

Accounting Policies

Accounting Policies – General Principles

The Statement of Accounts summarises the Council's transactions for the 2025/26 financial year and its position at the year-end of 31 March 2026. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise of the Code, supported by IFRS and other guidance. The appropriate note details the critical judgements and estimations about the future made when applying the Accounting Policies.

(a) Accounting Convention

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

The accounts are prepared on a going concern basis reflecting the economic and statutory environment in which local authorities operate. These provisions confirm that as authorities cannot be created or dissolved without statutory prescription it is only appropriate for their financial statements to be prepared on a going concern basis. The going concern assumption under the Code is therefore drawn up to assume that a local authority's services will continue to operate for the foreseeable future.

The accounting concepts are supported by the fundamental qualitative characteristics of relevance, faithful representation and materiality and four enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability. Where a particular accounting treatment is prescribed by legislation, then the treatment prevails even if it conflicts with one or more of the above accounting concepts. In the unlikely event of this arising, a note to that effect will be included in the accounts. The Code only requires local authority financial statements to disclose information which is material.

(b) Accruals of income and expenditure

In accordance with IFRS 15, activity is accounted for in the year that it takes place, not simply when cash payments are made or received and relates to activity on all of the Council's functions including non-exchange transactions e.g. Council Tax and Business Rates. In particular:

- the Council recognises income when or as control over the goods or services is transferred to the customer or service recipient in accordance with the performance obligations in the contract;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- expenses in relation to services received, including those from employees, are recorded as expenditure when the services are received rather than when payments are made;
- revenue relating to such things as council tax, business rates, etc. are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates;
- 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;
- accruals are recognised where the value exceeds £1,000;
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to Cost of Services for the income that might not be collected;
- exceptions are utility bills, insurance premiums and income from car parking, which are, in the main, charged or credited to the year in which billed, rather than be apportioned between years as the effect of adjusting for opening and closing balances would not be material to the total of transactions for the year. This policy also covers larger transactions debited or credited to the year in which they were billed and not apportioned between years; and,
- the annual review of the impairment allowance for non-payment of debt will take into account the prevailing economic climate.

Accounting Policies

(a) Capital Receipts

When an asset is disposed of or de-commissioned, the carrying amount and the receipt from the sale are charged to the Comprehensive Income & Expenditure Statement. The receipt is required to be credited to the usable capital receipts reserve and can only be used to finance capital expenditure or set aside to reduce the Council's borrowing requirement.

(b) Cash and Cash Equivalents

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

(c) Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of

the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. Where material, an accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable due to a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to corporate services at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require that the General Fund is charged with the amount payable by the Council to the Kent Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Kent Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

The Local Government Pension scheme is accounted for as a defined benefits scheme. The liabilities of the Kent Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of projected earnings for current employees. The value of the Kent Pension Fund liabilities has been assessed by Barnett Waddingham, an independent firm of actuaries.

Liabilities are discounted to their value at current prices, using a discount rate of 5.80%. The discount rate is calculated using the annualised Merrill Lynch AA-rated corporate bond curve, chosen to meet the requirements of IAS 19 and with consideration of the estimated duration of employer's liabilities.

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

Where the value of the assets is greater than the value of the liabilities, creating a surplus, an asset ceiling calculation is carried out, ensuring compliance with IFRIC 14 regulations. The asset ceiling is the present value of any economic benefit available to the employer in the form of refunds or reduced future employer contributions.

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

- Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment 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.

- net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure.

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

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

The Fund's Actuary determines employers' contributions to the Pension Fund on a triennial basis. The actuarial valuation reflected in the 2025/26 financial statements took place on 31 March 2022 and the change in contribution rates as a result of that

valuation took effect from 1 April 2023. Changes resulting from the 31 March 2025 revaluation will take effect from 1 April 2026.

(d) 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.

(e) Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument. However, “other debtors” are an exception as they are not recognised when the Council becomes committed to supply the goods or service but when the ordered goods or services have been delivered or rendered. Similarly, “other creditors” are recognised when the ordered goods or services have been received.

Financial assets are classified as one of:

- fair value through profit and loss – this category includes:
 - Money Market Funds (MMFs) and are initially measured and carried in the Balance Sheet at fair value; and
 - Investment in Church, Charities and Local Authorities (CCLA) Property Fund carried at fair value at 31 March 2026.
- amortised cost – this category includes debtors and are initially measured at fair value and carried in the Balance Sheet at their amortised cost.

The fair value of a financial instrument on initial recognition is generally the market price. Financial liabilities are measured in the Balance Sheet at amortised cost.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. No impairment is calculated for assets which are classified as fair value through profit and loss as the risk is reflected in the movement in their fair value.

The reconciliation of amounts based on accounting regulations charged to the Comprehensive Income & Expenditure Statement to the net charge required by statute against the General Fund balance, is accounted for by a transfer to or from the Pooled Fund Adjustment Account in the Movement in Reserves Statement.

(f) Government Grants and Other External Contributions

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received.

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

Receipts defined as grants and contributions for which conditions have not been satisfied are included on the Balance Sheet as creditors. When conditions are satisfied, grants specific to a service will be credited against that service expenditure line. General grants, e.g. Revenue Support Grant and the Council's share of business rates from the Collection Fund are credited and disclosed separately in the Comprehensive Income & Expenditure Statement under Taxation and Non-Specific Grant Income. Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account.

(g) Heritage Assets

A Heritage Asset is a tangible or intangible asset that is intended to be preserved in trust for future generations because of its historical, artistic, scientific, technological, geophysical or environmental qualities and is held and maintained principally for its contribution to knowledge and culture. Heritage assets are carried at valuation (the majority are based on insurance valuations) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon.

(h) Intangible Assets

These are non-current assets that do not have physical substance but are identifiable and are controlled through custody or legal rights (eg software licences) and it is expected that future economic benefits or service potential will flow from the asset to the Council. An intangible asset is initially measured at cost and is not subject to revaluation. It is, however, subject to amortisation over its 'useful' life, which for computer software has been assessed as up to a maximum of 15 years. Amortisation is charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

(i) Investment Property

Investment properties are those that are used primarily to earn rentals and/or for capital appreciation. They are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between parties at arm's length (i.e. market value, the amount that would be paid for the asset in its highest and best use). Properties are not depreciated but are revalued annually according to market conditions at the year-end and any gains or losses on revaluation or disposal are taken to the Comprehensive Income & Expenditure Statement and are reversed out of the General Fund balance via the Movement in Reserves Statement and posted

to the Capital Adjustment Account.

(j) Leases

The Council as Lessee

The Council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 to include arrangements with nil consideration, peppercorn or nominal payments.

Leases are recognised as right of use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year, but may have extension options.

The Council initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the Council's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- Fixed payments, including in-substance fixed payments
- Variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- Amounts expected to be payable under a residual value guarantee
- The exercise price under a purchase option that the Council is reasonably certain to exercise
- Lease payments in an optional renewal period if the Council is reasonably certain to exercise an extension option
- Penalties for early termination of a lease, unless the Council is reasonably certain not to terminate early.

The right of use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

The right of use asset is subsequently measured using the fair value model. The Council considers the cost model to be a reasonable proxy except for:

- Assets held under non-commercial leases
- Leases where rent reviews do not necessarily reflect market conditions
- Leases with terms of more than five years that do not have any provision for rent reviews
- Leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount.

The right of use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- There is a change in future lease payments arising from a change in index or rate
- There is a change in the estimate of the amount expected to be payable under a residual value guarantee
- The Council changes its assessment of whether it will exercise a purchase, extension or termination option, or
- There is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right of use asset, with any further adjustment required from remeasurement being recorded in the income statement.

As permitted by the Code, the Council excludes leases for low value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items, and with a term shorter than 12 months. The exception to the low value limit would be vehicles, which will always be accounted for as a lease unless the lease is shorter than 12 months.

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed. Depreciation and impairments are not charges against council tax, so these amounts are transferred to the capital adjustment account through the Movement in Reserves Statement.

The Council as Lessor

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

i) Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve. The written-off value of disposals is not a charge against the Council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

ii) Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental Income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where the impact would be material, credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease term are charged as an expense over the lease term, on the same basis as the rental income.

(k) Long-Term Liabilities

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

(l) Material Items of Income and Expense

Material items of income and expense are required by the Code to be shown separately within the Statement of Accounts. The Council has decided that for this purpose an item is judged to be financially material if it is in excess of £1.5m.

(m) Property, Plant and Equipment (PPE)

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

which are not being used to deliver services, but which do not meet the criteria to be classified as either Investment Assets or Assets Held for Sale, are recorded as Surplus Assets.

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Assets are initially measured at cost, comprising:

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

The authority does not capitalise borrowing costs incurred while assets are under construction.

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

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

- infrastructure, assets under construction and community assets are valued at historic cost, net of depreciation (where applicable), and
- other land and buildings, vehicles, plant, furniture, equipment and surplus assets are valued at current value.

For assets that are carried in the Balance Sheet at current value, the measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. The current value measurement bases include:

- Depreciated Replacement Cost, for assets where there is no market and/or the asset is specialised;
- Existing Use Value defined in accordance with RICS Valuation – Professional Standards for assets providing service potential to the Council where an active market exists; and
- Fair Value, for surplus assets that are not being used to deliver services, but which do not meet the criteria to be classified as either Investment Assets or Assets Held for Sale.

The value of any surplus property is measured at its fair value with the purpose being to return the highest possible valuation, the estimated use of the property being taken as that which best supports this highest value. Surplus property valuations are based on using pricing information derived from an accessible market with the highest

volume and level of activity for property transactions available. The valuer will use one or several measurements and/or factors to determine the value of the property, some of which may be more significant in assessing the valuation than others. Many of these inputs are observable, e.g. they can be seen, measured or found from existing data and records. Other inputs however may not be observable, e.g. an input based solely on the judgement of the valuer or where data is not available and assumptions are made. The inputs used in valuations are classified into separate hierarchies, which are a guide in assessing the risk of the valuation being more based on subjective interpretation than fact. For building and land valuations, observable inputs are classed as Level 2 and unobservable inputs are classed as Level 3.

From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations of property, plant and equipment. Where authorities do not have a rolling programme of revaluations in place and/or the assets are not non-property assets subject to indexation, authorities revalue their assets every five years with annual indexation applied to assets during the four intervening years.

The Council's approach to revaluation is to continue to have a rolling programme of revaluations over five years. Assets that have a significant value are revalued annually, even if they are not scheduled to be done so according to the five-year programme.

Full revaluations are carried out in accordance with RICS Red Book requirements, while indexation reflects market-based movements applied in intervening periods. Although the valuation approaches differ, both are treated equally for accounting purposes under the revaluation model. Indexation adjustments will only be applied during the intervening periods if they are material.

Indices that will be used for revaluation and indexation reviews are as follows:

Asset Type	Proposed Revaluation Index
Market Based Assets	COSTAR commercial real estate market index/MSCI index
Depreciated Replacement Cost (DRC) Assets	BCIS (Building Cost Information Service) index
Land Valuations	Knight Frank/Savills regional indices

The Council's principal assets are revalued regularly and any gains arising from revaluations are reflected in the Revaluation Reserve or, where previous losses have occurred, are credited to the Comprehensive Income & Expenditure Statement to the limit of the previous loss. A loss on valuation is charged to the Revaluation Reserve to the limit of that fund and thereafter is charged to the Comprehensive Income & Expenditure Statement. The programme of revaluations is continuing on this cyclical basis although material changes to asset valuations will be adjusted in the interim periods, as they occur. Where assets are valued at depreciated replacement cost, this has only been undertaken where there is no active market for that asset.

The Council applies the principles of component accounting where an asset has a gross book value in excess of £1m and a residual life of over 25 years.

Impairment – assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where impairment losses are identified, they are charged against the Revaluation Reserve up to the amount attributable to each specific asset held in that reserve. Any excess of this amount is then chargeable to the Comprehensive Income & Expenditure Statement. Any charges to the Comprehensive Income & Expenditure Statement are reversed out to the Capital Adjustment Account via the Movement in Reserves Statement.

Depreciation – depreciation is provided for on all PPE with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

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

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

Asset	Depreciation Methodology
Operational buildings	Usually 50, although this can vary according to the individual asset
Operational land	30 to 50 years (usually relating to car parks)
Land	Depreciation is not normally provided for freehold land
Non-operational buildings	40 to 60 years depending on the individual asset
Community assets	According to whether it is land, building or equipment as above
Infrastructure assets	20 to 60 years
IT equipment	3 to 15 years depending on the nature of the asset
Non-IT furniture and equipment	10 to 20 years
Vehicles	Up to 10 years depending on the type of vehicle

Provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets, as fairly as possible over their useful lives.

Where an asset has major components with different estimated useful lives, the components are depreciated separately. If there is a change in the depreciation charge because of an impairment which is material, full year depreciation is charged in the year of impairment.

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

Disposals – when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the

time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

When infrastructure assets are replaced, the underlying assumption is that the part replaced was worn out and fully depreciated. As such, there will be no accounting transactions for the derecognition of the replaced or renewed part of the infrastructure asset. The exception to this is where the asset renewed or replaced is distinctly recognisable and valued, or where an infrastructure asset is fully removed from use (not replaced or renewed).

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the Comprehensive Income & Expenditure Statement. The costs of disposal up to 4% of the capital receipts are met from the sale proceeds.

The concept of materiality is fundamental to the preparation of the financial statements. In the public sector, as entities tend to be primarily 'spending' to provide public services rather than profit making or asset holding, it is common practice to use gross revenue expenditure as the appropriate financial reporting metric to apply materiality. However, for the purposes of disclosure requirements and adherence to relevant accounting principles and statutory requirements for non-current assets it is more appropriate to apply a materiality level of 2% of net non-current asset value which for 2025/26 is £2.1 million (2024/25 £2.1m).

(n) Charges to Revenue for Non-Current Assets

Service revenue accounts and trading accounts are charged an accounting estimate of the cost of holding non-current assets during the year. This comprises:

- depreciation attributable to the non-current assets used by the relevant service;
- revaluation and impairment losses, where they are in excess of the sum available in the Revaluation Reserve; and,
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement, the Minimum Revenue Provision (MRP) (normally equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance) and approved each year by Council.

These charges are therefore replaced by the contribution in the General Fund (MRP) by way of an adjusting transaction with the capital adjustment account in the Movement in Reserves Statement for the difference between the two.

(o) Provisions, Contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Contingent liabilities

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

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

Contingent assets

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

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

(p) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the service revenue account within the Comprehensive Income & Expenditure Statement. The reserve is then transferred back into the General Fund balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable reserves for the Council.

(q) Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but which does not result in the creation of a non-current asset has been charged to the relevant service in the Comprehensive Income & Expenditure Statement. If the Council has decided to finance this expenditure from existing capital resources or by borrowing, then the cost is reversed out of the General Fund so there is no impact on the level of Council Tax, by a transfer in the Movement in Reserves Statement to the capital adjustment account.

(r) Shared Services

The Council maintains 'shared service' operations for a number of services. The shared service arrangements have been assessed against the definitions within the Code and the Council has decided that the Mid Kent Services (MKS) Board is a non-decision making body (decisions to enter into a shared service and the level of involvement and consequent cost lie with each council via its own decision making mechanism) and there is then a collaboration agreement in place for each shared service. Accordingly, all expenditure and income of these services is included within the Comprehensive Income & Expenditure Statement.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

(s) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service where the total cost needs to be reflected at service level. In those cases the total absorption costing principal is used – the full cost of overheads and support services are shared between users in proportion to the benefits received. Where the recharge of overheads and support services is not required for the calculation of total costs, the costs are reported against the support service that incurs those costs.

(t) Council Tax and Non-Domestic Rates

The Council is a billing authority and, as such, is required to bill local residents and businesses for council tax and non-domestic (business) rates (NDR). The Council collects council tax on behalf of the major precepting authorities - Kent County Council, Kent Police & Crime Commissioner, and Kent Fire and Rescue Service, and collects business rates on behalf of the Government, Kent County Council and Kent Fire and Rescue Service. The Council therefore acts as agent on behalf of these major preceptors. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities and major preceptors share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for council tax and NDR

The amounts shown as council tax/business rates in the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement (CIES) represent the Council's share of amounts due for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals. Amounts owing for major precepting authorities are shown as net debtors or creditors on the balance sheet.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

(u) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless not material or stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.