fall into two categories. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

LIABILITIES
Those amounts which will become payable by the authority in the short or long term.

NON-CURRENT ASSETS
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

MINIMUM REVENUE PROVISION (MRP)
This is the calculation that Councils make for the repayment of debt.

OUTTURN
The actual results for the financial year in question.

OVERHEADS
Management and administrative costs including buildings. The majority of management and administrative costs including buildings are allocated to services.

PRECEPT
The levy made by precepting authorities on billing authorities, e.g. Gravesham Borough Council. The major precepting authorities are Kent County Council, Kent Police Authority and Kent & Medway Towns Fire Authority. Parish Councils, e.g. Vigo Parish Council, also raise money by means of a precept on the relevant billing authority.

REVALUATION RESERVE
This account represents the balance of the net surpluses arising on the revaluation of non-current assets.

REVENUE EXPENDITURE
The costs related to the day-to-day running of services

REVENUE SUPPORT GRANT (RSG)
A grant paid by Central Government to aid Local Authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

SECTION 151 OFFICER
Section 151 of the Local Government Act 1972 requires the Council to appoint an officer responsible for the proper administration of the Council's financial affairs. The Assistant Director – Finance is the Council's Section 151 Officer

SOFT LOANS
These are loans made below prevailing interest rates (i.e. interest free or low interest loans) and include loans made to local voluntary sector organisations that undertake activities that the authority considers benefits the local population.

WORKING BALANCES
The revenue reserves of an authority made up of the accumulated surplus of income over expenditure on the General Fund or the Housing Revenue Account which may be utilised to provide for unforeseen circumstances or to ensure that payments can be made pending the receipt of income and may be used to reduce the Council Tax levy.